

Kentucky Utilities Company
Case No. 2014-00371
Forecasted Test Period Filing Requirements
(Forecast Test Year 12ME 6/30/16; Base Period 12ME 2/28/15)

Filing Requirement
807 KAR 5:001 Section 16(7)(p)
Sponsoring Witness: Kent W. Blake

Description of Filing Requirement:

A copy of the utility's annual report on Form 10-K as filed with the Securities and Exchange Commission for the most recent two (2) years, and any Form 8-K issued during the past two (2) years, and any Form 10-Q issued during the past six (6) quarters.

Response:

The below-listed documents are attached:

- December 31, 2012 Form 10-K Annual Report to the Securities and Exchange Commission
- March 31, 2013 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- June 30, 2013 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- September 30, 2013 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- October 3, 2013 Form 8-K
- November 14, 2013 Form 8-K
- December 31, 2013 Form 10-K Annual Report to the Securities and Exchange Commission
- March 31, 2014 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- June 30, 2014 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- August 13, 2014 Form 8-K
- September 30, 2014 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- October 2, 2014 Form 8-K

LG&E & KU ENERGY LLC

FORM 10-K (Annual Report)

Filed 02/28/13 for the Period Ending 12/31/12

Address	220 WEST MAIN STREET LOUISVILLE, KY 40202
Telephone	502-672-2000
CIK	0001518339
SIC Code	4931 - Electric and Other Services Combined
Fiscal Year	12/31

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

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

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

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

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

Common Stock of PPL Electric Utilities Corporation

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

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

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

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

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

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

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

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

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

PPL Corporation	<input checked="" type="checkbox"/>
PPL Energy Supply, LLC	<input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	<input checked="" type="checkbox"/>
LG&E and KU Energy LLC	<input checked="" type="checkbox"/>
Louisville Gas and Electric Company	<input checked="" type="checkbox"/>
Kentucky Utilities Company	<input checked="" type="checkbox"/>



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

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

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

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

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

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

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

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

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

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

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

Documents incorporated by reference:

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

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

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

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

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

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

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

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

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

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

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

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

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

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

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

AEPS - Alternative Energy Portfolio Standard.

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

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

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

Bcf - billion cubic feet.

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

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

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

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

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

CAIR - the EPA's Clean Air Interstate Rule.

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

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

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

CSAPR - Cross-State Air Pollution Rule.

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

DDCP - Directors Deferred Compensation Plan.

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

DNO - Distribution Network Operator.

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

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

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

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

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

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

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

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

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

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

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

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

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

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

EPS - earnings per share.

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

ESOP - Employee Stock Ownership Plan.

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

EWG - exempt wholesale generator.

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

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

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

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

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

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

GBP - British pound sterling.

GHG - greenhouse gas(es).

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

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

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

IBEW - International Brotherhood of Electrical Workers.

ICP - Incentive Compensation Plan.

ICPKE - Incentive Compensation Plan for Key Employees.

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

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

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

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

ISO - Independent System Operator.

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

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

kVA - kilovolt ampere.

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

LCIDA - Lehigh County Industrial Development Authority.

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

LIBOR - London Interbank Offered Rate.

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

LTIIP - Long Term Infrastructure Improvement Plan.

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

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

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

MW - megawatt, one thousand kilowatts.

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

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

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

NPDES - National Pollutant Discharge Elimination System.

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

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

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

OCI - other comprehensive income or loss.

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

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

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

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

PEDFA - Pennsylvania Economic Development Financing Authority.

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

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

PP&E - property, plant and equipment.

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

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

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

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

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

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

PURTA - The Pennsylvania Public Utility Realty Tax Act.

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

RECs - renewable energy credits.

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

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

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

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

RFP - Request for Proposal.

RMC - Risk Management Committee.

RTO - Regional Transmission Organization.

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

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

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

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

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

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

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

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

SIP - PPL Corporation's 2012 Stock Incentive Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VIE - variable interest entity.

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

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

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

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FORWARD-LOOKING INFORMATION

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

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

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

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

PART I

ITEM 1. BUSINESS

BACKGROUND

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

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

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

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

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

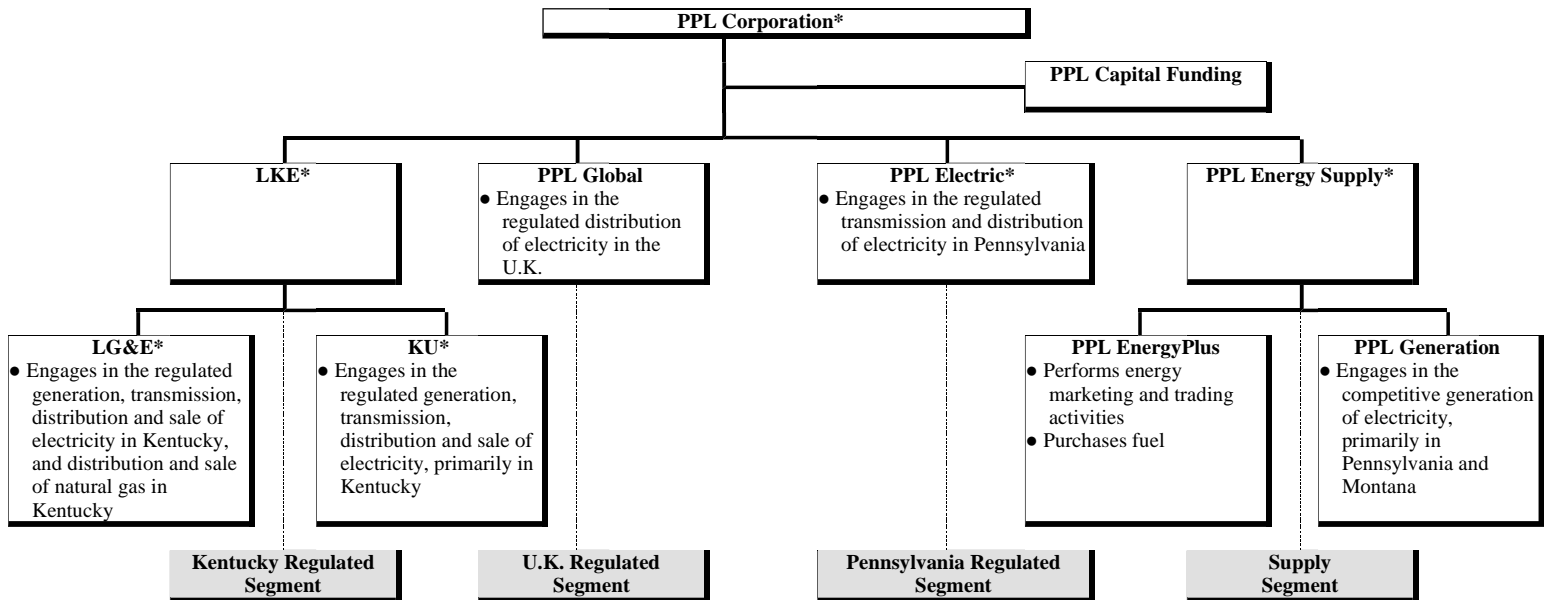
Each rate-regulated business plans to make material capital investments over the next several years to improve infrastructure and customer reliability. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources"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

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

At December 31, 2012, PPL had:

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

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



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

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

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

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

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

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

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

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

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

Segment Information

(PPL)

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

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

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

(a) Business activities include the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas.

(b) Business activities include the distribution of electricity.

(c) Business activities include the transmission and distribution of electricity.

(d) Represents RAV for U.K. Regulated, capitalization for KY Regulated and rate base for PA Regulated.

(PPL Energy Supply)

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

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

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

(PPL)

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

- **Kentucky Regulated Segment (PPL)**

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

(PPL, LKE, LG&E and KU)

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

Acquisition by PPL

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

Also in October 2010, the FERC approved the application for the transfer of control of the utilities. The approval included various conditional commitments, such as a continuation of certain existing undertakings with intervenors in prior cases, an agreement not to terminate certain KU municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that LG&E and KU have agreed not to seek recovery of the same transaction-related costs from retail customers and agreements to coordinate with intervenors in certain pending matters.

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

Franchises and Licenses

LG&E and KU provide electricity delivery service, and LG&E provides natural gas distribution service, in their respective service territories pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

Competition

There are currently no other electric public utilities operating within the electric service areas of LKE. From time to time, bills are introduced into the Kentucky General Assembly which seek to authorize, promote or mandate increased distributed generation, customer choice or other developments. Neither the Kentucky General Assembly nor the KPSC has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of any legislative or regulatory actions regarding industry restructuring and their impact on LKE, which may be significant, cannot currently be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation that implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

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

Operating Revenues

Details of operating revenues by customer class are shown below.

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

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

(b) Includes wholesale and transmission revenues.

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

Power Supply

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

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

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

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

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

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

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

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU.

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

Fuel Supply

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

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

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

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

(PPL, LKE and LG&E)

Natural Gas Supply

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

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

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

(PPL, LKE, LG&E and KU)

Rates and Regulation

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

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

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

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

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

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

2012 Kentucky Rate Case

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

FERC Wholesale Rates

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

- **U.K. Regulated Segment (PPL)**

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

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

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

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

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

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

Franchise and Licenses

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

Competition

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

Revenue and Regulation

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

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

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

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

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

Effective April 1, 2012, an additional customer satisfaction incentive mechanism was implemented that includes a customer satisfaction survey, a complaints metric and a measure of stakeholder engagement. This incentive replaced the customer response telephone performance incentive that was effective April 1, 2010.
- Line Loss Incentive - This incentive existed in the prior price control review, DPCR4, and was designed to incentivize DNOs to invest in lower loss equipment, to change the way they operate their systems to reduce losses, and to detect theft and unregistered meters. In November 2012, Ofgem issued a decision not to activate the DPCR5 line loss incentive. See Note 6 to the Financial Statements for information on Ofgem's review of line loss calculations.
- Information Quality Incentive (IQI) - The IQI is designed to incentivize the DNOs to provide good quality information when they submit their business plans to Ofgem during the price control process and to execute the plan they submitted. The IQI eliminates the distinction between capital expenditure and operating expense and instead looks at total expenditure. Total expenditure is allocated 85% to "slow pot" which is added to RAV and recovered over 20 years through the regulatory depreciation of the RAV and 15% to "fast pot" which is recovered during the current price control review period. The IQI then provides for incentives or penalties at the end of DPCR5 based on the ratio of actual expenditures to the expenditures submitted to Ofgem that were the basis for the revenues allowed during the five-year price control review period.

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

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

Customers

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

- **Pennsylvania Regulated Segment (PPL)**

Includes the regulated electric delivery operations of PPL Electric.

(PPL and PPL Electric)

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

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

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

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

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

Franchise, Licenses and Other Regulations

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

Competition

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

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

Rates and Regulation

Transmission and Distribution

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

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

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

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

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

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

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

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

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

PLR

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

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

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

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

Rate Cases

2012 Rate Case

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

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

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

FERC Formula Rates

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

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

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

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

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

(PPL and PPL Energy Supply)

- **Supply Segment**

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

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

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

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

(a) Included in these amounts for 2012, 2011, and 2010 are \$78 million, \$26 million and \$320 million of wholesale electricity sales to an affiliate, PPL Electric, which are eliminated in consolidation for PPL.

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

Power Supply

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

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

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

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

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

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

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

Fuel Supply

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

Coal

Pennsylvania

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

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

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

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

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

Montana

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

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

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

Oil and Natural Gas

Pennsylvania

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

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

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

Nuclear

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

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

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

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

Energy Marketing

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

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

Competition

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

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

Franchise and Licenses

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

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

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

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

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

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

- **Other Corporate Functions (PPL)**

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

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

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

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

SEASONALITY

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

FINANCIAL CONDITION

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

CAPITAL EXPENDITURE REQUIREMENTS

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

ENVIRONMENTAL MATTERS

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

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

EMPLOYEE RELATIONS

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

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

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

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

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

AVAILABLE INFORMATION

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

ITEM 1A. RISK FACTORS

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

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

Risks Related to All Segments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may incur liabilities in connection with discontinued operations.

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

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

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

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

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects us to a variety of risks, including the breakdown or failure of equipment, accidents, security breaches, viruses or outages affecting information technology systems, labor disputes, obsolescence, delivery/transportation problems and disruptions of fuel supply and performance below expected levels. These events may impact our ability to conduct our businesses efficiently and lead to increased costs, expenses or losses. Operation of our delivery systems below our expectations may result in lost revenue and increased expense, including higher maintenance costs which may not be recoverable from customers. Planned and unplanned outages at our power plants may require us to purchase power at then-current market prices to satisfy our commitments or, in the alternative, pay penalties and damages for failure to satisfy them.

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

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

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

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

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

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

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

(PPL, PPL Energy Supply and LKE)

Risk Related to Registrant Holding Companies

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

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

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

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

Risks Related to Domestic Regulated Utility Operations

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

Our profitability is highly dependent on our ability to recover the costs of providing energy and utility services to our customers and earn an adequate return on our capital investments. Regulators may not approve the rates we request.

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

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

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

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

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

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

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

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

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

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

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

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

Failure to complete our capital projects on schedule or on budget, or at all, could adversely affect our financial performance, operations and future growth if such expenditures are not granted rate recovery by our regulators.

Risks Specific to Kentucky Regulated Segment

(PPL, LKE, LG&E and KU)

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

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's generation business, including its air emissions, water discharges and the management of hazardous and solid waste, among other business-related activities; and the costs of compliance or alleged non-compliance cannot be predicted but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws, regulations or similar rules are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of our key suppliers, or customers, such as coal producers and industrial power users, and may impact the costs of their products and demand for our services.

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

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

Risks Specific to Pennsylvania Regulated Segment

(PPL and PPL Electric)

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

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

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

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

(PPL)

Risks Related to U.K. Regulated Segment

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Supply Segment

(PPL and PPL Energy Supply)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

None.

ITEM 2. PROPERTIES

(PPL, LKE, LG&E and KU)

Kentucky Regulated Segment

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

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

- (a) LG&E and KU's properties are primarily located in Kentucky, with the exception of the units owned by OVEC. Clifty Creek is located in Indiana and Kyger Creek is located in Ohio.
- (b) The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units, and may be revised periodically to reflect changed circumstances.
- (c) TC1 and TC2 are jointly owned with Illinois Municipal Electric Agency and Indiana Municipal Power Agency. Each owner is entitled to its proportionate share of the units' total output and funds its proportionate share of capital, fuel and other operating costs. See Note 14 to the Financial Statements for additional information.
- (d) This unit is owned by OVEC. LKE has a power purchase agreement that entitles LKE to its proportionate share of the unit's total output and LKE funds its proportionate share of fuel and other operating costs. See Note 15 to the Financial Statements for additional information.
- (e) This unit was retired in February 2013. See Note 8 to the Financial Statements for additional information.
- (f) Includes a leasehold interest. See Note 11 to the Financial Statements for additional information.
- (g) There is an inlet air cooling system attributable to these units. This inlet air cooling system is not jointly owned; however, it is used to increase production on the units to which it relates, resulting in an additional 10 MW of capacity for LG&E and an additional 88 MW of capacity for KU.

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

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

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

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

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

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

(PPL)

U.K. Regulated Segment

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

(PPL and PPL Electric)

Pennsylvania Regulated Segment

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

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

(PPL and PPL Energy Supply)

Supply Segment

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

Primary Fuel/Plant	Total MW Capacity (a)	% Ownership	PPL Energy Supply's Ownership or Lease Interest in MW (a)	Location
Natural Gas/Oil				
Martins Creek	1,745	100.00	1,745	Pennsylvania
Ironwood	665	100.00	665	Pennsylvania
Lower Mt. Bethel	543	100.00	543	Pennsylvania
Combustion turbines	363	100.00	363	Pennsylvania
	<u>3,316</u>		<u>3,316</u>	
Coal				
Montour	1,518	100.00	1,518	Pennsylvania
Brunner Island	1,455	100.00	1,455	Pennsylvania
Colstrip Units 1 & 2 (b)	614	50.00	307	Montana
Conemaugh (c)	1,749	16.25	284	Pennsylvania
Colstrip Unit 3 (b)	740	30.00	222	Montana
Keystone (c)	1,714	12.34	212	Pennsylvania
Corette	153	100.00	153	Montana
	<u>7,943</u>		<u>4,151</u>	
Nuclear				
Susquehanna (c)	2,528	90.00	2,275	Pennsylvania
Hydro				
Various	604	100.00	604	Montana
Various	175	100.00	175	Pennsylvania
	<u>779</u>		<u>779</u>	
Qualifying Facilities				
Renewables (d)	61	100.00	61	Pennsylvania
Renewables	9	100.00	9	Various
	<u>70</u>		<u>70</u>	
Total	<u>14,636</u>		<u>10,591</u>	

- (a) The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units, and may be revised periodically to reflect changed circumstances.
- (b) Represents the leasehold interest held by PPL Montana. See Note 11 to the Financial Statements for additional information.
- (c) This unit is jointly owned. Each owner is entitled to its proportionate share of the unit's total output and funds its proportionate share of fuel and other operating costs. See Note 14 to the Financial Statements for additional information.
- (d) Includes facilities owned, controlled or for which PPL Energy Supply has the rights to the output.

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

PPL Corporation

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

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

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

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

PPL Energy Supply, LLC

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

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

PPL Electric Utilities Corporation

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

LG&E and KU Energy LLC

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

Louisville Gas and Electric Company

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

Kentucky Utilities Company

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

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

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

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

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

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

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

PPL CORPORATION AND SUBSIDIARIES

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

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

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

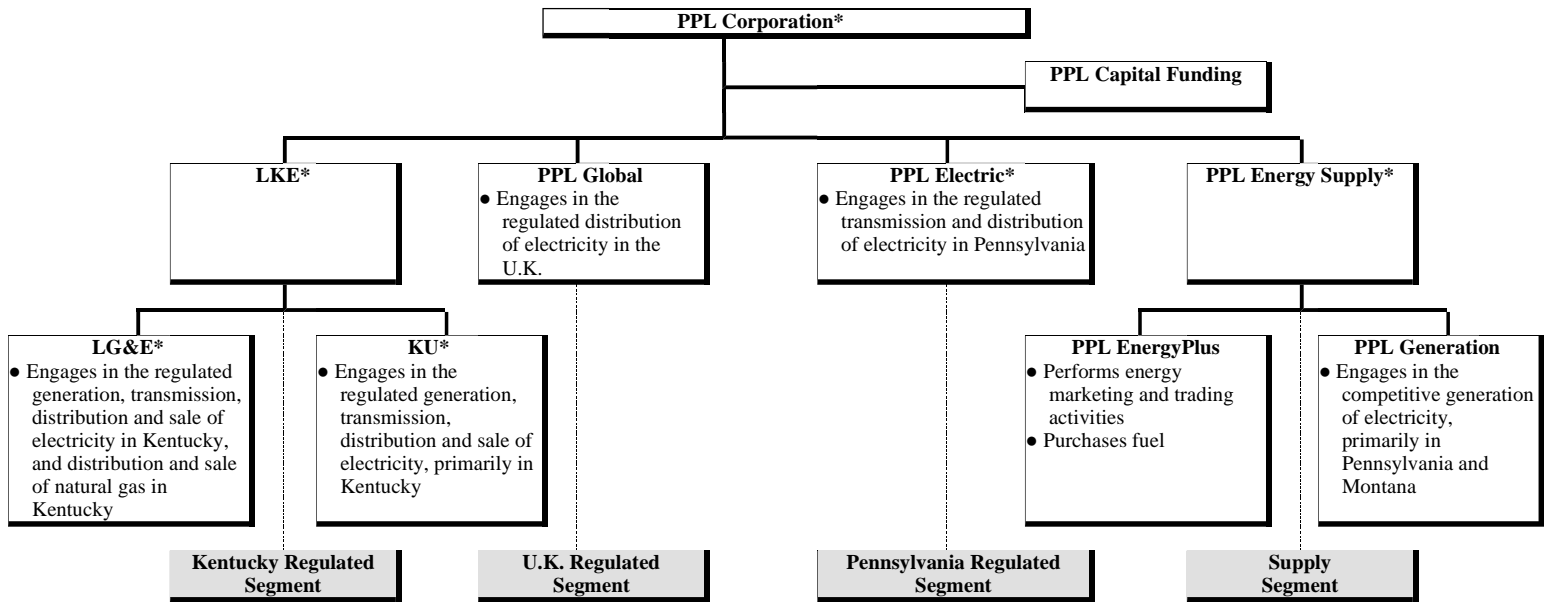
- "Overview" provides a description of PPL and its business strategy, a summary of Net Income Attributable to PPL Shareowners and a discussion of certain events related to PPL's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL's earnings, a review of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

Overview

Introduction

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

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



Business Strategy

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

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

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

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

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

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

Financial and Operational Developments

Net Income Attributable to PPL Shareowners

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Kentucky Regulated (a)	\$ 177	\$ 221	\$ 26
U.K. Regulated (b)	803	325	261
Pennsylvania Regulated Supply	132	173	115
	414	776	612
Corporate and Other (c)			(76)
Net Income Attributable to PPL Shareowners	<u>\$ 1,526</u>	<u>\$ 1,495</u>	<u>\$ 938</u>
EPS - basic	\$ 2.61	\$ 2.71	\$ 2.17
EPS - diluted	\$ 2.60	\$ 2.70	\$ 2.17

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

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

Economic and Market Conditions

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

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

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

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

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

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

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

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

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

Susquehanna Turbine Blade Inspection

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

Ironwood Acquisition

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

Bankruptcy of SMGT

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

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

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

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

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

Tax Litigation

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

Terminated Bluegrass CTs Acquisition

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

Cane Run Unit 7 Construction

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

Future Capacity Needs

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

Storm Costs

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

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

Rate Case Proceedings

Pennsylvania

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

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

Kentucky

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

Regional Transmission Line Expansion Plan

Susquehanna-Roseland

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

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

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

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

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

Northeast/Pocono

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

Legislation - Regulatory Procedures and Mechanisms

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

FERC Formula Rates

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

U.K. Tax Rate Change

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

Ofgem Review of Line Loss Calculation

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

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

Equity Forward Contract

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

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

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

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

2010 Equity Units

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

Redemption of PPL Electric Preference Stock

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

Results of Operations

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

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

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

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

Earnings

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

Kentucky Regulated Segment

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

Net Income Attributable to PPL Shareowners includes the following results:

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

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

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

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

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

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

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

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

(a) KU recorded an impairment of its equity method investment in EEI. See Note 18 to the Financial Statements for additional information.

(b) 2012 includes an adjustment to an indemnification liability.

2013 Outlook

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

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

U.K. Regulated Segment

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

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

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

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

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

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

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

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

PPL WW

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

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

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

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

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

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

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

WPD Midlands

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

U.S.

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

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

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

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

Foreign Currency Exchange Rates

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

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

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

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

2013 Outlook

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

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

Pennsylvania Regulated Segment

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

Net Income Attributable to PPL Shareowners includes the following results:

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

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

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

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Higher other operation and maintenance for 2012 compared with 2011, primarily due to \$17 million in higher payroll-related costs due to less project costs being capitalized in 2012, higher support group costs of \$11 million and \$10 million for increased vegetation management.
- Higher depreciation for 2012 compared with 2011 and 2011 compared with 2010 primarily due to PP&E additions.
- Higher taxes, other than income for 2012 primarily due to a \$10 million tax provision related to gross receipts tax.
- Income taxes were flat in 2012 compared with 2011 primarily due to the \$22 million impact of lower 2012 pre-tax income primarily offset by \$9 million of depreciation not normalized and \$9 million of income tax return adjustments, largely related to changes in flow-through regulated tax depreciation.
Income taxes were higher in 2011 compared with 2010, due to the \$26 million impact of higher 2011 pre-tax income, partially offset by a \$14 million tax benefit related to changes in flow-through regulated tax depreciation.
- Lower noncontrolling interests in 2012 compared with 2011 due to PPL Electric's redemption of preference securities in June 2012.

2013 Outlook

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

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

Supply Segment

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

Net Income Attributable to PPL Shareowners includes the following results:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) See "Reconciliation of Economic Activity" below.

(b) Gains recorded on the completion of the sale of the Maine hydroelectric generation business. See Note 9 to the Financial Statements for additional information.

(c) Primarily represents impairment charges of sulfur dioxide emission allowances.

(d) In July 2010, in order to raise additional cash for the LKE acquisition, certain full-requirement sales contracts were monetized that resulted in cash proceeds of \$249 million. See "Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information. \$343 million of pre-tax gains were recorded to "Wholesale energy marketing" and \$557 million of pre-tax losses were recorded to "Energy purchases" on the Statement of Income.

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

Reconciliation of Economic Activity

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

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

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

Components of Monetization of Certain Full-Requirement Sales Contracts

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

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

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

2013 Outlook

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

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

Statement of Income Analysis --

Margins

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as three non-GAAP financial measures: "Kentucky Gross Margins," "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins." These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL believes that these measures provide additional criteria to make investment decisions. These performance measures are used, in conjunction with other information, internally by senior management and the Board of Directors to manage the Kentucky Regulated, Pennsylvania Regulated and Supply segment operations, analyze each respective segment's actual results compared with budget and, in certain cases, to measure certain corporate financial goals used in determining variable compensation.

PPL's three non-GAAP financial measures include:

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

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

Reconciliation of Non-GAAP Financial Measures

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

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

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

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

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

(d) Primarily represents WPD's utility revenue. 2010 also includes LKE's utility revenues for the two-month period subsequent to the November 1, 2010 acquisition.

(e) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.

(f) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. For 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include a net pre-tax loss of \$35 million related to the monetization of certain full-requirement sales contracts. 2011 includes a net pre-tax loss of \$216 million related to the monetization of certain full-requirement sales contracts and a net pre-tax gain of \$19 million related to the amortization of option premiums. 2010 includes a net pre-tax gain of \$37 million related to the monetization of certain full-requirement sales contracts and a net pre-tax gain of \$32 million related to the amortization of option premiums.

(g) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements.

(h) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. 2012 includes a net pre-tax loss of \$29 million related to coal contract modification payments. 2011 includes pre-tax credits of \$57 million for the spent nuclear fuel litigation settlement.

(i) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

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

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

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

Kentucky Gross Margins

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

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

Pennsylvania Gross Delivery Margins

Distribution

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

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

Transmission

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

Unregulated Gross Energy Margins

Eastern U.S.

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

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

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

Western U.S.

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

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

Utility Revenues

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

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

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

Other Operation and Maintenance

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

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

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

Depreciation

The increase (decrease) in depreciation was due to:

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

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

Taxes, Other Than Income

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

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

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

Other Income (Expense) - net

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

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

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

Other-Than-Temporary Impairments

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

Interest Expense

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

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

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

Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Discontinued Operations

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

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

See Note 9 to the Financial Statements for additional information.

Noncontrolling Interests

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

Financial Condition

Liquidity and Capital Resources

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

PPL's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- changes in electricity, fuel and other commodity prices;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- potential ineffectiveness of the trading, marketing and risk management policy and programs used to mitigate PPL's risk exposure to adverse changes in electricity and fuel prices, interest rates, foreign currency exchange rates and counterparty credit;
- unusual or extreme weather that may damage PPL's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission and distribution facilities that PPL does not own or control to deliver its electricity and natural gas;
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws and with new security and safety requirements for nuclear facilities;
- any adverse outcome of legal proceedings and investigations with respect to PPL's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in PPL's or its rated subsidiaries' credit ratings that could adversely affect their ability to access capital and increase the cost of credit facilities and any new debt.

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

At December 31, PPL had the following:

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

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

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

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

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

Operating Activities

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

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

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

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

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

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

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

Investing Activities

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

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

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

Financing Activities

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

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

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

Long-term Debt and Equity Securities

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

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

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

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

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

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

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

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

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

Forecasted Sources of Cash

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

Credit Facilities

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

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

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

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

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

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

Commercial Paper

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

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

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

Operating Leases

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

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

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

Long-term Debt and Equity Securities

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

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

Forecasted Uses of Cash

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

Capital Expenditures

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

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

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

(b) Includes expenditures for certain intangible assets.

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

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

Contractual Obligations

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

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

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

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

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

Dividends

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

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

Purchase or Redemption of Debt Securities

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

Rating Agency Actions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In May 2012, Fitch downgraded its rating, from BBB to BBB- and revised its outlook, from negative to stable, for PPL Montana's Pass Through Certificates due 2020.

In June 2012, Fitch assigned a rating and outlook to PPL Capital Funding's \$400 million of 4.20% Senior Notes.

In August 2012, Fitch assigned a rating and outlook to PPL Electric's \$250 million First Mortgage Bonds.

In August 2012, S&P and Moody's assigned a rating to PPL Electric's \$250 million First Mortgage Bonds.

In October 2012, Moody's, S&P and Fitch assigned a rating to PPL Capital Funding's \$400 million of 3.50% Senior Notes.

In November 2012, Fitch affirmed the long-term issuer default rating and senior unsecured rating of PPL WW, WPD (South Wales) and WPD (South West).

In November 2012, S&P revised its outlook, from stable to negative, for PPL Montana's Pass Through Certificates due 2020.

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

In December 2012, Fitch affirmed the issuer default ratings, individual security ratings and outlooks for PPL, PPL Capital Funding, PPL Electric, LKE, LG&E and KU.

In December 2012, Fitch affirmed the issuer default rating, individual security rating and revised the outlook, from stable to negative, for PPL Energy Supply.

In February 2013, Moody's upgraded its rating, from Ba1 to B2, and revised the outlook from under review to stable for PPL Ironwood.

Ratings Triggers

As discussed in Note 7 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders back to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's, S&P, or Fitch) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event in that company. These notes totaled £3.3 billion (approximately \$5.3 billion) nominal value at December 31, 2012.

PPL and PPL Energy Supply have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements, and interest rate and foreign currency instruments, which contain provisions that require PPL and PPL Energy Supply to post additional collateral, or permit the counterparty to terminate the contract, if PPL's or PPL Energy Supply's credit rating were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2012. At December 31, 2012, if PPL's and its subsidiaries' credit ratings had been below investment grade, PPL would have been required to prepay or post an additional \$501 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate and foreign currency contracts.

Guarantees for Subsidiaries

PPL guarantees certain consolidated affiliate financing arrangements that enable certain transactions. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, require early maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL believes that these covenants will not limit access to relevant funding sources. See Note 15 to the Financial Statements for additional information about guarantees.

Off-Balance Sheet Arrangements

PPL has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management - Energy Marketing & Trading and Other

Market Risk

See Notes 1, 18, and 19 to the Financial Statements for information about PPL's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at December 31, 2012 and 2011 was a net asset/(liability) of \$346 million and \$(63) million. See Note 19 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL's energy-related assets, liabilities and other contractual arrangements, PPL both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL's non-trading commodity derivative contracts range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts at December 31, 2012. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ 1,082	\$ 947
Contracts realized or otherwise settled during the period	(1,005)	(517)
Fair value of new contracts entered into during the period (a)	7	13
Other changes in fair value	389	639
Fair value of contracts outstanding at the end of the period	<u>\$ 473</u>	<u>\$ 1,082</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at December 31, 2012 based on the level of observability of the information used to determine the fair value.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant observable inputs (Level 2)	\$ 452	\$ 15	\$ (20)	\$ 5	\$ 452
Prices based on significant unobservable inputs (Level 3)	8	10	3		21
Fair value of contracts outstanding at the end of the period	<u>\$ 460</u>	<u>\$ 25</u>	<u>\$ (17)</u>	<u>\$ 5</u>	<u>\$ 473</u>

PPL sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future. In connection with its bankruptcy proceedings, a significant counterparty, SMGT, had been purchasing lower volumes of electricity than prescribed in the contract and effective April 1, 2012 the contract was terminated. PPL cannot predict the prices or other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of this contract. See Note 15 to the Financial Statements for additional information.

Commodity Price Risk (Trading)

PPL's trading commodity derivative contracts range in maturity through 2017. The following table sets forth changes in the net fair value of trading commodity derivative contracts at December 31, 2012. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ (4)	\$ 4
Contracts realized or otherwise settled during the period	20	(14)
Fair value of new contracts entered into during the period (a)	17	10
Other changes in fair value	(4)	(4)
Fair value of contracts outstanding at the end of the period	<u>\$ 29</u>	<u>\$ (4)</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at December 31, 2012 based on the level of observability of the information used to determine the fair value.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant observable inputs (Level 2)	\$ 18	\$ 10			\$ 28
Prices based on significant unobservable inputs (Level 3)	1				1
Fair value of contracts outstanding at the end of the period	<u>\$ 19</u>	<u>\$ 10</u>			<u>\$ 29</u>

VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for its non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows.

	Trading VaR		Non-Trading VaR	
	2012	2011	2012	2011
95% Confidence Level, Five-Day Holding Period				
Period End	\$ 2	\$ 1	\$ 12	\$ 6
Average for the Period	3	3	10	5
High	8	6	12	7
Low	1	1	7	4

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at December 31, 2012.

Interest Rate Risk

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. PPL utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2012 and 2011, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL is also exposed to changes in the fair value of its domestic and international debt portfolios. PPL estimated that a 10% decrease in interest rates at December 31, 2012 would increase the fair value of its debt portfolio by \$611 million, compared with \$635 million at December 31, 2011.

PPL had the following interest rate hedges outstanding at December 31.

	2012			2011		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
Cash flow hedges						
Interest rate swaps (c)	\$ 1,165	\$ (7)	\$ (34)	\$ 150	\$ (3)	\$ (3)
Cross-currency swaps (d)	1,262	10	(179)	1,262	22	(187)
Fair value hedges						
Interest rate swaps				99	4	
Economic hedges						
Interest rate swaps (e)	179	(58)	(3)	179	(60)	(4)

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

(c) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or liabilities, if recoverable through regulated rates. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2012 mature through 2043.

(d) PPL utilizes cross-currency swaps to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes. While PPL is exposed to changes in the fair value of these instruments, any change in the fair value of these instruments is recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in both interest rates and foreign currency exchange rates. The positions outstanding at December 31, 2012 mature through 2028.

(e) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2012 mature through 2033.

Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars. See Note 1 to the Financial Statements for additional information regarding foreign currency translation.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

PPL had the following foreign currency hedges outstanding at December 31:

	2012			2011		
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 162	\$ (2)	\$ (26)	£ 92	\$ 7	\$ (13)
Economic hedges (c)	1,265	(42)	(192)	288	11	(37)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP. The positions outstanding at December 31, 2012 mature through 2013. Excludes the amount of an intercompany loan classified as a net investment hedge. See Note 19 to the Financial Statements for additional information.

(c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP. The forwards and options outstanding at December 31, 2012 mature through 2015.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At December 31, 2012, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At December 31, 2012, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$49 million reduction in the fair value of the trust assets, compared with \$43 million at December 31, 2011. See Notes 18 and 23 to the Financial Statements for additional information regarding the NDT funds.

Defined Benefit Plans - Securities Price Risk

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of securities price risk on plan assets.

Credit Risk

Credit risk is the risk that PPL would incur a loss as a result of nonperformance by counterparties of their contractual obligations. PPL maintains credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL has concentrations of suppliers and customers among electric utilities, financial institutions and other energy marketing and trading companies. These concentrations may impact PPL's overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

PPL includes the effect of credit risk on its fair value measurements to reflect the probability that a counterparty will default when contracts are out of the money (from the counterparty's standpoint). In this case, PPL would have to sell into a lower-priced market or purchase in a higher-priced market. When necessary, PPL records an allowance for doubtful accounts to reflect the probability that a counterparty will not pay for deliveries PPL has made but not yet billed, which are reflected in "Unbilled revenues" on the Balance Sheets. PPL also has established a reserve with respect to certain receivables from SMGT, which is reflected in accounts receivable on the Balance Sheets. See Note 15 to the Financial Statements for additional information.

In 2009, the PUC approved PPL Electric's PLR procurement plan for the period January 2011 through May 2013. To date, PPL Electric has conducted all of its planned competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2012, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post collateral, which totaled less than \$1 million, under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See "Overview" in this Item 7 and Notes 15, 16, 18 and 19 to the Financial Statements for additional information on the competitive solicitations, the Agreement, credit concentration and credit risk.

Foreign Currency Translation

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2012, changes in this exchange rate resulted in a foreign currency translation gain of \$99 million, which primarily reflected a \$181 million increase to PP&E offset by an increase of \$82 million to net liabilities. In 2011, changes in this exchange rate resulted in a foreign currency translation loss of \$51 million, which primarily reflected a \$69 million reduction to PP&E offset by a reduction of \$18 million to net liabilities. In 2010, changes in this exchange rate resulted in a foreign currency translation loss of \$63 million, which primarily reflected a \$180 million reduction to PP&E offset by a reduction of \$117 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions

PPL is not aware of any material ownership interests or operating responsibility by senior management of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL. See Note 16 to the Financial Statements for additional information on related party transactions.

Acquisitions, Development and Divestitures

PPL from time to time evaluates opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

In April 2012, an indirect wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. In April 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of WPD Midlands. In November 2010, PPL completed its acquisition of LKE. See Note 10 to the Financial Statements for additional information.

See Notes 8, 9 and 10 to the Financial Statements for additional information on the more significant activities.

Environmental Matters

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

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL's generation assets, electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL has hydro generating facilities or where river water is used to cool its fossil and nuclear powered generators. PPL cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

The below provides a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating CCRs (as either hazardous or non-hazardous) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The economic impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule.

Effluent Limitation Guidelines

The EPA is to issue guidelines for technology-based limits in discharge permits for scrubber wastewater and is expected to require dry ash handling. The EPA agreed, in recent settlement negotiations with environmentalists, to propose revisions to its effluent limitation guidelines (ELGs) by April 2013, with a final rule in late 2014. Limits could be so stringent that plants may consider extensive new or modified wastewater treatment facilities and possibly zero liquid discharge operations, the cost of which could be significant. Impacts should be better understood after the proposed rule is issued.

316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: one requires installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment), and the second imposes standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected in June 2013. The proposed regulation would apply to nearly all PPL-owned steam electric plants in Pennsylvania, Kentucky, and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

GHG Regulations

In 2013, the EPA is expected to finalize limits on GHG emissions from new power plants and to begin working on a proposal for such emissions from existing power plants. The EPA's proposal on GHG emissions from new power plants would effectively preclude construction of any coal-fired plants and could even be difficult for new gas-fired plants to meet. With respect to existing power plants, the impact could be very significant, depending on the structure and stringency of the final rule. PPL, along with others in the industry, filed comments on the EPA's proposal related to GHG emissions from new plants. With respect to GHG limits for existing plants, PPL will advocate for reasonable, flexible requirements.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes new coal plants. PPL is generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls and approved Environmental Cost Recovery (ECR) plans to install additional controls at some of our Kentucky plants. PPL is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrous oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern United States. In December 2011, the U.S. Court of Appeals for the District of Columbia Circuit (the Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place, pending further EPA action. PPL plants in Pennsylvania and Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Court's August decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

Regional Haze - Montana

The EPA signed its final Federal Implementation Plan (FIP) of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for Corette (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above).

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for further discussion of environmental matters.

Competition

See "Competition" under each of PPL's reportable segments in "Item 1. Business - Segment Information" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting PPL.

New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). Senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

Price Risk Management

See "Price Risk Management" in Note 1 to the Financial Statements, as well as "Risk Management - Energy Marketing & Trading and Other" above.

Defined Benefits

Certain PPL subsidiaries sponsor various qualified funded and non-qualified unfunded defined benefit pension plans. Certain PPL subsidiaries also sponsor both funded and unfunded other postretirement benefit plans. These plans are applicable to the majority of the employees of PPL. PPL and certain of its subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to OCI or regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

PPL and its subsidiaries make certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in OCI or regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in AOCI or regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- Discount Rate - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- Expected Return on Plan Assets - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs PPL records currently.
- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- Health Care Cost Trend Rate - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its U.S. defined benefit plans, PPL starts with a cash flow analysis of the expected benefit payment stream for its plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds. Individual bonds were then selected based on the timing of each plan's cash flows and parameters were established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, PPL decreased the discount rate for its U.S. pension plans from 5.06% to 4.22% and decreased the discount rate for its other postretirement benefit plans from 4.80% to 4.00%.

In selecting a discount rate for its U.K. defined benefit plans, PPL starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows were matched against a spot-rate yield curve to determine the assumed discount rate, which used an iBoxx British pounds sterling denominated corporate bond index as its base. An individual bond matching approach is not used for U.K. pension plans because the universe of bonds in the U.K. is not deep enough to adequately support such an approach. At December 31, 2012, the discount rate for the U.K. pension plans was decreased from 5.24% to 4.27% as a result of this assessment.

The expected long-term rates of return for PPL's U.S. defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption.

At December 31, 2012, PPL's expected return on plan assets decreased from 7.07% to 7.02% for its U.S. pension plans and increased from 5.93% to 5.97% for its other postretirement benefit plans. The expected long-term rates of return for PPL's U.K. pension plans have been developed by PPL management with assistance from an independent actuary using a best-estimate of expected returns, volatilities and correlations for each asset class. For the U.K. plans, PPL's expected return on plan assets decreased from 7.17% to 7.16% at December 31, 2012.

In selecting a rate of compensation increase, PPL considers past experience in light of movements in inflation rates. At December 31, 2012, PPL's rate of compensation increase decreased from 4.02% to 3.98% for its U.S. pension plans and 4.00% to 3.97% for its other postretirement benefit plans. For the U.K. plans, PPL's rate of compensation increase remained at 4.00% at December 31, 2012.

In selecting health care cost trend rates, PPL considers past performance and forecasts of health care costs. At December 31, 2012, PPL's health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LG&E, KU and PPL Electric. While the charts below reflect either an increase or decrease in each assumption, the inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LG&E, KU and PPL Electric by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows.

Pension liabilities	(2,084)
Other postretirement benefit liabilities	(301)

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on PPL's primary defined benefit plans.

Actuarial assumption	Increase (Decrease)			
	Change in assumption	Impact on defined benefit liabilities	Impact on OCI	Impact on regulatory assets
Discount Rate	(0.25)%	\$ 473	\$ (389)	\$ 84
Rate of Compensation Increase	0.25%	66	(54)	12
Health Care Cost Trend Rate (a)	1.00%	7	(1)	6

(a) Only impacts other postretirement benefits.

In 2012, PPL recognized net periodic defined benefit costs charged to operating expense of \$166 million. This amount represents a \$12 million increase from 2011, excluding \$50 million of separation costs recorded in 2011. The increase was primarily attributable to increased amortization of losses and a non-qualified plan settlement charge recorded in 2012.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on PPL's primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 24
Expected Return on Plan Assets	(0.25)%	26
Rate of Compensation Increase	0.25%	10
Health Care Cost Trend Rate (a)	1.00%	1

(a) Only impacts other postretirement benefits.

Asset Impairment (Excluding Investments)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

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

For a long-lived asset classified as held and used, an impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its estimated fair value. Management must make significant judgments to estimate future cash flows, including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

In September 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place the Corette coal-fired plant in Montana in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with MATS requirements. The Corette plant asset group's carrying amount at December 31, 2012 was approximately \$68 million. An impairment analysis was performed for this asset group in the third and fourth quarters of 2012 and it was determined to not be impaired. It is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

For a long-lived asset classified as held for sale, an impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, the Registrant considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

Goodwill is tested for impairment at the reporting unit level. PPL's reporting units have been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, PPL may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if PPL concludes it is more likely than not the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, PPL identifies a potential impairment by comparing the estimated fair value of a reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

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

PPL elected to perform the two-step quantitative impairment test of goodwill for all of its reporting units in the fourth quarter of 2012 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of the reporting units. For the U.K. Regulated reporting unit, management used only discounted cash flows to estimate the fair value of the reporting unit due to lack of industry comparable transactions. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations (where applicable) a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

Loss Accruals

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

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

No new significant loss accruals were recorded in 2012.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is "reasonably possible" that a loss has been incurred.

When an estimated loss is accrued, the triggering events for subsequently reducing the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction of certain recorded loss accruals:

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

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

See Note 6 and 15 to the Financial Statements for disclosure of loss contingencies accrued and other potential loss contingencies that have not met the criteria for accrual. Note 6 to the Financial Statements includes a discussion of the Ofgem Review of Line Loss Calculation, including the \$90 million reduction in the WPD liability.

Asset Retirement Obligations

PPL is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. A conditional ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the statement of income, for changes in the obligation due to the passage of time.

In the case of LG&E and KU, since costs of removal are collected in rates, the depreciation and accretion expense related to an ARO are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO has been settled.

See Note 21 to the Financial Statements for further discussion of AROs.

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

At December 31, 2012, AROs totaling \$552 million were recorded on the Balance Sheet, of which \$16 million is included in "Other current liabilities." Of the total amount, \$316 million, or 57%, relates to the nuclear decommissioning ARO. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in any of these inputs could have a significant impact on the ARO liabilities.

The following table reflects the sensitivities related to the nuclear decommissioning ARO liability associated with a change in these assumptions as of December 31, 2012. There is no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of changing the assumptions. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

	<u>Change in Assumption</u>	<u>Impact on ARO Liability</u>
Retirement Cost	10%	\$ 32
Discount Rate	(0.25)%	28
Inflation Rate	0.25%	32

Income Taxes

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

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

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

At December 31, 2012, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase by as much as \$10 million or decrease by up to \$90 million. This change could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future. See Note 5 to the Financial Statements for income tax disclosures.

Regulatory Assets and Liabilities

PPL Electric, LG&E and KU, are subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-offs would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of depreciation of PP&E and amortization of regulatory assets.

At December 31, 2012, PPL had regulatory assets of \$1.5 billion and regulatory liabilities of \$1.1 billion. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. WPD's electricity distribution revenues are set every five years through price controls that are not directly based on cost recovery; therefore, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services, tax services and other services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

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

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

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

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

Overview

Introduction

PPL Energy Supply is an energy company with headquarters in Allentown, Pennsylvania. Through its subsidiaries, PPL Energy Supply is primarily engaged in the generation and marketing of electricity in two key markets - the northeastern and northwestern U.S.

Business Strategy

PPL Energy Supply's overall strategy is to achieve disciplined optimization of energy supply margins while mitigating volatility in both cash flows and earnings. More specifically, PPL Energy Supply's strategy is to optimize the value from its competitive generation and marketing portfolios. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

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

Financial and Operational Developments

Net Income Attributable to PPL Energy Supply Member

Net Income Attributable to PPL Energy Supply Member for 2012, 2011 and 2010 was \$474 million, \$768 million and \$861 million. Earnings in 2012 decreased 38% from 2011 and earnings in 2011 decreased 11% from 2010.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

Economic and Market Conditions

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

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

(a) All periods reflect the years ended December 31.

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

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

PPL Energy Supply's businesses are subject to extensive federal, state and local environmental laws, rules and regulations. PPL Energy Supply's competitive generation assets are well positioned to meet these requirements. See Note 15 to the Financial Statements for additional information on these requirements. As a result of these requirements, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with MATS. The Corette plant asset group's carrying amount at December 31, 2012 was approximately \$68 million. Although the Corette plant asset group was not determined to be impaired at December 31, 2012, it is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

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

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

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

Susquehanna Turbine Blade Inspection

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

Ironwood Acquisition

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

Bankruptcy of SMGT

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

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

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

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

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

Results of Operations

The following discussion provides a summary of PPL Energy Supply's earnings and a description of factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant year-to-year changes in Unregulated Gross Energy Margins by region and principal line items on PPL Energy Supply's Statements of Income.

Earnings

Net Income Attributable to PPL Energy Supply Member was:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net Income Attributable to PPL Energy Supply Member	\$ 474	\$ 768	\$ 861

The changes in the components of Net Income Attributable to PPL Energy Supply Member between these periods were due to the following factors, which reflect reclassifications for items included in the Unregulated Gross Energy Margins and certain items that management considers special. See additional detail of these special items in the tables below.

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Unregulated Gross Energy Margins	\$ (197)	\$ (405)
Other operation and maintenance	(53)	(65)
Depreciation	(41)	(8)
Taxes, other than income	6	(9)
Other Income (Expense) - net	(5)	
Interest Expense	16	4
Other	(1)	
Income Taxes	102	146
Discontinued operations - Domestic, after-tax - excluding certain revenues and expenses included in margins	3	16
Discontinued operations - International, after-tax		(261)
Special items, after-tax	(124)	489
Total	<u>\$ (294)</u>	<u>\$ (93)</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.

- Higher other operation and maintenance in 2012 compared with 2011 due to higher costs at PPL Susquehanna of \$27 million including refueling outage costs, payroll-related costs and project costs, \$18 million due to the Ironwood Acquisition, \$13 million due to outages at eastern fossil and hydroelectric units and \$10 million of charges from support groups partially offset by \$34 million of trademark royalties with an affiliate in 2011 for which the agreement was terminated December 31, 2011.

Higher other operation and maintenance in 2011 compared with 2010, primarily due to higher costs at PPL Susquehanna of \$30 million largely due to unplanned outages, the refueling outage and payroll-related costs, higher costs at eastern fossil and hydroelectric units of \$20 million, largely due to outages, and higher costs at western fossil and hydroelectric units of \$15 million, largely resulting from insurance recoveries received in 2010.

- Higher depreciation in 2012 compared with 2011 primarily due to a \$16 million impact from PP&E additions and \$17 million due to the Ironwood Acquisition.
- Lower interest expense in 2012 compared with 2011 of \$14 million due to the impact of redeeming debt not replaced and redeeming debt replaced at a lower interest rate, \$10 million due to lower interest on short-term borrowings and \$7 million due to 2011 including the acceleration of deferred financing fees related to the July 2011 redemption, partially offset by a \$12 million increase related to the debt assumed as a result of the Ironwood Acquisition.
- Lower income taxes in 2012 compared with 2011 due to lower 2012 pre-tax income, which reduced income taxes by \$110 million and \$20 million related to lower adjustments to valuation allowances on Pennsylvania net operating losses, partially offset by \$26 million related to the impact of prior period tax return adjustments.

Lower income taxes in 2011 compared with 2010, due to lower 2011 pre-tax income, which reduced income taxes by \$196 million and a \$26 million reduction in deferred tax liabilities related to an updated blended state tax rate as a result of a change in state apportionment. These decreases were partially offset by \$74 million related to adjustments to valuation allowances on Pennsylvania net operating losses, \$13 million in favorable adjustments to uncertain tax benefits recorded in 2010 and an \$11 million decrease in the domestic manufacturing deduction tax benefit resulting from revised bonus depreciation estimates.

- Discontinued operations - International, represents the results of PPL Global which was distributed to PPL Energy Supply's parent, PPL Energy Funding in January 2011. See Note 9 to the Financial Statements for additional information.

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

	Income Statement Line Item	2012	2011	2010
Adjusted energy-related economic activity, net, net of tax of (\$26), (\$52), \$85	(a)	\$ 38	\$ 72	\$ (121)
Sales of assets:				
Maine hydroelectric generation business, net of tax of \$0, \$0, (\$9) (b)	Disc. Operations			15
Sundance indemnification, net of tax of \$0, \$0, \$0	Other Income-net			1
Impairments:				
Emission allowances, net of tax of \$0, \$1, \$6 (c)	Other O&M		(1)	(10)
Renewable energy credits, net of tax of \$0, \$2, \$0	Other O&M		(3)	
Adjustments - nuclear decommissioning trust investments, net of tax of (\$2), \$0, \$0	Other Income-net	2		
Other asset impairments, net of tax of \$0, \$0, \$0	Other O&M	(1)		
LKE acquisition-related adjustments:				
Monetization of certain full-requirement sales contracts, net of tax of \$0, \$0, \$89	(d)			(125)
Sale of certain non-core generation facilities, net of tax of \$0, \$0, \$37 (e)	Disc. Operations		(2)	(64)
Reduction of credit facility, net of tax of \$0, \$0, \$4 (f)	Interest Expense			(6)
Other:				
Montana hydroelectric litigation, net of tax of \$0, (\$30), \$22	(g)		45	(34)
Litigation settlement - spent nuclear fuel storage, net of tax of \$0, (\$24), \$0 (h)	Fuel		33	
Health care reform - tax impact (i)	Income Taxes			(5)
Montana basin seepage litigation, net of tax of \$0, \$0, (\$1)	Other O&M			2
Counterparty bankruptcy, net of tax of \$5, \$5, \$0 (j)	Other O&M	(6)	(6)	
Wholesale supply cost reimbursement, net of tax of \$0, (\$3), \$0	(k)	1	4	
Ash basin leak remediation adjustment, net of tax of (\$1), \$0, \$0	Other O&M	1		
Coal contract modification payments, net of tax of \$12, \$0, \$0 (l)	Fuel	(17)		
Total		<u>\$ 18</u>	<u>\$ 142</u>	<u>\$ (347)</u>

- (a) See "Reconciliation of Economic Activity" below.
- (b) Gains recorded on completion of the sale of the Maine hydroelectric generation business. See Note 9 to the Financial Statements for additional information.
- (c) Primarily represents impairment charges of sulfur dioxide emission allowances.
- (d) In July 2010, in order to raise additional cash for the LKE acquisition, certain full-requirement sales contracts were monetized that resulted in cash proceeds of \$249 million. See "Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information. \$343 million of pre-tax gains were recorded to "Wholesale energy marketing" and \$557 million of pre-tax losses were recorded to "Energy purchases" on the Statement of Income.
- (e) Consists primarily of the initial impairment charge recorded when the business was classified as held for sale. See Note 9 to the Financial Statements for additional information.
- (f) In October 2010, PPL Energy Supply made borrowings under its Syndicated Credit Facility in order to enable a subsidiary to make loans to certain affiliates to provide interim financing of amounts required by PPL to partially fund PPL's acquisition of LKE. Subsequent to the repayment of such borrowing, the capacity was reduced, and as a result, PPL Energy Supply wrote off deferred fees in 2010.
- (g) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. In 2010, PPL Montana recorded a pre-tax charge of \$56 million, representing estimated rental compensation for years prior to 2010, including interest. Of this total charge \$47 million, pre-tax, was recorded to "Other operation and maintenance" and \$9 million, pre-tax, was recorded to "Interest Expense" on the Statement of Income. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. Prior to the U.S. Supreme Court decision, \$4 million, pre-tax, of interest expense on the rental compensation covered by the court decision was accrued in 2011. As a result of the U.S. Supreme Court decision, PPL Montana reversed its total pre-tax loss accrual of \$89 million, which had been recorded prior to the U.S. Supreme Court decision, of which \$79 million pre-tax is considered a special item because it represented \$65 million of rent for periods prior to 2011 and \$14 million of interest accrued on the portion covered by the prior court decision. These amounts were credited to "Other operation and maintenance" and "Interest Expense" on the Statement of Income. See Note 15 to the Financial Statements for additional information.
- (h) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits to fuel expense to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. This special item represents amounts recorded in 2011 to cover the costs incurred from 1998 through December 2010.
- (i) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.
- (j) In October 2011, a wholesale customer, SMTG, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012.
- (k) In January 2012, PPL received \$7 million pre-tax, related to electricity delivered to a wholesale customer in 2008 and 2009, recorded in "Wholesale energy marketing-Realized." The additional revenue results from several transmission projects approved at PJM for recovery that were not initially anticipated at the time of the electricity auctions and therefore were not included in the auction pricing. A FERC order was issued in 2011 approving the disbursement of these supply costs by the wholesale customer to the suppliers, therefore, PPL Energy Supply accrued its share of this additional revenue in 2011.
- (l) As a result of lower electricity and natural gas prices, coal-fired generation output decreased during 2012. Contract modification payments were incurred to reduce 2012 and 2013 contracted coal deliveries.

Reconciliation of Economic Activity

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

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

(a) See Note 19 to the Financial Statements for additional information.

(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statements of Income.

(c) See "Components of Monetization of Certain Full-Requirement Sales Contracts" below.

Components of Monetization of Certain Full-Requirement Sales Contracts

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

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

(a) See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information.

(b) Includes unrealized losses of \$251 million, which are reflected in "Wholesale energy marketing - Unrealized economic activity" and "Energy purchases - Unrealized economic activity" on the Statement of Income. Also includes net realized gains of \$37 million, which are reflected in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statement of Income.

2013 Outlook

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

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

Statement of Income Analysis --

Unregulated Gross Energy Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Unregulated Gross Energy Margins." "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. In calculating this measure, PPL Energy Supply's energy revenues, which include operating revenues associated with certain PPL Energy Supply businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income," and operating expenses associated with certain PPL Energy Supply businesses that are classified as discontinued operations. This performance measure is relevant to PPL Energy Supply due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "Wholesale energy marketing to affiliate" revenue. PPL Energy Supply excludes from "Unregulated Gross Energy Margins" adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in adjusted energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in "Unregulated Gross Energy Margins" over the delivery period that was hedged or upon realization. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Energy Supply believes that "Unregulated Gross Energy Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage PPL Energy Supply's operations, analyze actual results compared with budget and measure certain corporate financial goals used in determining variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Unregulated Gross Energy Margins" as defined by PPL Energy Supply for the period ended December 31.

	2012			2011		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	\$ 4,412	\$ 21 (c)	\$ 4,433	\$ 3,745	\$ 62 (c)	\$ 3,807
Unrealized economic activity		(311) (d)	(311)		1,407 (d)	1,407
Wholesale energy marketing to affiliate	78		78	26		26
Unregulated retail electric and gas	865	(17) (d)	848	696	31 (d)	727
Net energy trading margins	4		4	(2)		(2)
Energy-related businesses		448	448		464	464
Total Operating Revenues	5,359	141	5,500	4,465	1,964	6,429

	2012			2011		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Expenses						
Fuel	931	34 (e)	965	1,151	(71) (e)	1,080
Energy purchases						
Realized	2,204	56 (c)	2,260	912	248 (c)	1,160
Unrealized economic activity		(442) (d)	(442)		1,123 (d)	1,123
Energy purchases from affiliate	3		3	3		3
Other operation and maintenance	19	1,022	1,041	16	913	929
Depreciation		285	285		244	244
Taxes, other than income	34	35	69	30	41	71
Energy-related businesses		432	432		458	458
Total Operating Expenses	3,191	1,422	4,613	2,112	2,956	5,068
Discontinued Operations				12	(12) (f)	
Total	\$ 2,168	\$ (1,281)	\$ 887	\$ 2,365	\$ (1,004)	\$ 1,361

	2010		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues			
Wholesale energy marketing			
Realized	\$ 4,511	\$ 321 (c)	\$ 4,832
Unrealized economic activity		(805) (d)	(805)
Wholesale energy marketing to affiliate	320		320
Unregulated retail electric and gas	414	1 (d)	415
Net energy trading margins	2		2
Energy-related businesses		364	364
Total Operating Revenues	5,247	(119)	5,128

Operating Expenses			
Fuel	1,132	(36) (e)	1,096
Energy purchases			
Realized	1,389	247 (c)	1,636
Unrealized economic activity		(286) (d)	(286)
Energy purchases from affiliate	3		3
Other operation and maintenance	23	956	979
Depreciation		236	236
Taxes, other than income	14	32	46
Energy-related businesses		357	357
Total Operating Expenses	2,561	1,506	4,067
Discontinued Operations	84	(84) (f)	
Total	\$ 2,770	\$ (1,709)	\$ 1,061

- (a) Represents amounts excluded from Margins.
- (b) As reported on the Statements of Income.
- (c) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. For 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include a net pre-tax loss of \$35 million related to the monetization of certain full-requirement sales contracts. 2011 includes a net pre-tax loss of \$216 million related to the monetization of certain full-requirement sales contracts and a net pre-tax gain of \$19 million related to the amortization of option premiums. 2010 includes a net pre-tax gain of \$37 million related to the monetization of certain full-requirement sales contracts and a net pre-tax gain of \$32 million related to the amortization of option premiums.
- (d) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements.
- (e) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. 2012 includes a net pre-tax loss of \$29 million related to coal contract modification payments. 2011 includes pre-tax credits of \$57 million for the spent nuclear fuel litigation settlement.
- (f) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

Unregulated Gross Energy Margins are generated through PPL Energy Supply's competitive non-trading and trading activities. PPL Energy Supply's non-trading energy business is managed on a geographic basis that is aligned with its generation fleet. The following table shows PPL Energy Supply's non-GAAP financial measure, Unregulated Gross Energy Margins, for the periods ended December 31, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2011</u>	<u>2010</u>	<u>Change</u>
Non-trading						
Eastern U.S.	\$ 1,865	\$ 2,018	\$ (153)	\$ 2,018	\$ 2,429	\$ (411)
Western U.S.	299	349	(50)	349	339	10
Net energy trading	4	(2)	6	(2)	2	(4)
Total	<u>\$ 2,168</u>	<u>\$ 2,365</u>	<u>\$ (197)</u>	<u>\$ 2,365</u>	<u>\$ 2,770</u>	<u>\$ (405)</u>

Unregulated Gross Energy Margins

Eastern U.S.

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

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

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

Western U.S.

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

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

Energy-Related Businesses

The \$10 million increase in contributions from energy-related businesses in 2012 compared with 2011 primarily relates to the mechanical services businesses, due to improved margins on construction and energy service projects in 2012 and a decrease in affiliate trademark expenses.

Other Operation and Maintenance

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

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Montana hydroelectric litigation (a)	\$ 75	\$ (121)
PPL Susquehanna nuclear plant costs (b)	27	30
Uncollectible accounts (c)	(5)	15
Costs at Western fossil and hydroelectric plants (d)	(1)	15
Costs at Eastern fossil and hydroelectric plants (e)	13	20
Impacts from emission allowances (f)		(15)
Ironwood Acquisition (g)	18	
Trademark royalties (h)	(34)	
Pension expense	11	1
Other	8	5
Total	<u>\$ 112</u>	<u>\$ (50)</u>

- (a) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a charge of \$56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to "Other operation and maintenance" on the Statement of Income totaled \$49 million. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, in 2011 PPL Montana reversed its total loss accrual of \$89 million, which had been recorded prior to the U.S. Supreme Court decision, of which \$75 million was credited to "Other operation and maintenance" on the Statement of Income.
- (b) 2012 compared with 2011 was higher primarily due to \$11 million of higher payroll-related costs, \$7 million of higher project costs and \$7 million of higher costs from the refueling outage. 2011 compared with 2010 was higher primarily due to \$11 million of higher payroll-related costs, \$10 million of higher outage costs and \$8 million of higher costs from the refueling outage.
- (c) 2011 compared with 2010 was higher primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code, \$11 million of damages billed to SMGT were fully reserved.
- (d) 2011 compared with 2010 was higher primarily due to \$11 million of lower insurance proceeds.
- (e) 2012 compared with 2011 was higher primarily due to net plant outage costs of \$13 million. 2011 compared with 2010 was higher primarily due to plant outage costs of \$13 million.
- (f) 2011 compared with 2010 was lower due to lower impairment charges of sulfur dioxide emission allowances.
- (g) There are no comparable amounts in the 2011 periods as the Ironwood Acquisition occurred in April 2012.
- (h) In 2011 and 2010, PPL Energy Supply was charged trademark royalties by an affiliate. The agreement was terminated in December 2011.

Depreciation

Depreciation increased by \$41 million in 2012 compared with 2011, primarily due to \$16 million attributable to PP&E additions and \$17 million attributable to the Ironwood Acquisition in April 2012. Depreciation increased by \$8 million in 2011 compared with 2010, primarily due to PP&E additions.

Taxes, Other Than Income

Taxes, other than income decreased by \$2 million in 2012 compared with 2011, primarily due to a \$7 million decrease in state capital stock tax offset by a \$4 million increase in state gross receipts tax.

Taxes, other than income increased by \$25 million in 2011 compared with 2010, primarily due to \$16 million of higher Pennsylvania gross receipts tax expense as a result of an increase in retail electricity sales by PPL EnergyPlus. This tax is included in "Unregulated Gross Energy Margins." The increase also includes \$8 million of higher Pennsylvania capital stock tax due in part to the expiration of the Keystone Opportunity Zone credit in 2010 and an agreed to change in a capital stock tax filing position with the state.

Other Income (Expense) - net

See Note 17 to the Financial Statements for details.

Interest Income from Affiliates

Interest income from affiliates decreased by \$6 million in 2012 compared with 2011, primarily due to lower average loan balances with PPL Energy Funding.

Interest Expense

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

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Long-term debt interest expense (a)	\$ (11)	
Short-term debt interest expense (b)	(10)	\$ 7
Ironwood Acquisition (Note 10)	12	
Capitalized interest		(16)
Net amortization of debt discounts, premiums and issuance costs (c)	(9)	(3)
Montana hydroelectric litigation (d)	10	(20)
Other	2	(2)
Total	<u>\$ (6)</u>	<u>\$ (34)</u>

- (a) The decrease was primarily due to the redemption of \$250 million of 7.0% Senior Notes due 2046 in July 2011 along with the repayment of \$500 million of 6.4% Senior Notes due 2011 and subsequent issuance of \$500 million of 4.6% Senior Notes due 2021, both in the fourth quarter of 2011.
- (b) 2012 compared with 2011 was lower primarily due to lower interest rates on 2012 short-term borrowings coupled with lower fees on credit facilities. 2011 compared with 2010 was higher primarily due to increased borrowings in 2011 and an increase in commitment fees on credit facilities.
- (c) The periods include the impact of accelerating the amortization of deferred financing fees of \$7 million in 2011, due to the July 2011 redemption, as noted above, of its 7.00% Senior Notes due 2046. 2011 compared with 2010 was slightly offset by the impact of accelerating the amortization of deferred financing fees of \$10 million in 2010, due to the September 2010 expiration and subsequent replacement of its \$3.2 billion 5-year Syndicated Credit Facility.
- (d) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In 2011 and 2010, PPL Montana recorded \$4 million and \$10 million of interest expense on the rental compensation covered by the court decision. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, in the fourth quarter of 2011 PPL Montana reversed its total loss accrual of \$89 million, which had been recorded prior to the U.S. Supreme Court decision, of which \$14 million was credited to "Interest Expense" on the Statement of Income.

Income Taxes

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

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Higher (lower) pre-tax book income	\$ (191)	\$ 134
State valuation allowance adjustments (a)	(20)	74
State deferred tax rate change (b)	7	(26)
Domestic manufacturing deduction (c) (d)		11
Federal and state tax reserve adjustments	(4)	13
Federal and state tax return adjustments (d)	26	(16)
Health Care Reform (e)		(5)
Other		(1)
	<u>\$ (182)</u>	<u>\$ 184</u>

- (a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL Energy Supply recorded \$22 million in state deferred income tax expense related to deferred tax valuation allowances during 2011.

Pennsylvania H.B. 1531, enacted in October 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. Based on the projected revenue increase related to the expiration of the generation rate caps, PPL Energy Supply recorded a \$52 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances over the remaining carryforward period of the net operating losses during 2010.

- (b) Changes in state apportionment resulted in reductions to the future estimated state tax rate at December 31, 2012 and 2011. PPL Energy Supply recorded a \$19 million deferred tax benefit in 2012 and a \$26 million deferred tax benefit in 2011 related to its state deferred tax liabilities.
- (c) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation deduction eliminated the tax benefits related to domestic manufacturing deductions in 2012 and 2011.
- (d) During 2011, PPL recorded \$22 million in federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of that amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts.
- (e) Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense during 2010.

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

Discontinued Operations

Income (Loss) from Discontinued Operations (net of income taxes) decreased by \$240 million in 2011 compared with 2010. The decrease in 2011 compared with 2010 was primarily due to the presentation of PPL Global as Discontinued Operations as a result of the January 2011 distribution by PPL Energy Supply of its membership interest in PPL Global to its parent, PPL Energy Funding. In 2011, the results of PPL Global are no longer consolidated within PPL Energy Supply. See Note 9 to the Financial Statements for additional information.

Financial Condition

Liquidity and Capital Resources

PPL Energy Supply expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. In 2013, PPL Energy Supply anticipates receiving capital contributions from its member, as well.

PPL Energy Supply's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- changes in electricity, fuel and other commodity prices;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- potential ineffectiveness of the trading, marketing and risk management policy and programs used to mitigate PPL Energy Supply's risk exposure to adverse changes in electricity and fuel prices, interest rates and counterparty credit;
- reliance on transmission and distribution facilities that PPL Energy Supply does not own or control to deliver its electricity and natural gas;
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- costs of compliance with existing and new environmental laws and with new security and safety requirements for nuclear facilities;
- any adverse outcome of legal proceedings and investigations with respect to PPL Energy Supply's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in PPL Energy Supply's or its rated subsidiaries' credit ratings that could adversely affect their ability to access capital and increase the cost of credit facilities and any new debt.

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

At December 31, PPL Energy Supply had the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 413	\$ 379	\$ 661
Short-term debt	\$ 356	\$ 400	\$ 531

The changes in PPL Energy Supply's cash and cash equivalents position resulted from:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net cash provided by (used in) operating activities	\$ 784	\$ 776	\$ 1,840
Net cash provided by (used in) investing activities	(469)	(668)	(825)
Net cash provided by (used in) financing activities	(281)	(390)	(612)
Effect of exchange rates on cash and cash equivalents			13
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 34	\$ (282)	\$ 416

Operating Activities

Net cash provided by operating activities increased by 1%, or \$8 million, in 2012 compared with 2011. This was primarily due to a \$92 million decrease in net cash used in other operating activities (includes a \$77 million reduction in defined benefit plan funding) and a \$23 million decrease in net cash used in working capital (including a change of \$156 million from counterparty collateral, offset by a \$92 million change in accounts receivable). These impacts were offset by a \$107 million decrease in net income, when adjusted for non-cash components.

Net cash provided by operating activities decreased by 58%, or \$1.1 billion, in 2011 compared with 2010. This was primarily due to lower gross energy margins of \$240 million, after-tax, proceeds from monetizing certain full-requirements sales contracts in 2010 of \$249 million, a reduction in cash from counter party collateral of \$172 million, increases in other operating outflows of \$200 million (including higher operation and maintenance expenses and defined benefits funding of \$123 million) and the loss of operating cash from PPL Global (\$203 million for 2010). In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 to the Financial Statements for additional information on the distribution.

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

PPL Energy Supply's contracts for the sale and purchase of electricity and fuel often require cash collateral or other credit enhancements, or reductions or terminations of a portion of the entire contract through cash settlement, in the event of a downgrade of PPL Energy Supply's or its subsidiary's credit ratings or adverse changes in market prices. For example, in addition to limiting its trading ability, if PPL Energy Supply's or its subsidiary's ratings were lowered to below "investment grade" and there was a 10% adverse movement in energy prices, PPL Energy Supply estimates that, based on its December 31, 2012 positions, it would have had to post additional collateral of approximately \$368 million with respect to electricity and fuel contracts. PPL Energy Supply has in place risk management programs that are designed to monitor and manage its exposure to volatility of cash flows related to changes in energy and fuel prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operating performance of its generating units.

Investing Activities

The primary use of cash in investing activities is capital expenditures. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2013 through 2017.

Net cash used in investing activities decreased \$199 million in 2012 compared with 2011, primarily as a result of a \$396 million change in notes receivable from affiliates and a \$232 million change in restricted cash and cash equivalents, partially offset by \$381 million less in asset sale proceeds (2011 sale of non-core generation facilities) and \$84 million used to fund the 2012 Ironwood Acquisition (see Note 10 to the Financial Statements for additional information on this acquisition).

Net cash used in investing activities decreased \$157 million in 2011 compared with 2010, primarily as a result of a decrease of \$348 million in capital expenditures and a \$219 million increase in the proceeds received from the sale of businesses, which are discussed in Note 9 to the Financial Statements. The decrease in cash used in investing activities from the above items was partially offset by an increase of \$198 million related to notes receivable from affiliates and \$212 million from changes in restricted cash and cash equivalents.

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 to the Financial Statements for additional information. Excluding PPL Global, PPL Energy Supply's net cash used in investing activities was \$544 million for 2010.

Financing Activities

Net cash used in financing activities was \$281 million in 2012 compared with \$390 million in 2011 and \$612 million in 2010. The decrease from 2011 to 2012 primarily reflects the 2011 distribution of cash included in the net assets of PPL Global to PPL Energy Funding and a decrease in net retirement of long-term debt, partially offset by higher net distributions to Member. The decrease from 2010 to 2011 primarily reflects lower net distributions to Member, partially offset by lower net issuances of long-term debt and the distribution of cash included in the net assets of PPL Global to PPL Energy Funding.

In 2012, cash used in financing activities primarily consisted of \$787 million in distributions to Member and a \$44 million net decrease in short-term debt, partially offset by \$563 million in contributions from Member.

In 2011, cash used in financing activities primarily consisted of a \$325 million distribution of cash included in the net assets of PPL Global to PPL Energy Funding, \$316 million in distributions to Member, and net debt retirements of \$200 million, partially offset by \$461 million in contributions from Member.

In 2010, cash used in financing activities primarily consisted of \$4.7 billion in distributions to Member, partially offset by \$3.6 billion in contributions from Member and net debt issuances of \$509 million. The distributions to and contributions from Member during 2010 primarily relate to the funds received by PPL in June 2010 from the issuance of common stock and 2010 Equity Units. These funds were invested by a subsidiary of PPL Energy Supply until they were returned to its Member in October 2010 to be available to partially fund PPL's acquisition of LKE and pay certain acquisition-related fees and expenses.

See "Forecasted Sources of Cash" for a discussion of PPL Energy Supply's plans to issue debt securities, as well as a discussion of credit facility capacity available to PPL Energy Supply. Also see "Forecasted Uses of Cash" for information regarding maturities of PPL Energy Supply's long-term debt.

Forecasted Sources of Cash

PPL Energy Supply expects to continue to have sufficient sources of liquidity available in the near term, including cash flows from operations, various credit facilities, commercial paper issuances, operating leases and contributions from member.

Credit Facilities

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

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a)	\$ 3,000		\$ 499	\$ 2,501
Letter of Credit Facility	200	n/a	132	68
Total PPL Energy Supply Credit Facilities (b)	<u>\$ 3,200</u>	<u></u>	<u>\$ 631</u>	<u>\$ 2,569</u>

- (a) This facility contains a financial covenant requiring PPL Energy Supply's debt to total capitalization not to exceed 65%, as calculated in accordance with the facility, and other customary covenants.
- (b) The commitments under PPL Energy Supply's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity.

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

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

Commercial Paper

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

Operating Leases

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

PPL Energy Supply, through its subsidiary PPL Montana, leases a 50% interest in Colstrip Units 1 and 2 and a 30% interest in Unit 3, under four 36-year, non-cancelable operating leases. These operating leases are not recorded on PPL Energy Supply's Balance Sheets. The leases place certain restrictions on PPL Montana's ability to incur additional debt, sell assets and declare dividends.

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

Contributions from Member

From time to time, PPL Energy Supply's Member, PPL Energy Funding, makes capital contributions to PPL Energy Supply. PPL Energy Supply uses these contributions to fund capital expenditures and for other general corporate purposes.

Forecasted Uses of Cash

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

Capital Expenditures

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

	Projected				
	2013	2014	2015	2016	2017
Construction expenditures (a) (b)					
Generating facilities	\$ 387	\$ 248	\$ 247	\$ 241	\$ 292
Environmental	94	89	22	20	21
Other	26	34	15	15	15
Total Construction Expenditures	507	371	284	276	328
Nuclear fuel	152	145	153	158	162
Total Capital Expenditures	\$ 659	\$ 516	\$ 437	\$ 434	\$ 490

(a) Construction expenditures include capitalized interest, which is expected to total approximately \$82 million for the years 2013 through 2017.

(b) Includes expenditures for certain intangible assets.

PPL Energy Supply's capital expenditure projections for the years 2013 through 2017 total approximately \$2.5 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes projected costs related to the planned 153 MW of incremental capacity increases. See Note 8 to the Financial Statements for information regarding the significant development projects.

PPL Energy Supply plans to fund its capital expenditures in 2013 with cash from operations and equity contributions from PPL Energy Funding.

Contractual Obligations

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

	Total	2013	2014 - 2015	2016 - 2017	After 2017
Long-term Debt (a)	\$ 3,249	\$ 751	\$ 635	\$ 386	\$ 1,477
Interest on Long-term Debt (b)	1,169	196	265	167	541
Operating Leases (c)	362	76	143	39	104
Purchase Obligations (d)	3,047	863	878	696	610
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP (e) (f)	105	105			
Total Contractual Cash Obligations	<u>\$ 7,932</u>	<u>\$ 1,991</u>	<u>\$ 1,921</u>	<u>\$ 1,288</u>	<u>\$ 2,732</u>

- (a) Reflects principal maturities only based on stated maturity dates, except for the 5.70% REset Put Securities (REPS). See Note 7 to the Financial Statements for a discussion of the remarketing feature related to the REPS, as well as discussion of variable-rate remarketable bonds. PPL Energy Supply does not have any significant capital lease obligations.
- (b) Assumes interest payments through stated maturity, except for the REPS, for which interest is reflected to the put date. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
- (c) See Note 11 to the Financial Statements for additional information.
- (d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes PPL Energy Supply's purchase obligations of electricity, coal, nuclear fuel and limestone as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above. Financial swaps and open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented.
- (e) The amounts represent contributions made or committed to be made for 2013 for PPL's U.S. pension plans. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (f) At December 31, 2012, total unrecognized tax benefits of \$30 million were excluded from this table as PPL Energy Supply cannot reasonably estimate the amount and period of future payments. See Note 5 to the Financial Statements for additional information.

Distributions to Member

From time to time, as determined by its Board of Managers, PPL Energy Supply makes distributions to its member.

Purchase or Redemption of Debt Securities

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

Rating Agency Actions

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

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

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

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
PPL Energy Supply	Baa2	BBB	BBB				P-2	A-2	F-2
PPL Ironwood				B2	B				

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

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

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

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

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

In May 2012, Fitch downgraded its rating, from BBB to BBB- and revised its outlook, from negative to stable, for PPL Montana's Pass Through Certificates due 2020.

In November 2012, S&P revised its outlook, from stable to negative, for PPL Montana's Pass Through Certificates due 2020.

In December 2012, Fitch affirmed the issuer default rating, individual security rating and revised the outlook, from stable to negative, for PPL Energy Supply.

In February 2013, Moody's upgraded its rating, from Ba1 to B2, and revised the outlook from under review to stable for PPL Ironwood.

Ratings Triggers

PPL Energy Supply has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate instruments, which contain provisions that require PPL Energy Supply to post additional collateral, or permit the counterparty to terminate the contract, if PPL Energy Supply's credit rating were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2012. At December 31, 2012, if PPL Energy Supply's credit rating had been below investment grade, PPL Energy Supply would have been required to prepay or post an additional \$385 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

Guarantees for Subsidiaries

PPL Energy Supply guarantees certain consolidated affiliate financing arrangements that enable certain transactions. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, require early maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL Energy Supply believes that these covenants will not limit access to relevant funding sources. See Note 15 to the Financial Statements for additional information about guarantees.

Off-Balance Sheet Arrangements

PPL Energy Supply has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management - Energy Marketing & Trading and Other

Market Risk

See Notes 1, 18, and 19 to the Financial Statements for information about PPL Energy Supply's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at December 31, 2012 and 2011 was a net asset/(liability) of \$346 million and \$(63) million. See Note 19 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts at December 31, 2012. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ 1,082	\$ 958
Contracts realized or otherwise settled during the period	(1,005)	(523)
Fair value of new contracts entered into during the period (a)	7	13
Other changes in fair value	389	634
Fair value of contracts outstanding at the end of the period	\$ 473	\$ 1,082

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at December 31, 2012, based on the level of observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 452	\$ 15	\$ (20)	\$ 5	\$ 452
Prices based on significant unobservable inputs (Level 3)	8	10	3		21
Fair value of contracts outstanding at the end of the period	\$ 460	\$ 25	\$ (17)	\$ 5	\$ 473

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future. In connection with its bankruptcy proceedings, a significant counterparty, SMGT, had been purchasing lower volumes of electricity than prescribed in the contract and effective April 1, 2012 the contract was terminated. PPL Energy Supply cannot predict the prices or other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of this contract. See Note 15 to the Financial Statements for additional information.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2017. The following table sets forth changes in the net fair value of trading commodity derivative contracts at December 31, 2012. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ (4)	\$ 4
Contracts realized or otherwise settled during the period	20	(14)
Fair value of new contracts entered into during the period (a)	17	10
Other changes in fair value	(4)	(4)
Fair value of contracts outstanding at the end of the period	\$ 29	\$ (4)

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at December 31, 2012, based on the level of observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 18	\$ 10			\$ 28
Prices based on significant unobservable inputs (Level 3)	1				1
Fair value of contracts outstanding at the end of the period	\$ 19	\$ 10			\$ 29

VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for its non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows.

95% Confidence Level, Five-Day Holding Period	Trading VaR		Non-Trading VaR	
	2012	2011	2012	2011
Period End	\$ 2	\$ 1	\$ 12	\$ 6
Average for the Period	3	3	10	5
High	8	6	12	7
Low	1	1	7	4

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at December 31, 2012.

Interest Rate Risk

PPL Energy Supply and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. PPL and PPL Energy Supply utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2012 and 2011, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. PPL Energy Supply estimated that a 10% decrease in interest rates at December 31, 2012 would increase the fair value of its debt portfolio by \$52 million, compared with \$53 million at December 31, 2011.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At December 31, 2012, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL Energy Supply's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At December 31, 2012, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$49 million reduction in the fair value of the trust assets, compared with \$43 million at December 31, 2011. See Notes 18 and 23 to the Financial Statements for additional information regarding the NDT funds.

Defined Benefit Plans - Securities Price Risk

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of securities price risk on plan assets.

Credit Risk

Credit risk is the risk that PPL Energy Supply would incur a loss as a result of nonperformance by counterparties of their contractual obligations. PPL Energy Supply maintains credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL Energy Supply has concentrations of suppliers and customers among electric utilities, financial institutions and other energy marketing and trading companies. These concentrations may impact PPL Energy Supply's overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

PPL Energy Supply includes the effect of credit risk on its fair value measurements to reflect the probability that a counterparty will default when contracts are out of the money (from the counterparty's standpoint). In this case, PPL Energy Supply would have to sell into a lower-priced market or purchase from a higher-priced market. When necessary, PPL Energy Supply records an allowance for doubtful accounts to reflect the probability that a counterparty will not pay for deliveries PPL Energy Supply has made but not yet billed, which are reflected in "Unbilled revenues" on the Balance Sheets. PPL Energy Supply also has established a reserve with respect to certain receivables from SMGT, which is reflected in accounts receivable on the Balance Sheets. See Note 15 to the Financial Statements for additional information.

See "Overview" in this Item 7 and Notes 16, 18 and 19 to the Financial Statements for additional information on credit concentration and credit risk.

Related Party Transactions

PPL Energy Supply is not aware of any material ownership interests or operating responsibility by senior management of PPL Energy Supply in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Energy Supply. See Note 16 to the Financial Statements for additional information on related party transactions.

Acquisitions, Development and Divestitures

PPL Energy Supply from time to time evaluates opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

Incremental capacity increases of 153 MW are currently planned, primarily at existing PPL Energy Supply generating facilities. See "Item 2. Properties - Supply Segment" for additional information.

See Notes 8 and 9 to the Financial Statements for additional information on the more significant activities, including the 2012 Ironwood Acquisition.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to PPL Energy Supply's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses; monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost of their products or their demand for PPL Energy Supply's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL Energy Supply's generation assets as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL Energy Supply has hydro generating facilities or where river water is used to cool its fossil and nuclear powered generators. PPL Energy Supply cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

The below provides a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating CCRs (as either hazardous or non-hazardous) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The economic impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule.

Effluent Limitation Guidelines

The EPA is to issue guidelines for technology-based limits in discharge permits for scrubber wastewater and is expected to require dry ash handling. The EPA agreed, in recent settlement negotiations with environmentalists, to propose revisions to its effluent limitation guidelines (ELGs) by April 2013, with a final rule in late 2014. Limits could be so stringent that plants may consider extensive new or modified wastewater treatment facilities and possibly zero liquid discharge operations, the cost of which could be significant. Impacts should be better understood after the proposed rule is issued.

316(b) Cooling Water Intake Structures Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: one requires installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plants cooling water system (entrainment), and the second imposes standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected in June 2013. The proposed regulation would apply to nearly all PPL Energy Supply-owned steam electric plants in Pennsylvania and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL Energy Supply's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

GHG Regulations

In 2013, the EPA is expected to finalize limits on GHG emissions from new power plants and to begin working on a proposal for such emissions from existing power plants. The EPA's proposal on GHG emissions from new power plants would effectively preclude construction on any coal-fired plants and could even be difficult for new gas-fired plants to meet. With respect to existing power plants, the impact could be very significant, depending on the structure and stringency of the final rule. PPL Energy Supply, along with others in the industry, filed comments on the EPA's proposal related to GHG emissions from new plants. With respect to GHG limits for existing plants, PPL Energy Supply will advocate for reasonable, flexible requirements.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes new coal plants. PPL Energy Supply is generally well-positioned to comply with MATS due to its recent investment in, and installation of, environmental controls such as wet flue gas desulfurization systems. PPL Energy Supply is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL Energy Supply announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrous oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern United States. In December 2011, the Court of Appeals for the D.C. Circuit (the Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place, pending further EPA action. PPL Energy Supply plants in Pennsylvania will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Court's August decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

Regional Haze - Montana

The EPA signed its final Federal Implementation Plan (FIP) of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for Corette (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL Energy Supply expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above).

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for additional information on environmental matters.

Competition

See "Item 1. Business - Segment Information - Supply Segment - Competition" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting PPL Energy Supply.

New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). Senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

Price Risk Management

See "Price Risk Management" in Note 1 to the Financial Statements, as well as "Risk Management - Energy Marketing & Trading and Other" above.

Defined Benefits

PPL Energy Supply subsidiaries sponsor and participate in various qualified funded and non-qualified unfunded defined benefit pension plans. A PPL Energy Supply subsidiary also sponsors an unfunded other postretirement benefit plan. PPL Energy Supply records the liability and net periodic defined benefit costs of its plans and the allocated portion of those plans sponsored by PPL Services based on participation in those plans. PPL Energy Supply subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to OCI. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

PPL Services and PPL Energy Supply make certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in OCI. These amounts in AOCI are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs PPL records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for their U.S. defined benefit plans, PPL Services and PPL Energy Supply start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds. Individual bonds were then selected based on the timing of each plan's cash flows and parameters were established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, PPL Services decreased the discount rate for its U.S. pension plans from 5.07% to 4.22% and PPL Energy Supply decreased the discount rate for its pension plan from 5.12% to 4.25%. PPL Services decreased the discount rate for its other postretirement benefit plan from 4.81% to 4.02% and PPL Energy Supply decreased the discount rate for its other postretirement benefit plan from 4.60% to 3.77%.

The expected long-term rates of return for PPL Services and PPL Energy Supply's U.S. defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2012, PPL Services' and PPL Energy Supply's expected return on plan assets remained at 7.00% for their U.S. pension plans and increased from 5.70% to 5.75% for PPL Services' other postretirement benefit plan.

In selecting a rate of compensation increase, PPL Energy Supply considers past experience in light of movements in inflation rates. At December 31, 2012, PPL Services and PPL Energy Supply's rate of compensation increase decreased from 4.00% to 3.95% for their U.S. plans.

In selecting health care cost trend rates, PPL Services and PPL Energy Supply consider past performance and forecasts of health care costs. At December 31, 2012, PPL Services' and PPL Energy Supply's health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI. While the charts below reflect either an increase or decrease in each assumption, the inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows.

Pension liabilities	\$	(295)
Other postretirement benefit liabilities		(77)

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on PPL Services' and PPL Energy Supply's primary defined benefit plans.

Actuarial assumption	Change in assumption	Increase (Decrease)	
		Impact on defined benefit liabilities	Impact on OCI
Discount Rate	(0.25)%	\$ 56	\$ (56)
Rate of Compensation Increase	0.25%	9	(9)
Health Care Cost Trend Rate (a)	1.00%	1	(1)

(a) Only impacts other postretirement benefits.

In 2012, PPL Energy Supply was allocated and recognized net periodic defined benefit costs charged to operating expense of \$44 million. This amount represents a \$10 million increase from 2011.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on PPL's and PPL Energy Supply's primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 4
Expected Return on Plan Assets	(0.25)%	3
Rate of Compensation Increase	0.25%	2

Asset Impairment (Excluding Investments)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, an impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its estimated fair value. Management must make significant judgments to estimate future cash flows, including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

In September 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place the Corette coal-fired plant in Montana in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with MATS requirements. The Corette plant asset group's carrying amount at December 31, 2012 was approximately \$68 million. An impairment analysis was performed for this asset group in the third and fourth quarters of 2012 and it was determined to not be impaired. It is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

For a long-lived asset classified as held for sale, an impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, the Registrant considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

Goodwill is tested for impairment at the reporting unit level. PPL Energy Supply's reporting unit has been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, PPL Energy Supply may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not the fair value of the reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if PPL Energy Supply concludes it is more likely than not that the fair value of the reporting unit is less than the carrying amount based on the step zero assessment.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, PPL Energy Supply identifies a potential impairment by comparing the estimated fair value of PPL Energy Supply (the goodwill reporting unit) with its carrying amount, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value is allocated to all of PPL Energy Supply's assets and liabilities as if PPL Energy Supply had been acquired in a business combination and the estimated fair value of PPL Energy Supply was the price paid. The excess of the estimated fair value of PPL Energy Supply over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of PPL Energy Supply's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of PPL Energy Supply's goodwill.

PPL Energy Supply elected to perform the two-step quantitative impairment test of goodwill in the fourth quarter of 2012 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of PPL Energy Supply. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events, and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual, and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

No new significant loss accruals were recorded in 2012.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is "reasonably possible" that a loss has been incurred.

When an estimated loss is accrued, the triggering events for subsequently reducing the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.
- Environmental and other litigation contingencies are reduced when the contingency is resolved and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

See Note 15 to the Financial Statements for disclosure of loss contingencies accrued and other potential loss contingencies that have not met the criteria for accrual.

Asset Retirement Obligations

PPL Energy Supply is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation should be measured at its estimated fair value. A conditional ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount should be recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the statement of income, for changes in the obligation due to the passage of time. See Note 21 to the Financial Statements for further discussion of AROs.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is amortized over the remaining life of the associated long-lived asset.

At December 31, 2012, AROs totaling \$375 million were recorded on the Balance Sheet, of which \$10 million is included in "Other current liabilities." Of the total amount, \$316 million, or 84%, relates to the nuclear decommissioning ARO. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in any of these inputs could have a significant impact on the ARO liabilities.

The following table reflects the sensitivities related to the nuclear decommissioning ARO liability associated with a change in these assumptions as of December 31, 2012. There is no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of changing the assumptions. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

	<u>Change in Assumption</u>	<u>Impact on ARO Liability</u>
Retirement Cost	10%	\$ 32
Discount Rate	(0.25)%	28
Inflation Rate	0.25%	32

Income Taxes

Significant management judgment is required in developing the provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2012, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase by as much as \$1 million or decrease by up to \$30 million. This change could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the timing and utilization of tax credits and the related impact on alternative minimum tax, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future. See Note 5 to the Financial Statements for income tax disclosures.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit, audit-related and tax services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with PPL Electric's Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Electric and its business strategy, a summary of Net Income Available to PPL and a discussion of certain events related to PPL Electric's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL Electric's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on PPL Electric's Statements of Income, comparing 2012 with 2011 and 2011 with 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Electric's liquidity position and credit profile. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of PPL Electric's risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of PPL Electric and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

Overview

Introduction

PPL Electric is an electricity transmission and distribution service provider in eastern and central Pennsylvania with headquarters in Allentown, Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that territory as a PLR under the Customer Choice Act.

Business Strategy

PPL Electric's strategy and principal challenge is to own and operate its electricity delivery business at the most efficient cost while maintaining high quality customer service and reliability. PPL Electric anticipates that it will have significant capital expenditure requirements for at least the next five years. In order to manage financing costs and access to credit markets, a key objective for PPL Electric's business is to maintain a strong credit profile and strong liquidity position.

Timely recovery of costs to maintain and enhance the reliability of PPL Electric's delivery system including the replacement of aging distribution assets is required in order to maintain strong cash flows and a strong credit profile. Traditionally, such cost recovery would be pursued through periodic base rate case proceedings with the PUC. As such costs continue to increase, more frequent rate case proceedings may be required or an alternative rate-making process would need to be implemented in order to achieve more timely recovery. See "Regulatory Matters - Pennsylvania Activities - Legislation - Regulatory Procedures and Mechanisms" in Note 6 to the Financial Statements for information on Pennsylvania's new alternative rate-making mechanism.

Transmission costs are recovered through a FERC Formula Rate mechanism which is updated annually for costs incurred and assets placed in service. Accordingly, increased costs including for the replacement of aging transmission assets and the PJM-approved Regional Transmission Line Expansion Plan are recovered on a timely basis.

Financial and Operational Developments

Net Income Available to PPL

Net Income Available to PPL for 2012, 2011 and 2010 was \$132 million, \$173 million and \$115 million. Earnings in 2012 decreased 24% from 2011 and earnings in 2011 increased 50% over 2010.

See "Results of Operations" below for further discussion and analysis of PPL Electric's earnings.

Redemption of Preference Stock

In June 2012, PPL Electric redeemed all 2.5 million shares of its 6.25% Series Preference Stock, par value \$100 per share. The price paid for the redemption was the par value, without premium (\$250 million in the aggregate). At December 31, 2011, the preference stock was reflected on PPL Electric's Balance Sheet in "Preferred securities."

Storm Costs

During 2012, PPL Electric experienced several PUC-reportable storms, including Hurricane Sandy, resulting in total restoration costs of \$81 million, of which \$61 million were initially recorded in "Other operation and maintenance" on the Statement of Income. In particular, in late October 2012, PPL Electric experienced widespread significant damage to its distribution network from Hurricane Sandy resulting in total restoration costs of \$66 million, of which \$50 million were initially recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric had storm insurance coverage, the costs incurred from Hurricane Sandy exceeded the policy limits. Probable insurance recoveries recorded during 2012 were \$18.25 million, of which \$14 million were included in "Other operation and maintenance" on the Statements of Income. PPL Electric recorded a regulatory asset of \$28 million in December 2012 (offset to "Other operation and maintenance" on the Statement of Income). In February 2013, PPL Electric received an order from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Sandy.

See "Regulatory Matters - Pennsylvania Activities - Storm Costs" in Note 6 to the Financial Statements for information on \$84 million of storm costs incurred in 2011.

Rate Case Proceeding

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately \$105 million, effective January 1, 2013. In its December 28, 2012 final order, the PUC approved a 10.4% return on equity and a total distribution revenue increase of about \$71 million. The approved rates became effective January 1, 2013.

Also, in its December 28, 2012 final order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider within 90 days following the order. PPL Electric plans to file a proposed Storm Damage Expense Rider with the PUC and, as part of that filing, request recovery of the \$28 million of qualifying storm costs incurred as a result of the October 2012 landfall of Hurricane Sandy.

Regional Transmission Line Expansion Plan

Susquehanna-Roseland

In 2007, PJM directed the construction of a new 150-mile, 500-kilovolt transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line was needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM directed PPL Electric to construct the portion of the Susquehanna-Roseland line in Pennsylvania and Public Service Electric & Gas Company to construct the portion of the line in New Jersey.

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas Company as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the United States District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation; and on December 6, 2012, the groups filed a petition for injunctive relief seeking to prohibit all construction activities until the court issues a final decision on the complaint. PPL Electric has intervened in the lawsuit. The chosen route had previously been approved by the PUC and New Jersey Board of Public Utilities.

On December 13, 2012, PPL Electric received federal construction and right of way permits to build on National Park Service lands.

Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be in service before the peak summer demand period of 2015. At December 31, 2012, PPL Electric's estimated share of the project cost was \$560 million.

PPL and PPL Electric cannot predict the ultimate outcome or timing of any legal challenges to the project or what additional actions, if any, PJM might take in the event of a further delay to its scheduled in-service date for the new line.

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line, three new substations and upgrades to adjacent facilities). The incentives were specifically tailored to address the risks and challenges PPL Electric will face in building the project. The FERC granted the incentive for inclusion of all prudently incurred construction work in progress (CWIP) costs in rate base and denied the request for a 100 basis point adder to the return on equity incentive. The order required a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project, which PPL Electric will submit to the FERC in March 2013. PPL Electric expects the project to be completed in 2017. At December 31, 2012, PPL Electric estimates the total project costs to be approximately \$200 million with approximately \$190 million qualifying for the CWIP incentive.

Legislation - Regulatory Procedures and Mechanisms

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a final implementation order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DISC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DISC. In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DISC. The PUC approved the LTIP on January 10, 2013 and PPL Electric filed a petition requesting permission to establish a DSIC on January 15, 2013, with rates proposed to be effective beginning May 1, 2013.

FERC Formula Rates

In March 2012, PPL Electric filed a request with the FERC seeking recovery of its regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to FERC. At December 31, 2012 and December 31, 2011, \$52 million and \$53 million respectively, are classified as taxes recoverable through future rates and are included on the Balance Sheets in "Other Noncurrent Assets - Regulatory assets." In May 2012, the FERC issued an order approving PPL Electric's request recover the deferred tax regulatory asset over a 34 year period beginning June 1, 2012.

Results of Operations

The following discussion provides a summary of PPL Electric's earnings and a description of factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant year-to-year changes in Pennsylvania Gross Delivery Margins by component and principal line items on PPL Electric's Statements of Income.

The utility business is influenced by seasonality in the weather. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue is generally higher during the first and third quarters of a year due to higher demand as a result of winter and summer periods. On the other hand, revenue tends to be lower during the second and fourth quarters due to lower demand as a result of milder weather.

Earnings

Net Income Available to PPL was:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net Income Available to PPL	\$ 132	\$ 173	\$ 115

The changes in the components of Net Income Available to PPL between these periods were due to the following factors which reflect reclassifications for items included in gross delivery margins.

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Pennsylvania Gross Delivery Margins	\$ 19	\$ 66
Other operation and maintenance	(50)	4
Depreciation	(14)	(10)
Taxes, other than income	(9)	4
Other	1	1
Income Taxes		(11)
Distributions on Preferred Securities	12	4
Total	<u>\$ (41)</u>	<u>\$ 58</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Higher other operation and maintenance for 2012 compared with 2011, primarily due to \$17 million in higher payroll-related costs due to less project costs being capitalized in 2012, higher support group costs of \$11 million and \$10 million for increased vegetation management.
- Higher depreciation for 2012 compared with 2011 and 2011 compared with 2010 primarily due to PP&E additions.
- Higher taxes, other than income for 2012 primarily due to a \$10 million tax provision related to gross receipts tax.
- Income taxes were flat in 2012 compared with 2011 primarily due to the \$22 million impact of lower 2012 pre-tax income primarily offset by \$9 million of depreciation not normalized and \$9 million of income tax return adjustments, largely related to changes in flow-through regulated tax depreciation.

Income taxes were higher in 2011 compared with 2010, due to the \$26 million impact of higher 2011 pre-tax income, partially offset by a \$14 million tax benefit related to changes in flow-through regulated tax depreciation.
- Lower distributions on preferred securities in 2012 compared to 2011 due to the preference stock redemption in June 2012.

2013 Outlook

PPL Electric projects higher earnings in 2013 compared with 2012, due to higher distribution revenues from a distribution base rate increase effective January 1, 2013, and higher transmission margins, partially offset by higher depreciation.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Pennsylvania Gross Delivery Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Pennsylvania Gross Delivery Margins." "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's Pennsylvania regulated electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Energy purchases from affiliate," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income" which is primarily gross receipts tax. As a result, this measure represents the net revenues from PPL Electric's Pennsylvania regulated electric delivery operations. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Electric believes that "Pennsylvania Gross Delivery Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage PPL Electric's operations and analyze actual results to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL Electric for the period ended December 31.

	2012			2011		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	\$ 1,760		\$ 1,760	\$ 1,881		\$ 1,881
Electric revenue from affiliate	3		3	11		11
Total Operating Revenues	1,763		1,763	1,892		1,892
Operating Expenses						
Energy purchases	550		550	738		738
Energy purchases from affiliate	78		78	26		26
Other operation and maintenance	104	\$ 472	576	108	\$ 422	530
Depreciation		160	160		146	146
Taxes, other than income	91	14	105	99	5	104
Total Operating Expenses	823	646	1,469	971	573	1,544
Total	\$ 940	\$ (646)	\$ 294	\$ 921	\$ (573)	\$ 348
2010						
	PA Gross Delivery Margins	Other (a)	Operating Income (b)			
Operating Revenues						
Retail electric	\$ 2,448		\$ 2,448			
Electric revenue from affiliate	7		7			
Total Operating Revenues	2,455		2,455			
Operating Expenses						
Energy purchases	1,075		1,075			
Energy purchases from affiliate	320		320			
Other operation and maintenance	76	\$ 426	502			
Amortization of recoverable						
Depreciation		136	136			
Taxes, other than income	129	9	138			
Total Operating Expenses	1,600	571	2,171			
Total	\$ 855	\$ (571)	\$ 284			

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL Electric's non-GAAP financial measure, "Pennsylvania Gross Delivery Margins" for the periods ended December 31, as well as the change between periods. The factors that gave rise to the change are described below the table.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2011</u>	<u>2010</u>	<u>Change</u>
PA Gross Delivery Margins by Component						
Distribution	\$ 730	\$ 741	\$ (11)	\$ 741	\$ 679	\$ 62
Transmission	210	180	30	180	176	4
Total	<u>\$ 940</u>	<u>\$ 921</u>	<u>\$ 19</u>	<u>\$ 921</u>	<u>\$ 855</u>	<u>\$ 66</u>

Distribution

Margins decreased in 2012 compared with 2011, primarily due to a \$14 million unfavorable effect of mild weather early in 2012 and lower revenue applicable to certain energy-related costs of \$3 million due to fewer PLR customers in 2012, partially offset by a \$7 million charge recorded in 2011 to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC.

Margins increased in 2011 compared with 2010, largely due to the PPL Electric distribution rate case which increased rates by approximately 1.6% effective January 1, 2011, resulting in improved residential distribution margins of \$68 million. Additionally, residential volume variances increased margins by an additional \$4 million in 2011, compared with 2010, offset by unfavorable weather of \$3 million for residential customers in 2011 compared with 2010. Lastly, lower demand charges and increased efficiency as a result of Act 129 programs resulted in a \$5 million decrease in margins for commercial and industrial customers.

Transmission

Margins increased in 2012 compared with 2011, primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Act 129 costs incurred (a)	\$ (6)	\$ 26
Vegetation management (b)	10	(8)
Payroll-related costs (c)	17	4
Allocation of certain corporate support group costs	11	3
PUC-reportable storm costs, net of insurance recovery	7	
Uncollectible accounts	1	7
Other	6	(4)
Total	<u>\$ 46</u>	<u>\$ 28</u>

- (a) Relates to costs associated with PPL Electric's PUC-approved energy efficiency and conservation plan. These costs are recovered in customer rates. There were initially 15 Act 129 programs which began in 2010 and continued to ramp up in 2011. Some of the energy efficiency programs were reduced or closed in 2012 resulting in lower operation and maintenance expense.
- (b) PPL Electric incurred more expense in 2010 and 2012 compared to 2011 due to increased vegetation management activities related to transmission lines to comply with federal reliability requirements as well as increased vegetation management for the distribution system in 2012 in an effort to maintain and increase system reliability.
- (c) Higher payroll costs of \$17 million in 2012 compared to 2011 due to less project costs being capitalized.

Taxes, Other Than Income

Taxes, other than income increased by \$1 million in 2012 compared with 2011. The increase was primarily a result of the net effect of the fully amortized PURTA refund to customers of \$10 million in 2011, partially offset by a decrease in gross receipts tax of \$7 million in 2012.

Taxes, other than income decreased by \$34 million in 2011 compared with 2010. This decrease was primarily due to \$21 million of lower Pennsylvania gross receipts tax expense on lower retail electricity revenue as customers continue to select alternative suppliers in 2011. The decrease was also impacted by the amortization of a PURTA refund of \$10 million in 2011. Pennsylvania gross receipts tax and the PURTA refund are included in "Pennsylvania Gross Delivery Margins."

Depreciation

Depreciation increased by \$14 million in 2012 compared with 2011 and by \$10 million in 2011 compared with 2010, primarily due to PP&E additions as part of ongoing investments to replace aging infrastructure.

Financing Costs

The increase (decrease) in financing costs, which includes "Interest Expense", "Interest Expense with Affiliate" and "Distributions on Preferred Securities," was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Long-term debt interest expense	\$ 1	\$ (3)
Distributions on preferred securities (a)	(12)	(4)
Amortization of debt issuance costs (b)	1	5
Other	(1)	(3)
Total	<u>\$ (11)</u>	<u>\$ (5)</u>

(a) Decreases for both periods are due to the redemption of preference stock in 2012 and preferred stock in 2010.

(b) The increase in 2011 compared with 2010 was primarily due to amortization of loss on reacquired debt associated with the redemption of senior secured bonds in 2011.

Income Taxes

The increase (decrease) in income taxes was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Higher (lower) pre-tax book income	\$ (22)	\$ 26
Federal and state tax reserve adjustments (a)	1	3
Federal and state tax return adjustments (b)	11	(3)
Depreciation not normalized (c)	9	(14)
Other	1	(1)
Total	<u>\$ 11</u>	<u>\$ 11</u>

(a) In July 2010, the U.S. Tax Court ruled in PPL Electric's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL Electric recorded a \$7 million tax benefit to federal and state income tax reserves and related deferred income taxes during 2010.

(b) PPL Electric changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August, 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL Electric adopted the safe harbor method with the filing of its 2011 federal income tax return and recorded a \$5 million adjustment to federal and state income tax expense resulting from the reversal of prior years' state income tax benefits related to regulated depreciation.

During 2011, PPL Electric recorded a \$5 million federal and state income tax benefit as a result of filing its 2010 federal and state income tax returns. The tax benefit primarily related to the flow-through impact of Pennsylvania regulated 100% bonus tax depreciation.

(c) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed in service before January 1, 2012. The placed in-service deadline is extended to January 1, 2013 for property that has a cost in excess of \$1 million, has a production period longer than one year and has a tax life of at least ten years. The PPL Electric's tax deduction for 100% bonus depreciation was significantly lower in 2012 than in 2011.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

PPL Electric continues to focus on maintaining a strong credit profile and liquidity position. PPL Electric expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, PPL Electric currently plans to issue long-term debt in 2013.

PPL Electric's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- unusual or extreme weather that may damage PPL Electric's transmission and distribution facilities or affect energy sales to customers;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- any adverse outcome of legal proceedings and investigations with respect to PPL Electric's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in PPL Electric's credit ratings that could adversely affect its ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties that could affect PPL Electric's cash flows.

At December 31, PPL Electric had the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 140	\$ 320	\$ 204

The changes in PPL Electric's cash and cash equivalents position resulted from:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net cash provided by (used in) operating activities	\$ 389	\$ 420	\$ 212
Net cash provided by (used in) investing activities	(613)	(477)	(403)
Net cash provided by (used in) financing activities	44	173	(90)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (180)</u>	<u>\$ 116</u>	<u>\$ (281)</u>

Operating Activities

Net cash provided by operating activities decreased by 7%, or \$31 million, in 2012 compared with 2011, primarily due to changes in working capital of \$82 million partially offset by a decrease in defined benefit plan contributions of \$54 million. Changes in working capital included \$108 million from regulatory assets and liabilities, net and \$56 million from prepayments, partially offset by \$95 million from accounts payable.

Net cash provided by operating activities increased by 98%, or \$208 million, in 2011 compared with 2010, primarily due to changes in working capital of \$322 million (including lower gross receipts tax payments, a federal income tax refund and changes in over/under collections of the generation supply and transmission service charges). These changes were partially offset by an increase in defined benefit plan contributions of \$58 million and \$25 million related to storm costs incurred in 2011 and recorded as a long-term regulatory asset.

Investing Activities

The primary use of cash in investing activities is capital expenditures. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2013 through 2017.

Net cash used in investing activities was \$613 million in 2012 compared with \$477 million in 2011. The change from 2011 to 2012 primarily reflects an increase of \$143 million in capital expenditures in 2012.

Net cash used in investing activities was \$477 million in 2011 compared with \$403 million in 2010. The change from 2010 to 2011 primarily reflects an increase of \$80 million in capital expenditures in 2011.

Financing Activities

Net cash provided by financing activities was \$44 million in 2012 compared with \$173 million in 2011. The change from 2011 to 2012 primarily reflects the \$250 million preference stock redemption in 2012, offset by a \$62 million increase in net debt issuances and a \$50 million increase in contributions from PPL.

Net cash provided by financing activities was \$173 million in 2011 compared with net cash used in financing activities of \$90 million in 2010. The change from 2010 to 2011 primarily reflects \$187 million of net debt issuances in 2011 and \$54 million of preferred stock redemptions in 2010.

PPL Electric's debt and equity financing activity in 2012 was:

	<u>Issuance</u>	<u>Retirements</u>
Preference Stock		\$ (250)
First Mortgage Bonds, net of a discount or underwriting fees	\$ 249	
Total	<u>\$ 249</u>	<u>\$ (250)</u>
Net decrease		<u>\$ (1)</u>

See Note 7 to the Financial Statements for more detailed information regarding PPL Electric's financing activities in 2012.

Forecasted Sources of Cash

PPL Electric expects to continue to have sufficient sources of liquidity available in the near term, including cash flows from operations, credit facilities, commercial paper issuances and the issuance of long-term debt.

Credit Facilities

At December 31, 2012, PPL Electric's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backstop</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a)	\$ 300		\$ 1	\$ 299
Asset-backed Credit Facility (b)	100		n/a	100
Total PPL Electric Credit Facilities	<u>\$ 400</u>		<u>\$ 1</u>	<u>\$ 399</u>

- (a) PPL Electric's Syndicated Credit Facility contains a financial covenant requiring PPL Electric's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility, and other customary covenants.

The commitments under this credit facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 5% of the total committed capacity.

- (b) PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of \$100 million from a commercial paper conduit sponsored by a financial institution. At December 31, 2012, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under this facility was \$100 million.

In addition to the financial covenants noted above, the credit agreements governing the credit facilities contain financial and various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. PPL Electric monitors compliance with the covenants on a regular basis. At December 31, 2012, PPL Electric was in compliance with these covenants. At this time, PPL Electric believes that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 7 to the Financial Statements for further discussion of PPL Electric's credit facilities.

Commercial Paper

PPL Electric maintains a \$300 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are currently supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at December 31, 2012.

Contributions from PPL

From time to time PPL may make capital contributions to PPL Electric. PPL Electric may use these contributions for general corporate purposes.

Long-term Debt Securities

PPL Electric currently plans to incur, subject to market conditions, up to \$400 million of long-term indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

The Economic Stimulus Package

In April 2010, PPL Electric entered into an agreement with the DOE, in which the agency is to provide funding for one-half of a \$38 million smart grid project. The project included the deployment of smart grid technology to strengthen reliability, save energy and improve electric service for 60,000 Harrisburg, Pennsylvania area customers. It also provides benefits beyond the Harrisburg region, helping to speed power restoration across PPL Electric's 29-county service territory. Work on the grant project is complete as of December 31, 2012.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, and taxes, PPL Electric currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock and possibly the purchase or redemption of a portion of its debt securities.

Capital Expenditures

The table below shows PPL Electric's current capital expenditure projections for the years 2013 through 2017.

	Projected				
	2013	2014	2015	2016	2017
Construction expenditures (a) (b)					
Distribution facilities	\$ 352	\$ 321	\$ 309	\$ 294	\$ 297
Transmission facilities	616	532	399	357	313
Total Capital Expenditures	<u>\$ 968</u>	<u>\$ 853</u>	<u>\$ 708</u>	<u>\$ 651</u>	<u>\$ 610</u>

(a) Construction expenditures include AFUDC, which is expected to total approximately \$54 million for the years 2013 through 2017.

(b) Includes expenditures for intangible assets.

PPL Electric's capital expenditure projections for the years 2013 through 2017 total approximately \$3.8 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. The table includes projected costs for the asset optimization program focused on the replacement of aging transmission and distribution assets, and the PJM-approved regional transmission line expansion project. See Note 8 to the Financial Statements for additional information.

PPL Electric plans to fund its capital expenditures in 2013 with cash from operations, equity contributions from PPL, and proceeds from the issuance of debt securities.

Contractual Obligations

PPL Electric has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2012, the estimated contractual cash obligations of PPL Electric were:

	Total	2013	2014 - 2015	2016 - 2017	After 2017
Long-term Debt (a)	\$ 1,974		\$ 110		\$ 1,864
Interest on Long-term Debt (b)	1,711	\$ 91	181	\$ 171	1,268
Purchase Obligations (c)	357	111	103	53	90
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP (d) (e)	88	88			
Total Contractual Cash Obligations	<u>\$ 4,130</u>	<u>\$ 290</u>	<u>\$ 394</u>	<u>\$ 224</u>	<u>\$ 3,222</u>

(a) Reflects principal maturities only based on stated maturity dates. PPL Electric does not have any capital or operating lease obligations.

(b) Assumes interest payments through stated maturity.

- (c) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes PPL Electric's purchase obligations of electricity. Open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented.
- (d) The amounts represent contributions made or committed to be made for 2013 for PPL's U.S. pension plans. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (e) At December 31, 2012, total unrecognized tax benefits of \$26 million were excluded from this table as PPL Electric cannot reasonably estimate the amount and period of future payments. See Note 5 to the Financial Statements for additional information.

Dividends

From time to time, as determined by its Board of Directors, PPL Electric pays dividends on its common stock to its parent, PPL.

Purchase or Redemption of Debt Securities

PPL Electric will continue to evaluate its outstanding debt securities and may decide to purchase or redeem these securities depending upon prevailing market conditions and available cash.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of PPL Electric. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Electric are based on information provided by PPL Electric and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. PPL Electric's credit ratings affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The following table sets forth PPL Electric's security credit ratings as of December 31, 2012.

<u>Issuer</u>	<u>Senior Secured</u>			<u>Commercial Paper</u>		
	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
PPL Electric	A3	A-	A-	P-2	A-2	F-2

A downgrade in PPL Electric's credit ratings could result in higher borrowing costs and reduced access to capital markets. PPL Electric does not have credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

In addition to the credit ratings noted above, the rating agencies took the following actions related to PPL Electric in 2012.

In August 2012, Fitch assigned a rating and outlook to PPL Electric's \$250 million First Mortgage Bonds.

In August 2012, S&P and Moody's assigned a rating to PPL Electric's \$250 million First Mortgage Bonds.

In December 2012, Fitch affirmed the issuer default rating, individual security rating and the outlook for PPL Electric.

Off-Balance Sheet Arrangements

PPL Electric has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

Commodity Price and Volumetric Risk - PLR Contracts

PPL Electric is exposed to market price and volumetric risks from its obligation as PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market price risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement energy supply contracts for the majority of its PLR obligations. These supply contracts transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

Interest Rate Risk

PPL Electric issues debt to finance its operations, which exposes it to interest rate risk. At December 31, 2012 and 2011, PPL Electric had no potential annual exposure to increased interest expense, based on its current debt portfolio. PPL Electric is also exposed to changes in the fair value of its debt portfolio. PPL Electric estimated that a 10% decrease in interest rates at December 31, 2012 would increase the fair value of its debt portfolio by \$93 million, compared with \$94 million at December 31, 2011.

Credit Risk

Credit risk is the risk that PPL Electric would incur a loss as a result of nonperformance by counterparties of their contractual obligations. PPL Electric requires that counterparties maintain specified credit ratings and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL Electric has concentrations of suppliers, financial institutions and customers. These concentrations may impact PPL Electric's overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

In 2009, the PUC approved PPL Electric's PLR procurement plan for the period January 2011 through May 2013. To date, PPL Electric has conducted all of its planned competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2012, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post collateral, which totaled less than \$1 million, under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See Notes 15, 16, 18 and 19 to the Financial Statements for additional information on the competitive solicitations, the Agreement, credit concentration and credit risk.

Related Party Transactions

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management of PPL Electric in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Electric. See Note 16 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL Electric's electricity transmission and distribution systems, as well as impacts on customers. PPL Electric cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

Competition

See "Item 1. Business - Segment Information - Pennsylvania Regulated Segment - Competition" for a discussion of competitive factors affecting PPL Electric.

New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). Senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

Defined Benefits

PPL Electric participates in a qualified funded defined benefit pension plan, an unfunded non-qualified defined benefit plan and a funded other postretirement benefit plan, sponsored by other PPL subsidiaries and administered through PPL Services. PPL Electric is allocated a significant portion of the liability and net periodic defined benefit pension and other postretirement costs of the plans sponsored by other PPL subsidiaries based on participation in those plans. PPL Electric records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

PPL Services makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in regulatory assets for amounts that are expected to be recovered through regulated customer rates. The amount in regulatory assets is amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs PPL records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its U.S. defined benefit plans, PPL Services starts with a cash flow analysis of the expected benefit payment stream for its plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds. Individual bonds were then selected based on the timing of each plan's cash flows and parameters were established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, PPL Services decreased the discount rate for its U.S. pension plans from 5.07% to 4.22% and decreased the discount rate for its other postretirement benefit plans from 4.81% to 4.02%.

The expected long-term rates of return for PPL Services' U.S. defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2012, PPL Services' expected return on plan assets remained at 7.00% for its U.S. pension plan and increased from 5.70% to 5.75% for its other postretirement benefit plan.

In selecting a rate of compensation increase, PPL Services considers past experience in light of movements in inflation rates. At December 31, 2012, PPL Services' rate of compensation increase decreased from 4.00% to 3.95% for its U.S. plans.

In selecting health care cost trend rates for PPL Services' other postretirement benefit plans, PPL Services considers past performance and forecasts of health care costs. At December 31, 2012, PPL Services' health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and the regulatory assets allocated to PPL Electric. While the charts below reflect either an increase or decrease in each assumption, the inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows.

Pension liabilities	\$	(237)
Other postretirement benefit liabilities		(61)

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on PPL Services' primary defined benefit plans.

Actuarial assumption	Change in assumption	Increase (Decrease)	
		Impact on defined benefit liabilities	Impact on regulatory assets
Discount Rate	(0.25)%	\$ 46	\$ (46)
Rate of Compensation Increase	0.25%	7	(7)
Health Care Cost Trend Rate (a)	1.00%	1	(1)

(a) Only impacts other postretirement benefits.

In 2012, PPL Electric was allocated net periodic defined benefit costs charged to operating expense of \$22 million. This amount represents a \$4 million increase compared with the charge recognized during 2011.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on PPL Services' primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 3
Expected Return on Plan Assets	(0.25)%	3
Rate of Compensation Increase	0.25%	1

Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events, and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual, and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

No new significant loss accruals were recorded in 2012.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is "reasonably possible" that a loss has been incurred.

When an estimated loss is accrued, the triggering events for subsequently reducing the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.
- Environmental and other litigation contingencies are reduced when the contingency is resolved and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

See Note 15 to the Financial Statements for disclosure of loss contingencies accrued and other potential loss contingencies that have not met the criteria for accrual.

Income Taxes

Significant management judgment is required in developing the provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2012, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase by as much as \$11 million or decrease by up to \$25 million. This change could result from the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. See Note 5 to the Financial Statements for income tax disclosures.

Regulatory Assets and Liabilities

PPL Electric's electricity delivery business is subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-offs would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of depreciation of PP&E and amortization of regulatory assets.

At December 31, 2012, PPL Electric had regulatory assets of \$853 million and regulatory liabilities of \$60 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

Revenue Recognition - Unbilled Revenue

Revenues related to the sale of energy are recorded when energy is delivered to customers. Because customers are billed on cycles which vary based on the timing of the actual meter reads taken throughout the month, PPL Electric records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of energy delivered to customers since the date of the last reading of their meters. The unbilled estimate is based on daily load models, the meter read schedule, and actual weather data. The unbilled accrual is based on estimated usage for each customer class, and the current rate schedule pricing. At December 31, 2012 and 2011, PPL Electric had unbilled revenue of \$110 million and \$102 million.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit, audit-related and tax services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with LKE's Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LKE and its business strategy, a summary of Net Income and a discussion of certain events related to LKE's results of operations and financial condition.
- "Results of Operations" provides a summary of LKE's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on LKE's Statements of Income, comparing 2012 with 2011 and 2011 with 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LKE's liquidity position and credit profile. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of LKE's risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of LKE and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

Overview

Introduction

LKE, headquartered in Louisville, Kentucky, is a holding company. LKE became a wholly owned subsidiary of PPL when PPL acquired all of LKE's interests from E.ON US Investments Corp. on November 1, 2010. LKE has regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electric energy. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name. Refer to "Item 1. Business - Background" for a description of LKE's business.

Business Strategy

LKE's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its member.

A key objective for LKE is to maintain a strong credit profile through managing financing costs and access to credit markets. LKE continually focuses on maintaining an appropriate capital structure and liquidity position.

Successor and Predecessor Financial Presentation

LKE's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010 and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, and the cost bases of certain assets and liabilities were changed as of November 1, 2010 as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LKE have not changed as a result of the acquisition.

Financial and Operational Developments

Net Income

Net Income for 2012, 2011 and 2010 was \$219 million, \$265 million and \$237 million. Earnings in 2012 decreased 17% from 2011 and earnings in 2011 increased 12% from 2010.

See "Results of Operations" for a discussion and analysis of LKE's earnings.

Rate Case Proceedings

In June 2012, LG&E and KU filed requests with the KPSC for increases in annual base electric rates of approximately \$62 million at LG&E and approximately \$82 million at KU and an increase in annual base gas rates of approximately \$17 million at LG&E. In November 2012, LG&E and KU along with all of the parties filed a unanimous settlement agreement. Among other things, the settlement provided for increases in annual base electric rates of \$34 million at LG&E and \$51 million at KU and an increase in annual base gas rates of \$15 million at LG&E. The settlement agreement also included revised depreciation rates that result in reduced annual electric depreciation expense of approximately \$9 million for LG&E and approximately \$10 million for KU. The settlement agreement included an authorized return on equity at LG&E and KU of 10.25%. On December 20, 2012, the KPSC issued orders approving the provisions in the settlement agreement. The new rates became effective on January 1, 2013. In addition to the increased base rates, the KPSC approved a gas line tracker mechanism for LG&E to provide for recovery of costs associated with LG&E's gas main replacement program, gas service lines and risers.

Equity Method Investment

KU owns 20% of the common stock of EEI. Through a power marketer affiliated with its majority owner, EEI sells its output to third parties. KU's investment in EEI is accounted for under the equity method of accounting. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment. During the fourth quarter of 2012, KU concluded that an other-than-temporary decline in the value of its investment in EEI had occurred. Accordingly, KU recorded a \$15 million impairment charge, net of taxes, related to this investment as of December 31, 2012, bringing the investment balance to zero. The impairment charge is shown in the line "Other-Than-Temporary Impairments" on the Statement of Income for the year ended December 31, 2012.

Registered Debt Exchange Offer by LKE

In June 2012, LKE completed an exchange of all its outstanding 4.375% Senior Notes due 2021 issued in September 2011 in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered under the Securities Act of 1933. See Note 7 to the Financial Statements for additional information.

Commercial Paper

In February 2012, LG&E and KU each established a commercial paper program for up to \$250 million to provide an additional financing source to fund their short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by the issuer's credit facility. At December 31, 2012, \$125 million of commercial paper was outstanding.

Terminated Bluegrass CTs Acquisition

In September 2011, LG&E and KU entered into an asset purchase agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of \$110 million, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC.

Cane Run Unit 7 Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build Cane Run Unit 7. In May 2012, the KPSC issued an order approving the request. A formal request for recovery of the costs associated with the construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate case proceedings. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

In conjunction with this construction and to meet new, more stringent EPA regulations with a 2015 compliance date, LG&E and KU anticipate retiring five older coal-fired electric generating units at the Cane Run and Green River plants, which have a combined summer capacity rating of 726 MW. In addition, KU retired the remaining 71 MW unit at the Tyrone plant in February 2013.

Future Capacity Needs

In addition to the construction of a combined cycle gas unit at the Cane Run station, LG&E and KU continue to assess future capacity needs. As a part of the assessment, LG&E and KU issued an RFP in September 2012 for up to 700 MW of capacity beginning as early as 2015.

Results of Operations

As previously noted, LKE's results for the periods after October 31, 2010 are on a basis of accounting different from its results for periods prior to November 1, 2010. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The utility business is affected by seasonal weather. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue and earnings are generally higher during the first and third quarters and lower during the second and fourth quarters due to weather.

The following table summarizes the significant components of net income for 2012, 2011 and 2010 and the changes therein:

Earnings

	<u>Successor</u>			<u>Predecessor</u>
	<u>Year Ended December 31, 2012</u>	<u>Year Ended December 31, 2011</u>	<u>Two Months Ended December 31, 2010</u>	<u>Ten Months Ended October 31, 2010</u>
Net Income	\$ 219	\$ 265	\$ 47	\$ 190

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins and certain items that management considers special. See additional detail of these special items in the table below.

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Margins	\$ (8)	\$ 92
Other operation and maintenance	(16)	(5)
Depreciation	(10)	(43)
Taxes, other than income	(9)	(14)
Other Income (Expense) - net	(14)	(13)
Interest Expense	(4)	29
Income Taxes	31	(18)
Special items, after-tax	(16)	
Total	<u>\$ (46)</u>	<u>\$ 28</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Higher other operation and maintenance in 2012 compared with 2011 primarily due to \$11 million of expenses related to an increased scope of scheduled outages and a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

- Higher depreciation in 2012 compared with 2011 due to PP&E additions.

Higher depreciation in 2011 compared with 2010 primarily due to TC2 commencing dispatch in January 2011.

- Higher taxes, other than income in 2011 compared with 2010 primarily due to a \$9 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions.
- Lower other income (expense) - net in 2012 compared with 2011 primarily due to losses from the EEI investment.

Lower other income (expense) - net in 2011 compared with 2010 primarily due to \$19 million of other income from the establishment of a regulatory asset in 2010 for previously recorded losses on interest rate swaps.

- Lower interest expense in 2011 compared with 2010 due to lower interest rates and lower average long-term debt balances. Lower interest rates contributed \$17 million to the decrease in interest expense, as the interest rates on the first mortgage bonds were lower than the rates on the loans from E.ON AG affiliates, which were replaced.
- Lower income taxes in 2012 compared with 2011 primarily due to lower pre-tax income.

Higher income taxes in 2011 compared with 2010 primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted earnings.

Income Statement Line Item	Successor			Predecessor
	2012	2011	2010	2010
Net operating loss carryforward and other tax-related adjustments	Income Taxes and Other O&M	\$ 4		
Asset impairment, net of tax of \$10 (a)	Other-Than-Temporary Impairments	(15)		
Discontinued operations adjustment, net of tax of \$4 (b)	Discontinued Operations	(5)		
Energy-related economic activity, net of tax of \$0, (\$1), \$1, \$0 (c)	Operating Revenues	\$ 1	\$ (1)	
BREC terminated lease, net of tax of \$0, \$1, (\$2), \$1 (d)	Discontinued Operations		(1)	(1)
Total		\$ (16)	\$ 1	\$ (1)

(a) KU recorded an impairment of its equity method investment in EEI. See Note 18 to the Financial Statements for additional information.

(b) 2012 includes an adjustment to an indemnification liability.

(c) Represents net unrealized gains (losses) on contracts that economically hedge anticipated cash flows.

(d) Represents costs associated with a terminated lease of WKE for the generating facilities of BREC. See Note 9 to the Financial Statements for additional information.

2013 Outlook

Excluding special items, LKE projects higher earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases effective January 1, 2013, returns on additional environmental capital investments and retail load growth, partially offset by higher operation and maintenance.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margins is a single financial performance measure of LKE's electricity generation,

transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments primarily associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from LKE's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margins" as defined by LKE for 2012, 2011 and 2010.

	2012 Successor			2011 Successor		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,759		\$ 2,759	\$ 2,791	\$ 2	\$ 2,793
Operating Expenses						
Fuel	872		872	866		866
Energy purchases	195		195	238		238
Other operation and maintenance	101	\$ 677	778	90	661	751
Depreciation	51	295	346	49	285	334
Taxes, other than income		46	46		37	37
Total Operating Expenses	1,219	1,018	2,237	1,243	983	2,226
Total	\$ 1,540	\$ (1,018)	\$ 522	\$ 1,548	\$ (981)	\$ 567

	Successor			Predecessor		
	Two Months Ended December 31, 2010			Ten Months Ended October 31, 2010		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 495	\$ (1)	\$ 494	\$ 2,214		\$ 2,214
Operating Expenses						
Fuel	138		138	723		723
Energy purchases	68		68	211		211
Other operation and maintenance	14	127	141	57	\$ 529	586
Depreciation	7	42	49	35	200	235
Taxes, other than income		2	2		21	21
Total Operating Expenses	227	171	398	1,026	750	1,776
Total	\$ 268	\$ (172)	\$ 96	\$ 1,188	\$ (750)	\$ 438

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins decreased by \$8 million for 2012 compared with 2011, primarily due to \$6 million of lower wholesale margins resulting from lower market prices. Retail margins were \$2 million lower, as volumes were impacted by unseasonably mild weather during the first four months of 2012. Total heating degree days decreased 11% compared to 2011, partially offset by a 6% increase in cooling degree days.

Margins increased by \$92 million for 2011 compared with 2010. New KPSC rates went into effect on August 1, 2010, contributing to an additional \$112 million in operating revenue over the prior year. Partially offsetting the rate increase were lower retail volumes resulting from weather and economic conditions.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Coal plant maintenance (a)	\$ 19	\$ 4
Distribution maintenance (b)	7	8
Administrative and general (c)	(7)	(1)
Steam operation (d)	2	10
Fuel for generation (e)		11
Other generation maintenance		(4)
Other	6	(4)
Total	<u>\$ 27</u>	<u>\$ 24</u>

- (a) Coal plant maintenance costs increased in 2012 compared with 2011 primarily due to \$11 million of expenses related to an increased scope of scheduled outages, as well as \$5 million of increased maintenance at the Ghent plant on the scrubber system and primary fuel combustion system.
- (b) Distribution maintenance costs increased in 2012 compared with 2011 primarily due to a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

Distribution maintenance costs increased in 2011 compared with 2010 primarily due to \$17 million of expenses related to amortization of storm restoration-related costs, a hazardous tree removal project initiated in August 2010 and an increase in pipeline integrity work. This increase was offset by a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

- (c) Administrative and general costs decreased in 2012 compared with 2011 primarily due to a decrease in pension expense resulting from pension funding and lower interest cost.
- (d) Steam operation costs increased in 2011 compared with 2010 primarily due to higher variable costs as a result of TC2 commencing dispatch in 2011.
- (e) Fuel handling costs are included in other operation and maintenance on the Statements of Income for the Successor periods and are in fuel on the Statement of Income for the Predecessor period.

Depreciation

The increase (decrease) in depreciation was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
TC2 (dispatch began in January 2011)		\$ 32
E.W. Brown sulfur dioxide scrubber equipment (placed in-service in June 2010)		8
Other additions to PP&E	\$ 12	10
Total	<u>\$ 12</u>	<u>\$ 50</u>

Taxes, Other Than Income

Taxes, other than income increased by \$9 million in 2012 compared with 2011 due in part to a \$4 million increase in property taxes resulting from property additions, higher assessed values and changes in property classifications to categories with higher tax rates.

Taxes, other than income increased by \$14 million in 2011 compared with 2010 primarily due to a \$9 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions.

Other Income (Expense) - net

The increase (decrease) in other income (expense) - net was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Earnings (losses) from the EEI investment	\$ (9)	\$ (2)
Depreciation expense on TC2 joint-use assets held for future use		3
Losses on interest rate swaps (a)		(19)
Other	(5)	5
Total	<u>\$ (14)</u>	<u>\$ (13)</u>

- (a) A regulatory asset was established in 2010 for previously recorded losses on interest rate swaps.

Other-Than-Temporary Impairments

Other-than-temporary impairments increased by \$25 million in 2012 compared with 2011 due to the \$25 million pre-tax impairment of the EEI investment. See Notes 1 and 18 to the Financial Statements for additional information.

Interest Expense

The increase (decrease) in interest expense was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Interest rates (a)	\$ (2)	\$ (17)
Long-term debt balances (b)	8	(15)
Other	(2)	3
Total	<u>\$ 4</u>	<u>\$ (29)</u>

- (a) Interest expense decreased in 2011 compared with 2010 primarily due to lower interest rates on senior notes and first mortgage bonds issued in November 2010 compared with the rates on the loans from E.ON AG affiliates that were in place through October 2010.
- (b) Interest expense increased in 2012 compared with 2011 due to the LKE \$250 million senior notes that were issued in September 2011.

Interest expense decreased in 2011 compared with 2010 as the long-term debt balances were lower for the majority of 2011. The debt balances increased in September 2011 due to the issuance of the LKE \$250 million senior notes.

Income Taxes

The increase (decrease) in income taxes was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Change in pre-tax income	\$ (34)	\$ 19
Net operating loss carryforward adjustments (a)	(9)	
Other	(4)	
Total	<u>\$ (47)</u>	<u>\$ 19</u>

- (a) Adjustments to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

Income (Loss) from Discontinued Operations (net of income taxes)

Income (loss) from discontinued operations (net of income taxes) decreased by \$5 million in 2012 compared with 2011 primarily related to an adjustment to the estimated liability for indemnifications related to the termination of the WKE lease in 2009.

Financial Condition

Liquidity and Capital Resources

LKE expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities, including commercial paper issuances. Additionally, subject to market conditions, subsidiaries of LKE currently plan to access capital markets in 2013.

LKE's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- changes in commodity prices that may increase the cost of producing or purchasing power or decrease the amount LKE receives from selling power;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- unusual or extreme weather that may damage LKE's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission facilities that LKE does not own or control to deliver its electricity and natural gas;
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws;
- any adverse outcome of legal proceedings and investigations with respect to LKE's current and past business activities;

- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in LKE's or its rated subsidiaries' credit ratings that could adversely affect their ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting LKE's cash flows.

At December 31, LKE had the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 43	\$ 59	\$ 11
Short-term investments (a)			163
	<u>\$ 43</u>	<u>\$ 59</u>	<u>\$ 174</u>
Short-term debt (b)	<u>\$ 125</u>	<u></u>	<u>\$ 163</u>

- (a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 7 to the Financial Statements for additional information.
- (b) Borrowings in 2012 were made under LG&E's and KU's commercial paper programs and borrowings in 2010 were made under LG&E's syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The changes in LKE's cash and cash equivalents position resulted from:

	<u>Successor</u>			<u>Predecessor</u>
	<u>Year Ended December 31, 2012</u>	<u>Year Ended December 31, 2011</u>	<u>Two Months Ended December 31, 2010</u>	<u>Ten Months Ended October 31, 2010</u>
Net cash provided by (used in) operating activities	\$ 747	\$ 781	\$ 26	\$ 488
Net cash provided by (used in) investing activities	(756)	(277)	(211)	(426)
Net cash provided by (used in) financing activities	(7)	(456)	167	(40)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (16)</u>	<u>\$ 48</u>	<u>\$ (18)</u>	<u>\$ 22</u>

Operating Activities

Net cash provided by operating activities decreased by 4%, or \$34 million, in 2012 compared with 2011, primarily as a result of:

- Net income adjusted for non-cash items declined by \$94 million, which included an \$85 million reduction in deferred income taxes due primarily to the utilization of a capital loss carry forward in 2011.
- Working capital cash flow changes declined by \$66 million driven primarily by changes in receivables and unbilled revenues due to milder December weather in 2011 than in 2012 and 2010 and more income tax receivables collected in 2011 than in 2012.
- These items were offset by \$126 million increase in other operating cash flows driven by \$100 million reduction in pension funding.

Net cash provided by operating activities increased by 52%, or \$267 million, in 2011 compared with 2010, primarily as a result of:

- an increase in net income adjusted for non-cash effects of \$178 million (deferred income taxes and investment tax credits of \$101 million, depreciation of \$50 million, amortization of regulatory assets of \$24 million and other noncash items of \$3 million, partially offset by unrealized (gains) losses on derivatives of \$14 million, defined benefit plans - expense of \$13 million and loss from discontinued operations - net of tax of \$1 million);
- an increase in cash inflows related to income tax receivable of \$79 million primarily due to net operating losses of \$40 million recorded in 2010 and the payment of \$40 million received by LKE for tax benefits in 2011;
- a net decrease in cash provided from accounts receivable and unbilled revenues of \$75 million due to colder weather in December 2010 as compared with December 2009 and milder weather in December 2011 as compared with December 2010; and

- a decrease in cash outflows of \$28 million due to lower inventory levels in 2011 as compared with 2010 driven by \$32 million for fuel inventory purchased in 2010 for TC2 that was not used until 2011 when TC2 began dispatch, \$21 million due to lower coal burn as a result of unplanned outages at LG&E's Mill Creek plant and \$6 million for decreases in gas storage volumes, partially offset by \$22 million for KU's E.W. Brown and Ghent plants due primarily to increases in coal prices and \$7 million for increases in coal in-transit; partially offset by
- an increase in discretionary defined benefit plan contributions of \$105 million made in order to achieve LKE's long-term funding requirements.

Investing Activities

Net cash used in investing activities increased by 173%, or \$479 million, in 2012 compared with 2011, primarily as a result of:

- an increase in capital expenditures of \$291 million, primarily due to coal combustion residuals projects at Ghent and E.W. Brown, environmental air projects at Mill Creek and Ghent, and construction of Cane Run Unit 7 ; and
- a decrease in the proceeds from the sale of other investments of \$163 million in 2011.

Net cash used in investing activities decreased by 57%, or \$360 million, in 2011 compared with 2010, as a result of:

- proceeds from the sale of other investments of \$163 million in 2011;
- a decrease in capital expenditures of \$122 million, primarily due to the completion of KU's scrubber program in 2010 and TC2 being dispatched in 2011; and
- an increase from a change in notes receivable from affiliates of \$107 million; partially offset by
- proceeds from sales of discontinued operations of \$21 million in 2010; and
- a decrease in restricted cash of \$11 million.

See "Forecasted Uses of Cash" for detail regarding capital expenditures for the years 2013 through 2017.

Financing Activities

Net cash used in financing activities was \$7 million in 2012 compared with net cash used in financing activities of \$456 million in 2011, primarily as a result of decrease in distributions to PPL.

In 2012, cash used in financing activities consisted of:

- distributions to PPL of \$155 million; partially offset by
- the issuance of \$ 125 million of short-term debt in the form of commercial paper; and
- an increase in notes payable with affiliates of \$25 million.

Net cash used in financing activities was \$456 million in 2011 compared with net cash provided by financing activities of \$127 million in 2010, primarily as a result of increased distributions to PPL and reduced contributions from PPL.

In 2011, cash used in financing activities consisted of:

- distributions to PPL of \$533 million, which includes \$248 million using the proceeds of the long-term debt issuance noted below;
- a repayment on a revolving line of credit of \$163 million;
- the payment of debt issuance and credit facility costs of \$8 million; and
- the repayment of debt of \$2 million; partially offset by
- the issuance of senior notes of \$250 million.

In the two months of 2010 following PPL's acquisition of LKE, cash provided by financing activities of the Successor consisted of:

- the issuance of senior unsecured notes and first mortgage bonds of \$2,890 million after discounts;
- the issuance of debt of \$2,784 million to a PPL affiliate to repay debt due to E.ON AG affiliates upon the closing of PPL's acquisition of LKE;
- an equity contribution from PPL of \$1,565 million; and
- a draw on a revolving line of credit of \$163 million; partially offset by

- the repayment of debt to E.ON AG affiliates of \$4,319 million upon the closing of PPL's acquisition of LKE;
- the repayment of debt to a PPL affiliate of \$2,784 million upon the issuance of senior unsecured notes and first mortgage bonds;
- distributions to PPL of \$100 million; and
- the payment of debt issuance and credit facility costs of \$32 million.

In the ten months of 2010 preceding PPL's acquisition of LKE, cash used in financing activities by the Predecessor consisted of:

- the repayment of debt to an E.ON AG affiliate of \$900 million;
- distributions to E.ON US Investments Corp. of \$87 million; and
- a net decrease in notes payable with affiliates of \$3 million; partially offset by
- the issuance of debt of \$950 million to an E.ON AG affiliate.

See "Forecasted Sources of Cash" for a discussion of LKE's plans to issue debt securities, as well as a discussion of credit facility capacity available to LKE. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common securities in the future, as well as maturities of long-term debt.

LKE's long-term debt securities activity through December 31, 2012 was:

	Debt	
	Issuances	Retirement
Non-cash Exchanges (a)		
LKE Senior Unsecured Notes	\$ 250	\$ (250)

- (a) In June 2012, LKE completed an exchange of all of its outstanding 4.375% Senior Notes due 2021 issued in September 2011, in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered under the Securities Act of 1933.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Auction Rate Securities

At December 31, 2012, LG&E's and KU's tax-exempt revenue bonds that are in the form of auction rate securities and total \$231 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2012, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.22%.

Forecasted Sources of Cash

LKE expects to continue to have sufficient sources of cash available in the near term, including various credit facilities, its commercial paper programs, issuance of debt securities and operating cash flow.

Credit Facilities

At December 31, 2012, LKE's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed / Commercial Paper Issued	Letters of Credit Issued	Unused Capacity
LKE Credit Facility with a subsidiary of PPL Energy Funding Corporation	\$ 300	\$ 25		\$ 275
LG&E Credit Facility (a) (d)	500	55		445
KU Credit Facilities (a) (b) (d)	598	70	198	330
Total Credit Facilities (c)	<u>\$ 1,398</u>	<u>\$ 150</u>	<u>\$ 198</u>	<u>\$ 1,050</u>

- (a) In November 2012, LG&E and KU amended their syndicated credit facilities to extend the expiration dates to November 2017. In addition, LG&E increased its credit facility's capacity to \$500 million.
- (b) In August 2012, the KU letter of credit facility agreement was amended and restated to allow for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.

- (c) The \$1.098 billion of commitments under LG&E's and KU's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity; however, the PPL affiliate provided a commitment of approximately 21% of the total facilities listed above. The syndicated credit facilities, as well as KU's letter of credit facility, each contain a financial covenant requiring debt to total capitalization not to exceed 70% for LG&E or KU, as calculated in accordance with the facility, and other customary covenants.
- (d) Each company pays customary fees under their respective syndicated credit facilities, as well as KU's letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

See Note 7 to the Financial Statements for further discussion of LKE's credit facilities.

Operating Leases

LKE and its subsidiaries also have available funding sources that are provided through operating leases. LKE's subsidiaries lease office space, gas storage and certain equipment. These leasing structures provide LKE additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

See Note 11 to the Financial Statements for further discussion of the operating leases.

Capital Contributions from PPL

From time to time PPL may make capital contributions to LKE. LKE may use these contributions to fund capital expenditures, make capital contributions to its subsidiaries and for other general corporate purposes.

Long-term Debt Securities

LG&E and KU currently plan to issue, subject to market conditions, up to \$350 million for LG&E and \$300 million for KU, of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, LKE currently expects to incur future cash outflows for capital expenditures, various contractual obligations, distributions to PPL and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows LKE's current capital expenditure projections for the years 2013 through 2017.

	Projected				
	2013	2014	2015	2016	2017
Capital expenditures (a)					
Generating facilities	\$ 427	\$ 251	\$ 267	\$ 476	\$ 540
Distribution facilities	233	227	263	257	281
Transmission facilities	107	68	59	56	77
Environmental	655	722	513	292	107
Other	48	45	43	48	39
Total Capital Expenditures	<u>\$ 1,470</u>	<u>\$ 1,313</u>	<u>\$ 1,145</u>	<u>\$ 1,129</u>	<u>\$ 1,044</u>

- (a) LKE generally expects to recover these costs over a period equivalent to the related depreciable lives of the assets through rates. The 2013 total excludes amounts included in accounts payable as of December 31, 2012.

LKE's capital expenditure projections for the years 2013 through 2017 total approximately \$6.1 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LKE's environmental projects related to existing and proposed EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements and market conditions. Environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

LKE plans to fund its capital expenditures in 2013 with cash on hand, cash from operations, short-term debt and issuance of debt securities.

Contractual Obligations

LKE has assumed various financial obligations and commitments in the ordinary course of conducting its business. LKE is not liable for the debts of LG&E and KU, nor are LG&E and KU liable for the debts of one another. Accordingly, creditors of LG&E and KU may not satisfy their debts from the assets of LKE absent a specific contractual undertaking by LKE or LG&E and KU to pay the creditors or as required by applicable law or regulation. At December 31, 2012, the estimated contractual cash obligations of LKE were:

	<u>Total</u>	<u>2013</u>	<u>2014 - 2015</u>	<u>2016 - 2017</u>	<u>After 2017</u>
Long-term Debt (a)	\$ 4,085		\$ 900		\$ 3,185
Interest on Long-term Debt (b)	2,586	\$ 139	274	\$ 250	1,923
Operating Leases (c)	90	15	27	14	34
Coal and Natural Gas Purchase Obligations (d)	2,558	789	1,176	501	92
Unconditional Power Purchase Obligations (e)	1,038	30	60	64	884
Construction Obligations (f)	1,757	836	639	282	
Pension Benefit Plan Obligations (g)	153	153			
Other Obligations (h)	30	7	14	8	1
Total Contractual Cash Obligations	<u>\$ 12,297</u>	<u>\$ 1,969</u>	<u>\$ 3,090</u>	<u>\$ 1,119</u>	<u>\$ 6,119</u>

- (a) Reflects principal maturities only based on stated maturity dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E and KU. LKE has no capital lease obligations.
- (b) Assumes interest payments through stated maturity. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
- (c) See Note 11 to the Financial Statements for additional information.
- (d) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 15 to the Financial Statements for additional information.
- (e) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 15 to the Financial Statements for additional information.
- (f) Represents construction commitments, including commitments for the Mill Creek and Ghent environmental air projects, Cane Run Unit 7, Ghent landfill and Ohio Falls refurbishment which are also reflected in the Capital Expenditures table presented above.
- (g) Based on the current funded status of LKE's qualified pension plans, no cash contributions are required. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (h) Represents other contractual obligations.

Dividends

From time to time, as determined by its Board of Directors, LKE pays dividends to the sole member, PPL.

As discussed in Note 7 to the Financial Statements, LG&E's and KU's ability to pay dividends is limited under a covenant in each of their revolving line of credit facilities. This covenant restricts their debt to total capital ratio to not more than 70%. See Note 7 to the Financial Statements for other restrictions related to distributions on capital interests for LKE subsidiaries.

Purchase or Redemption of Debt Securities

LKE will continue to evaluate purchasing or redeeming outstanding debt securities and may decide to take action depending upon prevailing market conditions and available cash.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LKE and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LKE and its subsidiaries are based on information provided by LKE and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LKE or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of LKE and its subsidiaries affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The following table sets forth LKE's and its subsidiaries' security credit ratings as of December 31, 2012.

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
LKE	Baa2	BBB-	BBB+						
LG&E			A	A2	A-	A+	P-2	A-2	F-2
KU			A	A2	A-	A+	P-2	A-2	F-2

In addition to the credit ratings noted above, the rating agencies took the following actions related to LKE and its subsidiaries:

In February 2012, Fitch assigned ratings to the two newly established commercial paper programs for LG&E and KU.

In March 2012, Moody's affirmed the following ratings:

- the long-term ratings of the First Mortgage Bonds for LG&E and KU;
- the issuer ratings for LG&E and KU; and
- the bank loan ratings for LG&E and KU.

Also in March 2012, Moody's and S&P each assigned short-term ratings to the two newly established commercial paper programs for LG&E and KU.

In March and May 2012, Moody's, S&P and Fitch affirmed the long-term ratings for LG&E's 2003 Series A, and 2007 Series B pollution control bonds.

In November 2012, Moody's and S&P affirmed the long-term ratings for LG&E's 2007 Series A pollution control bonds.

In December 2012, Fitch affirmed the issuer default ratings, individual security ratings and outlooks for LKE, LG&E and KU.

Ratings Triggers

LKE and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LKE and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if LKE's or the subsidiaries' credit rating were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2012. At December 31, 2012, if LKE's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that LKE would have been required to post as additional collateral to counterparties was \$78 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations, gas supply and interest rate contracts.

Off-Balance Sheet Arrangements

LKE has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

See Notes 1, 18 and 19 to the Financial Statements for information about LKE's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

LG&E's and KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LKE sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 19 to the Financial Statements for additional disclosures.

The balance and change in net fair value of LKE's commodity derivative contracts for the periods ended December 31, 2012, 2011 and 2010 are shown in the table below.

	Gains (Losses)			Predecessor Ten Months Ended October 31, 2010
	Successor		Two Months Ended December 31, 2010	
	Year Ended December 31, 2012	Year Ended December 31, 2011		
Fair value of contracts outstanding at the beginning of the period		\$ (2)		
Contracts realized or otherwise settled during the period		(3)		\$ 3
Fair value of new contracts entered into during the period				(4)
Other changes in fair value (a)		5	\$ (2)	1
Fair value of contracts outstanding at the end of the period		\$	\$ (2)	\$

(a) Represents the change in value of outstanding transactions and the value of transactions entered into and settled during the period.

Interest Rate Risk

LKE and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. LKE utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under LKE's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LKE's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2012 and 2011, LKE's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LKE is also exposed to changes in the fair value of its debt portfolio. LKE estimated that a 10% decrease in interest rates at December 31, 2012, would increase the fair value of its debt portfolio by \$113 million compared with \$125 million at December 31, 2011.

LKE had the following interest rate hedges outstanding at:

	December 31, 2012			December 31, 2011		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges						
Interest rate swaps (b)	\$ 179	\$ (58)	\$ (3)	\$ 179	\$ (60)	\$ (4)
Cash flow hedges						
Interest rate swaps (b)	300	14	(18)			

(a) Includes accrued interest.

(b) LKE utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LKE is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic and cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2012 mature through 2043.

Credit Risk

LKE is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LKE maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds. LKE is exposed to potential losses as a result of nonpayment by customers. LKE maintains an allowance for doubtful accounts based on a historical charge-off percentage for retail customers. Allowances for doubtful accounts from wholesale and municipal customers and for miscellaneous receivables are based on specific identification by management. Retail, wholesale and municipal customer accounts are written-off after four months of no payment activity. Miscellaneous receivables are written-off as management determines them to be uncollectible.

Certain of LKE's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LKE's credit ratings from each of the major credit rating agencies. See Notes 18 and 19 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

LKE is not aware of any material ownership interest or operating responsibility by senior management of LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LKE. See Note 16 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Protection of the environment is a major priority for LKE and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LKE's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for LKE's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to LKE's generation assets and electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where LKE has hydro generating facilities or where river water is used to cool its fossil powered generators. LKE cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). LKE's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

Revenue Recognition - Unbilled Revenue

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers of LG&E's and KU's retail operations are billed on cycles which vary based on the timing of the actual reading of their electric and gas meters, LKE records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of electricity and gas delivered to customers since the date of the last reading of their meters. The unbilled revenues reflect consideration of estimated usage by customer class, the effect of different rate schedules, changes in weather, and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. In addition to the unbilled revenue accrual resulting from cycle billing, LKE makes additional accruals resulting from the timing of customer bills. The accrual of unbilled revenues in this manner properly matches revenues and related costs. At December 31, 2012 and 2011, LKE had unbilled revenue balances of \$156 million and \$146 million.

Defined Benefits

LKE and certain of its subsidiaries sponsor and participate in qualified funded and non-qualified unfunded defined benefit pension plans. LKE also sponsors a funded other postretirement benefit plan. These plans are applicable to the majority of the employees of LKE and its subsidiaries. LKE records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to OCI or regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

Certain assumptions are made by LKE and certain of its subsidiaries regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in OCI or regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Long-term Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs LKE records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its defined benefit plans LKE starts with a cash flow analysis of the expected benefit payment stream for its plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, LKE decreased the discount rate for its pension plans from 5.08% to 4.24% and decreased the discount rate for its other postretirement benefit plan from 4.78% to 3.99%.

The expected long-term rates of return for LKE's defined benefit pension plans and defined other postretirement benefit plan have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. LKE management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2012, LKE's expected return on plan assets decreased from 7.25% to 7.10% .

In selecting a rate of compensation increase, LKE considers past experience in light of movements in inflation rates. At December 31, 2012, LKE's rate of compensation increase remained at 4.00%.

In selecting health care cost trend rates LKE considers past performance and forecasts of health care costs. At December 31, 2012, LKE's health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LKE. While the charts below reflect either an increase or decrease in each assumption, the inverse of the change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LKE by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows:

Pension liabilities (a)	\$	417
Other postretirement benefit liabilities		141

(a) Amount includes current and noncurrent portions.

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on LKE's primary defined benefit plans.

Actuarial assumption	Increase (Decrease)			
	Change in assumption	Impact on defined benefit liabilities	Impact on OCI	Impact on regulatory assets
Discount Rate	(0.25)%	\$ 59	\$ (22)	\$ 37
Rate of Compensation Increase	0.25%	10	(6)	4
Health Care Cost Trend Rate (a)	1%	5	(1)	4

(a) Only impacts other postretirement benefits.

In 2012, LKE recognized net periodic defined benefit costs charged to operating expense of \$40 million. This amount represents an \$11 million decrease from 2011. This decrease in expense for 2012 was primarily attributable to the increase in the expected return on plan assets resulting from pension contributions of \$57 million, a reduction in the amortization of outstanding losses and lower interest cost.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on LKE's primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 4
Expected Return on Plan Assets	(0.25)%	3
Rate of Compensation Increase	0.25%	1
Health Care Cost Trend Rate (a)	1%	

(a) Only impacts other postretirement benefits.

Asset Impairment (Excluding Investments)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current-period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its estimated fair value. Management must make significant judgments to estimate future cash flows including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, LKE considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

Goodwill is tested for impairment at the reporting unit level. LKE's reporting units have been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, LKE may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative assessment and directly test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if LKE concludes it is more likely than not the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment in step one, LKE identifies a potential impairment by comparing the estimated fair value of a reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step of the quantitative test requires a calculation of the implied fair value of goodwill which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

LKE elected to perform the two-step quantitative impairment test of goodwill for all of its reporting units in the fourth quarter of 2012 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions to estimate the fair value of each reporting unit. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

In 2012, the estimated liability for indemnifications related to the 2009 termination of the WKE lease was increased.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is reasonably possible that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur."

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.
- Environmental and other litigation contingencies are reduced when the contingency is resolved, LKE makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

See Note 15 to the Financial Statements for additional information.

Asset Retirement Obligations

LKE is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Consolidated Statements of Income, for changes in the obligation due to the passage of time. Since costs of removal are collected in rates, the accretion and depreciation are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the

regulatory credit is relieved when the ARO has been settled. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. See Note 21 to the Financial Statements for related disclosures.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the estimate of the obligations. Any change to the capitalized asset is amortized over the remaining life of the associated long-lived asset.

At December 31, 2012, LKE had AROs comprised of current and noncurrent amounts, totaling \$131 million recorded on the Balance Sheet. Of the total amount, \$90 million, or 69%, relates to LKE's ash ponds, landfills and natural gas mains. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in the forecasted retirement costs, the discount rates or the inflation rates could have a significant impact on the ARO liabilities.

The following chart reflects the sensitivities related to LKE's ARO liabilities for ash ponds, landfills and natural gas mains at December 31, 2012:

	<u>Change in Assumption</u>	<u>Impact on ARO Liability</u>
Retirement Cost	10%	\$ 11
Discount Rate	(0.25)%	3
Inflation Rate	0.25%	8

Income Taxes

Significant management judgment is required in developing the provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2012, LKE's existing reserve exposure to either increases or decreases in unrecognized tax benefits during the next 12 months is \$1 million. This change could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. See Note 5 to the Financial Statements for related disclosures.

Regulatory Assets and Liabilities

LKE's subsidiaries, LG&E and KU, are cost-based rate-regulated utilities. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, the KPSC, the VSCC and the TRA.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-off would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of the depreciation of PP&E and amortization of regulatory assets.

At December 31, 2012, LKE had regulatory assets of \$649 million and regulatory liabilities of \$1,011 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit, tax and other services permitted by Sarbanes-Oxley and SEC rules. The audit services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

LOUISVILLE GAS AND ELECTRIC COMPANY

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with LG&E's Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LG&E and its business strategy, a summary of Net Income and a discussion of certain events related to LG&E's results of operations and financial condition.
- "Results of Operations" provides a summary of LG&E's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on LG&E's Statements of Income, comparing 2012 with 2011 and 2011 with 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LG&E's liquidity position and credit profile. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of LG&E's risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of LG&E and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

Overview

Introduction

LG&E, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. LG&E and its affiliate, KU, are wholly owned subsidiaries of LKE. LKE, a holding company, became a wholly owned subsidiary of PPL when PPL acquired all of LKE's interests from E.ON US Investments Corp. on November 1, 2010. Following the acquisition, both LG&E and KU continue operating as subsidiaries of LKE, which is now an intermediary holding company in PPL's group of companies. Refer to "Item 1. Business - Background" for a description of LG&E's business.

Business Strategy

LG&E's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its shareowner.

A key objective for LG&E is to maintain a strong credit profile through managing financing costs and access to credit markets. LG&E continually focuses on maintaining an appropriate capital structure and liquidity position.

Successor and Predecessor Financial Presentation

LG&E's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010 and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, and the cost bases of certain assets and liabilities were changed as of November 1, 2010 as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LG&E have not changed as a result of the acquisition.

Financial and Operational Developments

Net Income

Net Income for 2012, 2011 and 2010 was \$123 million, \$124 million and \$128 million. Earnings in 2012 decreased 1% from 2011 and earnings in 2011 decreased 3% from 2010.

See "Results of Operations" for a discussion and analysis of LG&E's earnings.

Rate Case Proceedings

In June 2012, LG&E filed a request with the KPSC for an increase in annual base electric rates of approximately \$62 million and an increase in annual base gas rates of approximately \$17 million. In November 2012, LG&E along with all of the parties filed a unanimous settlement agreement. Among other things, the settlement provided for increases in annual base electric rates of \$34 million and an increase in annual base gas rates of \$15 million. The settlement agreement also included revised depreciation rates that result in reduced annual electric depreciation expense of approximately \$9 million. The settlement agreement included an authorized return on equity of 10.25%. On December 20, 2012, the KPSC issued an order approving the provisions in the settlement agreement. The new rates became effective on January 1, 2013. In addition to the increased base rates, the KPSC approved a gas line tracker mechanism to provide for recovery of costs associated with LG&E's gas main replacement program, gas service lines and risers.

Commercial Paper

In February 2012, LG&E established a commercial paper program for up to \$250 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by LG&E's Syndicated Credit Facility. At December 31, 2012, LG&E had \$55 million of commercial paper outstanding.

Terminated Bluegrass CTs Acquisition

In September 2011, LG&E and KU entered into an asset purchase agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of \$110 million, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC.

Cane Run Unit 7 Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build Cane Run Unit 7. In May 2012, the KPSC issued an order approving the request. LG&E will own a 22% undivided interest and KU will own a 78% undivided interest in the new generating unit. A formal request for recovery of the costs associated with the construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate case proceedings. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

In conjunction with this construction and to meet new, more stringent EPA regulations with a 2015 compliance date, LG&E anticipates retiring three older coal-fired electric generating units at the Cane Run plant, which have a combined summer capacity rating of 563 MW.

Future Capacity Needs

In addition to the construction of a combined cycle gas unit at the Cane Run station, LG&E and KU continue to assess future capacity needs. As a part of the assessment, LG&E and KU issued an RFP in September 2012 for up to 700 MW of capacity beginning as early as 2015.

Results of Operations

As previously noted, LG&E's results for the periods after October 31, 2010 are on a basis of accounting different from its results for periods prior to November 1, 2010. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The utility business is affected by seasonal weather. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue and earnings are generally higher during the first and third quarters and lower during the second and fourth quarters due to weather.

The following table summarizes the significant components of net income for 2012, 2011 and 2010 and the changes therein:

Earnings

	<u>Successor</u>			<u>Predecessor</u>
	<u>Year Ended December 31, 2012</u>	<u>Year Ended December 31, 2011</u>	<u>Two Months Ended December 31, 2010</u>	<u>Ten Months Ended October 31, 2010</u>
Net Income	\$ 123	\$ 124	\$ 19	\$ 109

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins and certain items that management considers special.

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Margins	\$ 3	\$ 39
Other operation and maintenance	3	(10)
Depreciation	(4)	(13)
Taxes, other than income	(5)	(5)
Other Income (Expense) - net	(1)	(16)
Other	4	(1)
Special items, after-tax	(1)	2
Total	<u>\$ (1)</u>	<u>\$ (4)</u>

The net unrealized gains (losses) on contracts that economically hedge anticipated cash flows are considered special items by management. There were no unrealized gains (losses) in 2012.

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Higher other operation and maintenance in 2011 compared with 2010 primarily due to higher distribution maintenance costs of \$8 million due to amortization of storm restoration related costs and a hazardous tree removal project initiated in August 2010.
- Higher depreciation in 2011 compared with 2010 primarily due to TC2 commencing dispatch in January 2011.
- Lower other income (expense) - net in 2011 compared with 2010 primarily due to \$19 million of other income from the establishment of a regulatory asset in 2010 for previously recorded losses on interest rate swaps.

2013 Outlook

Excluding special items, LG&E projects higher earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases effective January 1, 2013, returns on additional environmental capital investments and retail load growth, partially offset by higher operation and maintenance.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margins is a single financial performance measure of LG&E's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments primarily associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from LG&E's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margins" as defined by LG&E for 2012, 2011 and 2010.

	2012 Successor			2011 Successor		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,324		\$ 1,324	\$ 1,363	\$ 1	\$ 1,364
Operating Expenses						
Fuel	374		374	350		350
Energy purchases	175		175	245		245
Other operation and maintenance	45	\$ 318	363	42	321	363
Depreciation	3	149	152	2	145	147
Taxes, other than income		23	23		18	18
Total Operating Expenses	597	490	1,087	639	484	1,123
Total	\$ 727	\$ (490)	\$ 237	\$ 724	\$ (483)	\$ 241

	Successor Two Months Ended December 31, 2010			Predecessor Ten Months Ended October 31, 2010		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 255	\$ (1)	\$ 254	\$ 1,057		\$ 1,057
Operating Expenses						
Fuel	60		60	306		306
Energy purchases	63		63	155		155
Other operation and maintenance	9	58	67	28	\$ 253	281
Depreciation		23	23	6	109	115
Taxes, other than income		1	1		12	12
Total Operating Expenses	132	82	214	495	374	869
Total	\$ 123	\$ (83)	\$ 40	\$ 562	\$ (374)	\$ 188

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins increased by \$3 million for 2012 compared with 2011, primarily due to \$9 million of higher retail margins as a result of new environmental investments. This increase was partially offset by lower wholesale margins of \$6 million as volumes were impacted by lower market prices. Retail volumes were consistent with the prior year as increased industrial sales offset declines associated with unseasonably mild weather during the first four months of 2012. Total heating degree days decreased 13% compared to 2011, partially offset by a 7% increase in cooling degree days.

Margins increased by \$39 million for 2011 compared with 2010. New KPSC rates went into effect on August 1, 2010, contributing to an additional \$48 million in operating revenue over the prior year. Partially offsetting the rate increase were lower retail volumes resulting from weather and economic conditions.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Administrative and general (a)	\$ (5)	\$ 4
Distribution maintenance (b)	(1)	8
Fuel for generation (c)		5
Coal plant maintenance (d)	2	(5)
Other	4	3
Total	<u>\$</u>	<u>\$</u> 15

- (a) Administrative and general costs decreased in 2012 compared with 2011 primarily due to a decrease in pension expense resulting from pension funding and lower interest cost.
- (b) Distribution maintenance costs increased in 2011 compared with 2010 primarily due to amortization of storm restoration-related costs, a hazardous tree removal project initiated in August 2010 and an increase in pipeline integrity work.
- (c) Fuel handling costs are included in other operation and maintenance on the Statements of Income for the Successor periods and are in fuel on the Statement of Income for the Predecessor period.
- (d) Coal plant maintenance costs increased in 2012 compared with 2011 primarily due to an increased scope of scheduled outages.

Coal plant maintenance costs decreased in 2011 compared with 2010 primarily due to the timing of scheduled maintenance outages and non-outage boiler maintenance.

Depreciation

Depreciation increased by \$5 million in 2012 compared with 2011 due to PP&E additions.

Depreciation increased by \$9 million in 2011 compared with 2010 primarily due to TC2 commencing dispatch in January 2011.

Taxes, Other Than Income

Taxes, other than income increased by \$5 million in 2012 compared with 2011 due in part to a \$2 million increase in property taxes resulting from property additions, higher assessed values and changes in property classifications to categories with higher tax rates.

Taxes, other than income increased by \$5 million in 2011 compared with 2010 primarily due to a \$4 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions.

Other Income (Expense) - net

Other income (expense) - net decreased by \$16 million in 2011 compared with 2010 primarily due to \$19 million of other income from the establishment of a regulatory asset for previously recorded losses on interest rate swaps in 2010.

Interest Expense

The increase (decrease) in interest expense was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Interest rates (a)	\$ (2)	\$ (7)
Long-term debt balances (b)		2
Other		3
Total	<u>\$</u> (2)	<u>\$</u> (2)

- (a) Interest expense decreased in 2011 compared with 2010 due to lower interest rates on first mortgage bonds issued in November 2010 compared with the rates on the loans from E.ON AG affiliates that were in place through October 2010.
- (b) Interest expense increased in 2011 compared with 2010 due to lower long-term debt balances for the first ten months of 2010.

Financial Condition

Liquidity and Capital Resources

LG&E expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities, including commercial paper issuances. Additionally, subject to market conditions, LG&E currently plans to access capital markets in 2013.

LG&E's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- changes in commodity prices that may increase the cost of producing or purchasing power or decrease the amount LG&E receives from selling power;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- unusual or extreme weather that may damage LG&E's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission facilities that LG&E does not own or control to deliver its electricity and natural gas;
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws;
- any adverse outcome of legal proceedings and investigations with respect to LG&E's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in LG&E's credit ratings that could adversely affect its ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting LG&E's cash flows.

At December 31, LG&E had the following:

	2012	2011	2010
Cash and cash equivalents	\$ 22	\$ 25	\$ 2
Short-term investments (a)			163
	\$ 22	\$ 25	\$ 165
Short-term debt (b)	\$ 55		\$ 163

- (a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 7 to the Financial Statements for additional information.
- (b) Borrowings in 2012 were made under LG&E's commercial paper program and borrowings in 2010 were made under LG&E's syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The changes in LG&E's cash and cash equivalents position resulted from:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net cash provided by (used in) operating activities	\$ 308	\$ 325	\$ (8)	\$ 189
Net cash provided by (used in) investing activities	(289)	(42)	(63)	(107)
Net cash provided by (used in) financing activities	(22)	(260)	69	(83)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (3)	\$ 23	\$ (2)	\$ (1)

Operating Activities

Net cash provided by operating activities decreased by 5%, or \$17 million, in 2012 compared with 2011, primarily as a result of:

- Working capital cash flow changes declined by \$65 million driven primarily by changes in receivables and unbilled revenues due to milder December weather in 2011 than in 2012 and 2010, and lower inventory levels in 2011 as compared with 2010 driven by lower gas prices.
- The decline was offset by \$44 million increase in other operating cash flows driven by \$43 million reduction in pension funding.

Net cash provided by operating activities increased by 80%, or \$144 million, in 2011 compared with 2010, primarily as a result of:

- a decrease in working capital related to accounts receivable and unbilled revenues of \$86 million primarily due to the timing of cash receipts and colder weather in December 2010 as compared with December 2009 and milder weather in December 2011 as compared with December 2010;
- an increase in net income adjusted for non-cash effects of \$34 million (the recording of a regulatory asset for previously recorded losses on interest rate swaps of \$22 million, deferred income taxes and investment tax credits of \$17 million, depreciation of \$9 million, partially offset by unrealized (gains) losses on derivatives of \$14 million, defined benefit plans - expense of \$3 million and other noncash items of \$3 million);
- a decrease in cash outflows of \$32 million due to lower inventory levels in 2011 as compared with 2010 driven by \$21 million due to lower coal burn as a result of unplanned outages at the Mill Creek plant, \$8 million for fuel inventory purchased in 2010 for TC2 that was not used until 2011 when TC2 began dispatch and \$6 million for decreases in gas storage volumes;
- a decrease in cash refunded to customers of \$25 million due to prior period over-recoveries related to the gas supply clause filings in 2009; and
- a decrease in cash outflows related to accrued taxes of \$22 million due to the timing of payments of accrued tax liabilities in 2011 and 2010; partially offset by
- an increase in discretionary defined benefit plan contributions of \$44 million made in order to achieve LG&E's long-term funding requirements; and
- an increase in working capital related to accounts payable of \$41 million, which was driven primarily by the timing of cash payments and a decrease in natural gas purchases of \$18 million in 2011 as compared with 2010 due to a decrease in combustion turbine generation as a result of the dispatch of TC2 beginning in January 2011.

Investing Activities

Net cash used in investing activities increased by \$247 million, in 2012 compared with 2011, primarily as a result of:

- a decrease in the proceeds from the sale of other investments of \$163 million in 2011; and
- an increase in capital expenditures of \$90 million due primarily to construction of Cane Run Unit 7 and Mill Creek environmental air projects.

Net cash used in investing activities decreased by 75%, or \$128 million, in 2011 compared with 2010, as a result of:

- proceeds from the sale of other investments of \$163 million in 2011; and
- a decrease in capital expenditures of \$24 million due primarily to TC2 being dispatched in 2011; partially offset by
- proceeds from the sale of assets of \$48 million in 2010; and
- a decrease in restricted cash of \$11 million.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2013 through 2017.

Financing Activities

Net cash used in financing activities was \$22 million, in 2012 compared with \$260 million in 2011, primarily as a result of changes in short-term debt.

In 2012, cash used in financing activities consisted of:

- the payment of common stock dividends to LKE of \$75 million; partially offset by
- the issuance of short-term debt in the form of commercial paper of \$55 million.

Net cash used in financing activities was \$260 million, in 2011 compared with \$14 million in 2010, primarily as a result of changes in short-term debt.

In 2011, cash used in financing activities consisted of:

- a repayment on a revolving line of credit of \$163 million;
- the payment of common stock dividends to LKE of \$83 million;
- a net decrease in notes payable with affiliates of \$12 million; and
- the payment of debt issuance and credit facility costs of \$2 million.

In the two months of 2010 following PPL's acquisition of LKE, cash provided by financing activities of the Successor consisted of:

- the issuance of first mortgage bonds of \$531 million after discounts;
- the issuance of debt of \$485 million to a PPL affiliate to repay debt due to an E.ON AG affiliate upon the closing of PPL's acquisition of LKE; and
- a draw on a revolving line of credit of \$163 million; partially offset by
- the repayment of debt to an E.ON AG affiliate of \$485 million upon the closing of PPL's acquisition of LKE;
- the repayment of debt to a PPL affiliate of \$485 million upon the issuance of first mortgage bonds;
- a net decrease in notes payable with affiliates of \$130 million; and
- the payment of debt issuance and credit facility costs of \$10 million.

In the ten months of 2010 preceding PPL's acquisition of LKE, cash used in financing activities by the Predecessor consisted of:

- the payment of common stock dividends to LKE of \$55 million and
- a net decrease in notes payable with affiliates of \$28 million.

See "Forecasted Sources of Cash" for a discussion of LG&E's plans to issue debt securities, as well as a discussion of credit facility capacity available to LG&E. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common securities in the future, as well as maturities of long-term debt.

LG&E had no long-term debt securities activity during the year.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Auction Rate Securities

At December 31, 2012, LG&E's tax-exempt revenue bonds that are in the form of auction rate securities and total \$135 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2012, the weighted-average rate on LG&E's auction rate bonds in total was 0.20%.

Forecasted Sources of Cash

LG&E expects to continue to have sufficient sources of cash available in the near term, including various credit facilities, its commercial paper program, issuance of debt securities and operating cash flow.

Credit Facilities

At December 31, 2012, LG&E's total committed borrowing capacity under its Syndicated Credit Facility and the use of this borrowing capacity were:

	<u>Capacity</u>	<u>Commercial Paper Issued</u>	<u>Letters of Credit Issued</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a) (b) (c)	\$ 500	\$ 55		\$ 445

- (a) The commitments under LG&E's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity available to LG&E.
- (b) In November 2012, LG&E amended the Syndicated Credit Facility to extend the expiration date to November 2017. In addition, LG&E increased the credit facility capacity to \$500 million.
- (c) LG&E pays customary fees under its syndicated credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2012, there was no balance outstanding.

See Note 7 to the Financial Statements for further discussion of LG&E's credit facilities.

Operating Leases

LG&E also has available funding sources that are provided through operating leases. LG&E leases office space, gas storage and certain equipment. These leasing structures provide LG&E additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

See Note 11 to the Financial Statements for further discussion of the operating leases.

Capital Contributions from LKE

From time to time LKE may make capital contributions to LG&E. LG&E may use these contributions to fund capital expenditures and for other general corporate purposes.

Long-term Debt Securities

LG&E currently plans to issue, subject to market conditions, up to \$350 million of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, LG&E currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows LG&E's current capital expenditure projections for the years 2013 through 2017.

	<u>Projected</u>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital expenditures (a)					
Generating facilities	\$ 138	\$ 111	\$ 131	\$ 225	\$ 232
Distribution facilities	144	140	166	165	174
Transmission facilities	59	31	19	16	16
Environmental	324	336	249	186	42
Other	22	22	20	23	19
Total Capital Expenditures	<u>\$ 687</u>	<u>\$ 640</u>	<u>\$ 585</u>	<u>\$ 615</u>	<u>\$ 483</u>

- (a) LG&E generally expects to recover these costs over a period equivalent to the related depreciable lives of the assets through rates. The 2013 total excludes amounts included in accounts payable as of December 31, 2012.

LG&E's capital expenditure projections for the years 2013 through 2017 total approximately \$3.0 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LG&E's environmental projects related to existing and proposed EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements and market conditions. Environmental compliance costs incurred by LG&E in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

LG&E plans to fund its capital expenditures in 2013 with cash on hand, cash from operations, short-term debt and issuance of debt securities.

Contractual Obligations

LG&E has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2012, the estimated contractual cash obligations of LG&E were:

	<u>Total</u>	<u>2013</u>	<u>2014 - 2015</u>	<u>2016 - 2017</u>	<u>After 2017</u>
Long-term Debt (a)	\$ 1,109		\$ 250		\$ 859
Interest on Long-term Debt (b)	839	\$ 37	70	\$ 66	666
Operating Leases (c)	35	5	11	5	14
Coal and Natural Gas Purchase Obligations (d)	1,512	378	697	345	92
Unconditional Power Purchase Obligations (e)	719	21	42	44	612
Construction Obligations (f)	735	382	273	80	
Pension Benefit Plan Obligations (g)	42	42			
Other Obligations (h)	8	2	4	2	
Total Contractual Cash Obligations	\$ 4,999	\$ 867	\$ 1,347	\$ 542	\$ 2,243

- (a) Reflects principal maturities only based on stated maturity dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E. LG&E has no capital lease obligations.
- (b) Assumes interest payments through stated maturity. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
- (c) See Note 11 to the Financial Statements for additional information.
- (d) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 15 to the Financial Statements for additional information.
- (e) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 15 to the Financial Statements for additional information.
- (f) Represents construction commitments, including commitments for the Mill Creek environmental air projects, Cane Run Unit 7 and Ohio Falls refurbishment which are also reflected in the Capital Expenditures table presented above.
- (g) Based on the current funded status of LG&E's qualified pension plan and LKE's qualified pension plan, which covers LG&E employees, no cash contributions are required. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (h) Represents other contractual obligations.

Dividends

From time to time, as determined by its Board of Directors, LG&E pays dividends to its sole shareholder, LKE.

As discussed in Note 7 to the Financial Statements, LG&E's ability to pay dividends is limited under a covenant in its \$500 million revolving line of credit facility. This covenant restricts the debt to total capital ratio to not more than 70%. See Note 7 to the Financial Statements for other restrictions related to distributions on capital interests for LG&E.

Purchase or Redemption of Debt Securities

LG&E will continue to evaluate purchasing or redeeming outstanding debt securities and may decide to take action depending upon prevailing market conditions and available cash.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LG&E. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LG&E are based on information provided by LG&E and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LG&E. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of LG&E affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The following table sets forth LG&E's security credit ratings as of December 31, 2012.

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
LG&E			A	A2	A-	A+	P-2	A-2	F-2

In addition to the credit ratings noted above, the rating agencies took the following actions related to LG&E:

In February 2012, Fitch assigned ratings to LG&E's newly established commercial paper program.

In March 2012, Moody's affirmed the following ratings:

- the long-term ratings of the First Mortgage Bonds for LG&E;
- the issuer ratings for LG&E; and
- the bank loan ratings for LG&E.

Also in March 2012, Moody's and S&P each assigned short-term ratings to LG&E's newly established commercial paper program.

In March and May 2012, Moody's, S&P and Fitch affirmed the long-term ratings for LG&E's 2003 Series A and 2007 Series B pollution control bonds.

In November 2012, Moody's and S&P affirmed the long-term ratings for LG&E's 2007 Series A pollution control bonds.

In December 2012, Fitch affirmed the issuer default ratings, individual security ratings and outlook for LG&E.

Ratings Triggers

LG&E has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LG&E to post additional collateral, or permitting the counterparty to terminate the contract, if LG&E's credit rating were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2012. At December 31, 2012, if LG&E's credit ratings had been below investment grade, the maximum amount that LG&E would have been required to post as additional collateral to counterparties was \$57 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations, gas supply and interest rate contracts.

Off-Balance Sheet Arrangements

LG&E has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

See Notes 1, 18 and 19 to the Financial Statements for information about LG&E's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

LG&E's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E is subject to commodity price risk for only a small portion of on-going business operations. LG&E sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 19 to the Financial Statements for additional disclosures.

The balance and change in net fair value of LG&E's commodity derivative contracts for the periods ended December 31, 2012, 2011 and 2010 are shown in the table below.

	Gains (Losses)			Predecessor Ten Months Ended October 31, 2010
	Successor		Two Months Ended December 31, 2010	
	Year Ended December 31, 2012	Year Ended December 31, 2011		
Fair value of contracts outstanding at the beginning of the period		\$ (1)		
Contracts realized or otherwise settled during the period		(3)		\$ 3
Fair value of new contracts entered into during the period				(4)
Other changes in fair value (a)		4	\$ (1)	1
Fair value of contracts outstanding at the end of the period		\$	\$ (1)	\$

(a) Represents the change in value of outstanding transactions and the value of transactions entered into and settled during the period.

Interest Rate Risk

LG&E issues debt to finance its operations, which exposes it to interest rate risk. LG&E utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under LG&E's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LG&E's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2012 and 2011, LG&E's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LG&E is also exposed to changes in the fair value of its debt portfolio. LG&E estimated that a 10% decrease in interest rates at December 31, 2012, would increase the fair value of its debt portfolio by \$27 million. This estimate is unchanged from December 31, 2011.

LG&E had the following interest rate hedges outstanding at:

	December 31, 2012			December 31, 2011		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges						
Interest rate swaps (b)	\$ 179	\$ (58)	\$ (3)	\$ 179	\$ (60)	\$ (4)
Cash flow hedges						
Interest rate swaps (b)	150	7	(9)			

(a) Includes accrued interest.

(b) LG&E utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LG&E is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic and cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2012 mature through 2043.

Credit Risk

LG&E is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LG&E maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds. LG&E is exposed to potential losses as a result of nonpayment by customers. LG&E maintains an allowance for doubtful accounts based on a historical charge-off percentage for retail customers. Allowances for doubtful accounts from wholesale customers and miscellaneous receivables are based on specific identification by management. Retail and wholesale customer accounts are written-off after four months of no payment activity. Miscellaneous receivables are written-off as management determines them to be uncollectible.

Certain of LG&E's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LG&E's credit ratings from each of the major credit rating agencies. See Notes 18 and 19 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

LG&E is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LG&E. See Note 16 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Protection of the environment is a major priority for LG&E and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LG&E's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for LG&E's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to LG&E's generation assets and electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where LG&E has hydro generating facilities or where river water is used to cool its fossil powered generators. LG&E cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). LG&E's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

Revenue Recognition - Unbilled Revenue

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers of LG&E's retail operations are billed on cycles which vary based on the timing of the actual reading of their electric and gas meters, LG&E records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of electricity and gas delivered to customers since the date of the last reading of their meters. The unbilled revenues reflect consideration of estimated usage by customer class, the effect of different rate schedules, changes in weather and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. In addition to the unbilled revenue accrual resulting from cycle billing, LG&E makes additional accruals resulting from the timing of customer bills. The accrual of unbilled revenues in this manner properly matches revenues and related costs. At December 31, 2012 and 2011, LG&E had unbilled revenue balances of \$72 million and \$65 million.

Defined Benefits

LG&E sponsors and participates in qualified funded defined benefit pension plans and participates in a funded other postretirement benefit plan. These plans are applicable to the majority of the employees of LG&E. The plans LG&E participates in are sponsored by LKE. LKE allocates a portion of the liability and net periodic defined benefit pension and other postretirement costs of certain plans to LG&E based on its participation. LG&E records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

Certain assumptions are made by LKE and LG&E regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Long-term Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs LG&E records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for their defined benefit plans LKE and LG&E start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, LKE decreased the discount rate for its pension plan from 5.12% to 4.26%. LG&E decreased the discount rate for its pension plan from 5.05% to 4.20%. LKE decreased the discount rate for its other postretirement benefit plan from 4.78% to 3.99%.

The expected long-term rates of return for LKE's and LG&E's defined benefit pension plans and LKE's defined other postretirement benefit plan have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. LKE and LG&E management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2012, LKE's and LG&E's expected return on plan assets decreased from 7.25% to 7.10% .

In selecting a rate of compensation increase, LKE and LG&E consider past experience in light of movements in inflation rates. At December 31, 2012, LKE's and LG&E's rate of compensation increase remained at 4.00%.

In selecting health care cost trend rates, LKE considers past performance and forecasts of health care costs. At December 31, 2012, LKE's health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities for LG&E. While the charts below reflect either an increase or decrease in each assumption, the inverse of the change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities for LG&E by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows:

Pension liabilities	\$	102
Other postretirement benefit liabilities		81

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on LG&E's primary defined benefit plans.

Actuarial assumption	Change in assumption	Increase (Decrease)	
		Impact on defined benefit liabilities	Impact on regulatory assets
Discount Rate	(0.25)%	\$ 21	\$ 21
Rate of Compensation Increase	0.25%	2	2
Health Care Cost Trend Rate (a)	1%	1	1

(a) Only impacts other postretirement benefits.

In 2012, LG&E recognized net periodic defined benefit costs charged to operating expense of \$18 million. This amount represents a \$3 million decrease from 2011. This decrease in expense for 2012 was primarily attributable to the increase in the expected return on plan assets resulting from pension contributions of \$21 million, a reduction in the amortization of outstanding losses and lower interest cost.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on LG&E's primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 2
Expected Return on Plan Assets	(0.25)%	1
Rate of Compensation Increase	0.25%	
Health Care Cost Trend Rate (a)	1%	

(a) Only impacts other postretirement benefits.

Asset Impairment (Excluding Investments)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current-period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its estimated fair value. Management must make significant judgments to estimate future cash flows including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, LG&E considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

In 2012, LG&E did not recognize an impairment of any long-lived assets.

Goodwill is tested for impairment at the reporting unit level. LG&E's reporting unit has been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, LG&E may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative assessment and directly test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not the fair value of the reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if LG&E concludes it is more likely than not the fair value of the reporting unit is less than the carrying amount based on the step zero assessment.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, LG&E identifies a potential impairment by comparing the estimated fair value of LG&E (the goodwill reporting unit) with its carrying amount, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value is allocated to all of LG&E's assets and liabilities as if LG&E had been acquired in a business combination and the estimated fair value of LG&E was the price paid. The excess of the estimated fair value of LG&E over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of LG&E's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of LG&E's goodwill.

LG&E elected to perform the two-step quantitative impairment test of goodwill in the fourth quarter of 2012 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of LG&E. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

In 2012, no significant adjustments were made to LG&E's existing contingencies.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is reasonably possible that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur."

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.
- Environmental and other litigation contingencies are reduced when the contingency is resolved, LG&E makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

See Note 15 to the Financial Statements for additional information.

Asset Retirement Obligations

LG&E is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Statements of Income, for changes in the obligation due to the passage of time. Since costs of removal are collected in rates, the accretion and depreciation are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO has been settled. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. See Note 21 to the Financial Statements for related disclosures.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the estimate of the obligations. Any change to the capitalized asset is amortized over the remaining life of the associated long-lived asset.

At December 31, 2012, LG&E had AROs comprised of current and noncurrent amounts, totaling \$62 million recorded on the Balance Sheet. Of the total amount, \$39 million, or 63%, relates to LG&E's ash ponds, landfills and natural gas mains. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in the forecasted retirement costs, the discount rates or the inflation rates could have a significant impact on the ARO liabilities.

The following chart reflects the sensitivities related to LG&E's ARO liabilities for ash ponds, landfills and natural gas mains at December 31, 2012:

	<u>Change in Assumption</u>	<u>Impact on ARO Liability</u>
Retirement Cost	10%	\$ 5
Discount Rate	(0.25)%	1
Inflation Rate	0.25%	5

Income Taxes

Significant management judgment is required in developing the provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization upon settlement that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2012, LG&E's existing reserve exposure to either increases or decreases in unrecognized tax benefits during the next 12 months is less than \$1 million. This change could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. See Note 5 to the Financial Statements for related disclosures.

Regulatory Assets and Liabilities

LG&E is a cost-based rate-regulated utility. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC and the KPSC.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-off would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of the depreciation of PP&E and amortization of regulatory assets.

At December 31, 2012, LG&E had regulatory assets of \$419 million and regulatory liabilities of \$475 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit, tax and other services permitted by Sarbanes-Oxley and SEC rules. The audit services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

KENTUCKY UTILITIES COMPANY

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with KU's Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of KU and its business strategy, a summary of Net Income and a discussion of certain events related to KU's results of operations and financial condition.
- "Results of Operations" provides a summary of KU's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on KU's Statements of Income, comparing 2012 with 2011 and 2011 with 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of KU's liquidity position and credit profile. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of KU's risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of KU and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

Overview

Introduction

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU and its affiliate, LG&E, are wholly owned subsidiaries of LKE. LKE, a holding company, became a wholly owned subsidiary of PPL when PPL acquired all of LKE's interests from E.ON US Investments Corp. on November 1, 2010. Following the acquisition, both KU and LG&E continue operating as subsidiaries of LKE, which is now an intermediary holding company in PPL's group of companies. Refer to "Item 1. Business - Background" for a description of KU's business.

Business Strategy

KU's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its shareowner.

A key objective for KU is to maintain a strong credit profile through managing financing costs and access to credit markets. KU continually focuses on maintaining an appropriate capital structure and liquidity position.

Successor and Predecessor Financial Presentation

KU's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010 and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, and the cost bases of certain assets and liabilities were changed as of November 1, 2010 as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of KU have not changed as a result of the acquisition.

Financial and Operational Developments

Net Income

Net Income for 2012, 2011 and 2010 was \$137 million, \$178 million and \$175 million. Earnings in 2012 decreased 23% from 2011 and earnings in 2011 increased 2% from 2010.

See "Results of Operations" for a discussion and analysis of KU's earnings.

Rate Case Proceedings

In June 2012, KU filed a request with the KPSC for an increase in annual base electric rates of approximately \$82 million. In November 2012, KU along with all of the parties filed a unanimous settlement agreement. Among other things, the settlement provided for increases in annual base electric rates of \$51 million. The settlement agreement also included revised depreciation rates that result in reduced annual depreciation expense of approximately \$10 million. The settlement agreement included an authorized return on equity of 10.25%. On December 20, 2012, the KPSC issued an order approving the provisions in the settlement agreement. The new rates became effective on January 1, 2013.

Equity Method Investment

KU owns 20% of the common stock of EEI. Through a power marketer affiliated with its majority owner, EEI sells its output to third parties. KU's investment in EEI is accounted for under the equity method of accounting. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment. During the fourth quarter of 2012, KU concluded that an other-than-temporary decline in the value of its investment in EEI had occurred. Accordingly, KU recorded a \$15 million impairment charge, net of taxes, related to this investment as of December 31, 2012, bringing the investment balance to zero. The impairment charge is shown in the line "Other-Than-Temporary Impairments" on the Statement of Income for the year ended December 31, 2012.

Commercial Paper

In February 2012, KU established a commercial paper program for up to \$250 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by KU's Syndicated Credit Facility. At December 31, 2012, KU had \$70 million of commercial paper outstanding.

Terminated Bluegrass CTs Acquisition

In September 2011, KU and LG&E entered into an asset purchase agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of \$110 million, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. In November 2011, KU and LG&E filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, KU and LG&E determined that the options were not commercially justifiable. In June 2012, KU and LG&E terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC.

Cane Run Unit 7 Construction

In September 2011, KU and LG&E filed a CPCN with the KPSC requesting approval to build Cane Run Unit 7. In May 2012, the KPSC issued an order approving the request. KU will own a 78% undivided interest and LG&E will own a 22% undivided interest in the new generating unit. A formal request for recovery of the costs associated with the construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate case proceedings. KU and LG&E commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

In conjunction with this construction and to meet new, more stringent EPA regulations with a 2015 compliance date, KU anticipates retiring two older coal-fired electric generating units at the Green River plant, which have a combined summer capacity rating of 163 MW. In addition, KU retired the remaining 71 MW unit at the Tyrone plant in February 2013.

Future Capacity Needs

In addition to the construction of a combined cycle gas unit at the Cane Run station, KU and LG&E continue to assess future capacity needs. As a part of the assessment, KU and LG&E issued an RFP in September 2012 for up to 700 MW of capacity beginning as early as 2015.

Results of Operations

As previously noted, KU's results for the periods after October 31, 2010 are on a basis of accounting different from its results for periods prior to November 1, 2010. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The utility business is affected by seasonal weather. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue and earnings are generally higher during the first and third quarters and lower during the second and fourth quarters due to weather.

The following table summarizes the significant components of net income for 2012, 2011 and 2010 and the changes therein:

Earnings

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net Income	\$ 137	\$ 178	\$ 35	\$ 140

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins and certain items that management considers special.

	2012 vs. 2011	2011 vs. 2010
Margins	\$ (10)	\$ 52
Other operation and maintenance	(16)	(12)
Depreciation	(6)	(28)
Taxes, other than income	(4)	(9)
Other Income (Expense) - net	(7)	(2)
Interest Expense	1	8
Income Taxes	16	(6)
Special items, after-tax	(15)	
Total	<u>\$ (41)</u>	<u>\$ 3</u>

As a result of low energy prices and environmental regulations, KU assessed the recoverability of its equity method investment in EEI. KU determined it was impaired, and recorded a \$15 million impairment charge, net of taxes, as of December 31, 2012. This impairment is considered a special item by management.

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Higher other operation and maintenance in 2012 compared with 2011 primarily due to \$8 million of higher coal plant maintenance costs related to an increased scope of scheduled outages and a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

Higher other operation and maintenance in 2011 compared with 2010 primarily due to \$19 million of higher coal plant maintenance costs related to an increased scope of scheduled outages and higher variable costs from increased generation due to TC2 commencing dispatch in January 2011. This increase was partially offset by a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

- Higher depreciation in 2011 compared with 2010 primarily due to TC2 commencing dispatch in January 2011.

- Lower interest expense in 2011 compared with 2010 primarily due to \$18 million less expense primarily related to lower interest rates on the first mortgage bonds issued in November 2010 compared with the rates on the loans from E.ON AG affiliates in place through October 2010. This decrease was partially offset by \$8 million of higher expense resulting from higher long-term debt balances.
- Lower income taxes in 2012 compared with 2011 primarily due to lower pre-tax income.

2013 Outlook

Excluding special items, KU projects higher earnings in 2013 compared with 2012, primarily driven by electric base rate increases effective January 1, 2013, returns on additional environmental capital investments and retail load growth, partially offset by higher operation and maintenance.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margins is a single financial performance measure of KU's electricity generation, transmission and distribution operations. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments primarily associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from KU's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margins" as defined by KU for 2012, 2011 and 2010.

	2012 Successor			2011 Successor		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,524		\$ 1,524	\$ 1,548		\$ 1,548
Operating Expenses						
Fuel	498		498	516		516
Energy purchases	109		109	112		112
Other operation and maintenance	55	\$ 329	384	49	\$ 313	362
Depreciation	49	144	193	48	138	186
Taxes, other than income		23	23		19	19
Total Operating Expenses	711	496	1,207	725	470	1,195
Total	\$ 813	\$ (496)	\$ 317	\$ 823	\$ (470)	\$ 353

	Successor			Predecessor		
	Two Months Ended December 31, 2010			Ten Months Ended October 31, 2010		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 263		\$ 263	\$ 1,248		\$ 1,248
Operating Expenses						
Fuel	78		78	417		417
Energy purchases	28		28	147		147
Other operation and maintenance	6	\$ 59	65	29	\$ 242	271
Depreciation	6	20	26	29	90	119
Taxes, other than income		1	1		9	9
Total Operating Expenses	118	80	198	622	341	963
Total	\$ 145	\$ (80)	\$ 65	\$ 626	\$ (341)	\$ 285

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins decreased by \$10 million for 2012 compared with 2011, primarily due to \$10 million of lower retail margins, as volumes were impacted by unseasonably mild weather during the first four months of 2012. Total heating degree days decreased 9% compared to 2011, partially offset by a 4% increase in cooling degree days.

Margins increased by \$52 million for 2011 compared with 2010. New KPSC rates went into effect on August 1, 2010, contributing to an additional \$64 million in operating revenue over the prior year. Partially offsetting the rate increase were lower retail volumes resulting from weather and economic conditions.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2012 vs. 2011	2011 vs. 2010
Coal plant maintenance (a)	\$ 17	\$ 9
Distribution maintenance (b)	8	
Administrative and general (c)	(5)	7
Fuel for generation (d)		6
Steam operation (e)		10
Other generation maintenance		(2)
Other	2	(4)
Total	\$ 22	\$ 26

(a) Coal plant maintenance costs increased in 2012 compared with 2011 primarily due to \$8 million of expenses related to an increased scope of scheduled outages, as well as \$5 million of increased maintenance on the scrubber system and primary fuel combustion system at the Ghent plant.

Coal plant maintenance costs increased in 2011 compared with 2010 primarily due to \$8 million of expenses related to an increased scope of scheduled outages.

(b) Distribution maintenance increased in 2012 compared with 2011 primarily due to a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

(c) Administrative and general costs decreased in 2012 compared with 2011 primarily due to a decrease in pension expense resulting from pension funding and lower interest cost.

Administrative and general costs increased in 2011 compared with 2010 due to higher outside services costs of \$2 million, higher labor costs of \$1 million and higher pension costs of \$1 million.

(d) Fuel handling costs are included in other operation and maintenance on the Statements of Income for the Successor periods and are in fuel on the Statement of Income for the Predecessor period.

(e) Steam operation costs increased in 2011 compared with 2010 due to increased generation as a result of TC2 commencing dispatch in 2011.

Depreciation

The increase (decrease) in depreciation was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
TC2 (dispatch began in January 2011)		\$ 25
E.W. Brown sulfur dioxide scrubber equipment (placed in-service in June 2010)		8
Other additions to PP&E	\$ 7	8
Total	<u>\$ 7</u>	<u>\$ 41</u>

Taxes, Other Than Income

Taxes, other than income increased by \$9 million in 2011 compared with 2010, primarily due to a \$5 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions.

Other Income (Expense) - net

Other income (expense) - net decreased by \$7 million in 2012 compared with 2011 primarily due to \$8 million losses from the EEI investment recorded in 2012.

Other-Than-Temporary Impairments

Other-than-temporary impairments increased by \$25 million in 2012 compared with 2011 due to the \$25 million pre-tax impairment of the EEI investment. See Notes 1 and 18 to the Financial Statements for additional information.

Interest Expense

Interest expense decreased by \$8 million in 2011 compared with 2010, primarily due to \$18 million less expense primarily related to lower interest rates on the first mortgage bonds issued in November 2010 compared with the rates on the loans from E.ON AG affiliates in place through October 2010. This decrease was partially offset by \$8 million of higher expense resulting from higher long-term debt balances.

Income Taxes

Income taxes decreased by \$26 million in 2012 compared with 2011, primarily due to the decrease in pre-tax income.

Income taxes increased by \$6 million in 2011 compared with 2010, primarily due to the increase in pre-tax income.

Financial Condition

Liquidity and Capital Resources

KU expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents, its credit facilities and commercial paper issuances. Additionally, subject to market conditions, KU currently plans to access capital markets in 2013.

KU's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- changes in commodity prices that may increase the cost of producing or purchasing power or decrease the amount KU receives from selling power;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- unusual or extreme weather that may damage KU's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission facilities that KU does not own or control to deliver its electricity;
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws;

- any adverse outcome of legal proceedings and investigations with respect to KU's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in KU's credit ratings that could adversely affect its ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting KU's cash flows.

At December 31, KU had the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 21	\$ 31	\$ 3
Short-term debt (a)	\$ 70		

(a) Represents borrowings made under KU's commercial paper program. See Note 7 to the Financial Statements for additional information.

The changes in KU's cash and cash equivalents position resulted from:

	<u>Successor</u>			<u>Predecessor</u>
	<u>Year Ended December 31, 2012</u>	<u>Year Ended December 31, 2011</u>	<u>Two Months Ended December 31, 2010</u>	<u>Ten Months Ended October 31, 2010</u>
Net cash provided by operating activities	\$ 500	\$ 444	\$ 30	\$ 344
Net cash provided by (used in) investing activities	(480)	(279)	(89)	(340)
Net cash provided by (used in) financing activities	(30)	(137)	58	(2)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (10)</u>	<u>\$ 28</u>	<u>\$ (1)</u>	<u>\$ 2</u>

Operating Activities

Net cash provided by operating activities increased by 13%, or \$56 million, in 2012 compared with 2011, primarily as a result of:

- Other operating cash flows increased by \$45 million driven by a \$29 million reduction in pension funding.
- Working capital cash flows increased by \$11 million driven by lower income tax payments as a result of lower taxable income in 2012, offset by changes in receivables and unbilled revenues due to milder December weather in 2011 than in 2012 and 2010.

Net cash provided by operating activities increased by 19%, or \$70 million, in 2011 compared with 2010, primarily as a result of:

- an increase in net income adjusted for non-cash effects of \$115 million (deferred income taxes and investment tax credits of \$81 million and depreciation of \$41 million, partially offset by defined benefit plans - expense of \$2 million and other noncash items of \$19 million);
- a net decrease in working capital related to unbilled revenues of \$21 million due to colder weather in December 2010 as compared with December 2009, and milder weather in December 2011 as compared with December 2010; partially offset by
- an increase in discretionary defined benefit plan contributions of \$30 million made in order to achieve KU's long-term funding requirements;
- the timing of ECR collections of \$28 million; and
- an increase in cash outflows related to accrued taxes of \$28 million due to an accrual in excess of payments made in 2010 for the 2010 tax year and the payment of the 2010 tax liability in 2011, along with payments made in 2011 over the accrual for the 2011 tax year.

Investing Activities

Net cash used in investing activities increased by 72%, or \$201 million, in 2012 compared with 2011, as a result of an increase in capital expenditures of \$201 million, primarily due to coal combustion residuals projects at Ghent and E.W. Brown, construction of Cane Run Unit 7 and Ghent environmental air projects.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2013 through 2017.

Net cash used in investing activities decreased by 35%, or \$150 million, in 2011 compared with 2010, as a result of a decrease in capital expenditures of \$150 million primarily due to the completion of KU's scrubber program in 2010 and TC2 being dispatched in 2011.

Financing Activities

Net cash used in financing activities was \$30 million in 2012 compared with net cash provided by financing activities of \$137 million in 2011, primarily as a result of less long-term debt issuances and higher dividends to LKE.

In 2012, cash used in financing activities consisted of:

- the payment of common stock dividends to LKE of \$100 million; partially offset by
- the issuance of short-term debt in the form of commercial paper \$70 million.

Net cash used in financing activities was \$137 million in 2011 compared with net cash provided by financing activities of \$56 million in 2010, primarily as a result of less long-term debt issuances and higher dividends to LKE.

In 2011, cash used in financing activities consisted of:

- the payment of common stock dividends to LKE of \$124 million;
- a net decrease in notes payable with affiliates of \$10 million; and
- the payment of debt issuance and credit facility costs of \$3 million.

In the two months of 2010 following the acquisition, cash provided by financing activities of the Successor consisted of:

- the issuance of first mortgage bonds of \$1,489 million after discounts; and
- the issuance of debt of \$1,331 million to a PPL affiliate to repay debt due to an E.ON AG affiliate upon the closing of PPL's acquisition of LKE; partially offset by
- the repayment of debt to an E.ON AG affiliate of \$1,331 million upon the closing of PPL's acquisition of LKE;
- the repayment of debt to a PPL affiliate of \$1,331 million upon the issuance of first mortgage bonds;
- a net decrease in notes payable with affiliates of \$83 million; and
- the payment of debt issuance and credit facility costs of \$17 million.

In the ten months of 2010 preceding PPL's acquisition of LKE, cash used in financing activities by the Predecessor consisted of:

- the payment of common stock dividends to LKE of \$50 million; partially offset by
- a net increase in notes payable with affiliates of \$48 million.

See "Forecasted Sources of Cash" for a discussion of KU's plans to issue debt securities, as well as a discussion of credit facility capacity available to KU. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common securities in the future, as well as maturities of long-term debt.

KU had no long-term debt securities activity during the year.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Auction Rate Securities

At December 31, 2012, KU's tax-exempt revenue bonds that are in the form of auction rate securities and total \$96 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2012, the weighted-average rate on KU's auction rate bonds in total was 0.25%.

Forecasted Sources of Cash

KU expects to continue to have sufficient sources of cash available in the near term, including various credit facilities, its commercial paper program, issuance of debt securities and operating cash flow.

Credit Facilities

At December 31, 2012, KU's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Capacity</u>	<u>Commercial Paper Issued</u>	<u>Letters of Credit Issued</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a) (d)	\$ 400	\$ 70		\$ 330
Letter of Credit Facility (b) (d)	198		\$ 198	
Total Credit Facilities (c)	<u>\$ 598</u>	<u>\$ 70</u>	<u>\$ 198</u>	<u>\$ 330</u>

- (a) In November 2012, KU amended its Syndicated Credit Facility to extend the expiration date to November 2017.
- (b) In August 2012, the KU letter of credit facility agreement was amended and restated to allow for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.
- (c) The commitments under KU's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 19% of the total committed capacity available to KU.
- (d) KU pays customary fees under its syndicated credit facility as well as its letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2012 there was no balance outstanding.

See Note 7 to the Financial Statements for further discussion of KU's credit facilities.

Operating Leases

KU also has available funding sources that are provided through operating leases. KU leases office space and certain equipment. These leasing structures provide KU additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

See Note 11 to the Financial Statements for further discussion of the operating leases.

Capital Contributions from LKE

From time to time LKE may make capital contributions to KU. KU may use these contributions to fund capital expenditures and for other general corporate purposes.

Long-term Debt Securities

KU currently plans to issue, subject to market conditions, up to \$300 million of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, KU currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows KU's current capital expenditure projections for the years 2013 through 2017.

	Projected				
	2013	2014	2015	2016	2017
Capital expenditures (a)					
Generating facilities	\$ 289	\$ 140	\$ 136	\$ 251	\$ 308
Distribution facilities	89	87	97	92	107
Transmission facilities	48	37	40	40	61
Environmental	331	386	264	106	65
Other	27	24	25	27	22
Total Capital Expenditures	\$ 784	\$ 674	\$ 562	\$ 516	\$ 563

(a) KU generally expects to recover these costs over a period equivalent to the related depreciable lives of the assets through rates. The 2013 total excludes amounts included in accounts payable as of December 31, 2012.

KU's capital expenditure projections for the years 2013 through 2017 total approximately \$3.1 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for KU's environmental projects related to existing and proposed EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements and market conditions. Environmental compliance costs incurred by KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

KU plans to fund its capital expenditures in 2013 with cash on hand, cash from operations, short-term debt and issuance of debt securities.

Contractual Obligations

KU has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2012, the estimated contractual cash obligations of KU were:

	Total	2013	2014 - 2015	2016 - 2017	After 2017
Long-term Debt (a)	\$ 1,851		\$ 250		\$ 1,601
Interest on Long-term Debt (b)	1,481	\$ 64	130	\$ 126	1,161
Operating Leases (c)	51	9	15	9	18
Coal and Natural Gas Purchase Obligations (d)	1,046	411	479	156	-
Unconditional Power Purchase Obligations (e)	319	9	18	20	272
Construction Obligations (f)	1,023	455	366	202	
Pension Benefit Plan Obligations (g)	59	59			
Other Obligations (h)	21	5	9	6	1
Total Contractual Cash Obligations	\$ 5,851	\$ 1,012	\$ 1,267	\$ 519	\$ 3,053

- (a) Reflects principal maturities only based on stated maturity dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of KU. KU has no capital lease obligations.
- (b) Assumes interest payments through stated maturity. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
- (c) See Note 11 to the Financial Statements for additional information.
- (d) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 15 to the Financial Statements for additional information.
- (e) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 15 to the Financial Statements for additional information.
- (f) Represents construction commitments, including commitments for the Ghent environmental air projects, Cane Run Unit 7 and Ghent landfill which are also reflected in the Capital Expenditures table presented above.
- (g) Based on the current funded status of LKE's qualified pension plan, which covers KU employees, no cash contributions are required. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (h) Represents other contractual obligations.

Dividends

From time to time, as determined by its Board of Directors, KU pays dividends to its sole shareholder, LKE.

As discussed in Note 7 to the Financial Statements, KU's ability to pay dividends is limited under a covenant in its \$400 million revolving line of credit facility. This covenant restricts the debt to total capital ratio to not more than 70%. See Note 7 to the Financial Statements for other restrictions related to distributions on capital interests for KU.

Purchase or Redemption of Debt Securities

KU will continue to evaluate purchasing or redeeming outstanding debt securities and may decide to take action depending upon prevailing market conditions and available cash.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of KU. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of KU are based on information provided by KU and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of KU. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of KU affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The following table sets forth KU's security credit ratings as of December 31, 2012.

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Kentucky Utilities			A	A2	A-	A+	P-2	A-2	F-2

In addition to the credit ratings noted above, the rating agencies took the following actions related to KU:

In February 2012, Fitch assigned ratings to KU's newly established commercial paper program.

In March 2012, Moody's affirmed the following ratings:

- the long-term ratings of the First Mortgage Bonds for KU;
- the issuer ratings for KU; and
- the bank loan ratings for KU.

Also in March 2012, Moody's and S&P each assigned short-term ratings to KU's newly established commercial paper program.

In December 2012, Fitch affirmed the issuer default ratings, individual security ratings and outlook for KU.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, and commodity transportation and storage, which contain provisions requiring KU to post additional collateral, or permitting the counterparty to terminate the contract, if KU's credit rating were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2012. At December 31, 2012, if KU's credit ratings had been below investment grade, the maximum amount that KU would have been required to post as additional collateral to counterparties was \$21 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations.

Off-Balance Sheet Arrangements

KU has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

See Notes 1, 18 and 19 to the Financial Statements for information about KU's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, KU is subject to commodity price risk for only a small portion of on-going business operations. KU sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve KU's or LG&E's customers. See Note 19 to the Financial Statements for additional disclosures.

The balance and change in net fair value of KU's commodity derivative contracts for the periods ended December 31, 2012, 2011 and 2010 were not significant.

Interest Rate Risk

KU issues debt to finance its operations, which exposes it to interest rate risk. KU utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under KU's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of KU's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2012 and 2011, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

KU is also exposed to changes in the fair value of its debt portfolio. KU estimated that a 10% decrease in interest rates at December 31, 2012, would increase the fair value of its debt portfolio by \$67 million compared with \$72 million at December 31, 2011.

At December 31, 2012, KU had the following interest rate hedges outstanding:

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability)</u>	<u>Effect of a 10% Adverse Movement in Rates</u>
Cash flow hedges			
Interest rate swaps (a)	\$ 150	\$ 7	\$ (9)

(a) KU utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While KU is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2012 mature through 2043.

Credit Risk

KU is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. KU maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds. KU is exposed to potential losses as a result of nonpayment by customers. KU maintains an allowance for doubtful accounts based on a historical charge-off percentage for retail customers. Allowances for doubtful accounts from wholesale and municipal customers and miscellaneous receivables are based on specific identification by management. Retail, wholesale and municipal customer accounts are written-off after four months of no payment activity. Miscellaneous receivables are written-off as management determines them to be uncollectible.

Certain of KU's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon KU's credit ratings from each of the major credit rating agencies. See Notes 18 and 19 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

KU is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with KU. See Note 16 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Protection of the environment is a major priority for KU and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for KU's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to KU's generation assets and electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where KU has hydro generating facilities or where river water is used to cool its fossil powered generators. KU cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). KU's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

Revenue Recognition - Unbilled Revenue

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers of KU's retail operations are billed on cycles which vary based on the timing of the actual reading of their electric meters, KU records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of electricity delivered to customers since the date of the last reading of their meters. The unbilled revenues reflect consideration of estimated usage by customer class, the effect of different rate schedules, changes in weather, and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. In addition to the unbilled revenue accrual resulting from cycle billing, KU makes additional accruals resulting from the timing of customer bills. The accrual of unbilled revenues in this manner properly matches revenues and related costs. At December 31, 2012 and 2011, KU had unbilled revenue balances of \$84 million and \$81 million.

Defined Benefits

KU participates in a qualified funded defined benefit pension plan and a funded other postretirement benefit plan. These plans are applicable to the majority of the employees of KU and are sponsored by LKE. LKE allocates a portion of the liability and net periodic defined benefit pension and other postretirement costs of the plans to KU based on its participation. KU records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

Certain assumptions are made by LKE regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Long-term Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs KU records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its defined benefit plans, LKE starts with a cash flow analysis of the expected benefit payment stream for its plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, LKE decreased the discount rate for its pension plan from 5.12% to 4.26% and decreased the discount rate for its other postretirement benefit plan from 4.78% to 3.99%.

The expected long-term rates of return for LKE's defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. LKE management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2012, LKE's expected return on plan assets decreased from 7.25% to 7.10% .

In selecting a rate of compensation increase, LKE considers past experience in light of movements in inflation rates. At December 31, 2012, LKE's rate of compensation increase remained at 4.00%.

In selecting health care cost trend rates LKE considers past performance and forecasts of health care costs. At December 31, 2012, LKE's health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities allocated to KU. While the charts below reflect either an increase or decrease in each assumption, the inverse of the change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities for KU by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows:

Pension liabilities	\$	104
Other postretirement benefit liabilities		53

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on KU's primary defined benefit plans.

Actuarial assumption	Increase (Decrease)		
	Change in assumption	Impact on defined benefit liabilities	Impact on regulatory assets
Discount Rate	(0.25)%	\$ 17	\$ 17
Rate of Compensation Increase	0.25%	3	3
Health Care Cost Trend Rate (a)	1%	3	3

(a) Only impacts other postretirement benefits.

In 2012 KU recognized net periodic defined benefit costs charged to operating expense of \$11 million. This amount represents a \$3 million decrease from 2011. This decrease in expense for 2012 was primarily attributable to the increase in the expected return on plan assets resulting from pension contributions of \$15 million, a reduction in the amortization of outstanding losses and lower interest cost.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on KU's primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 2
Expected Return on Plan Assets	(0.25)%	1
Rate of Compensation Increase	0.25%	1
Health Care Cost Trend Rate (a)	1%	1

(a) Only impacts other postretirement benefits.

Asset Impairment (Excluding Investments)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current-period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its estimated fair value. Management must make significant judgments to estimate future cash flows including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, KU considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

Goodwill is tested for impairment at the reporting unit level. KU's reporting unit has been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative assessment and directly test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not the fair value of the reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if KU concludes it is more likely than not the fair value of the reporting unit is less than the carrying amount based on the step zero assessment.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, KU identifies a potential impairment by comparing the estimated fair value of KU (the goodwill reporting unit) with its carrying amount, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value is allocated to all of KU's assets and liabilities as if KU had been acquired in a business combination and the estimated fair value of KU was the price paid. The excess of the estimated fair value of KU over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of KU's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of KU's goodwill.

KU elected to perform the two-step quantitative impairment test of goodwill in the fourth quarter of 2012 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of KU. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

In 2012, no significant adjustments were made to KU's existing contingencies.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is reasonably possible that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur."

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.
- Environmental and other litigation contingencies are reduced when the contingency is resolved, KU makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

See Note 15 to the Financial Statements for additional information.

Asset Retirement Obligations

KU is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Statements of Income, for changes in the obligation due to the passage of time. Since costs of removal are collected in rates, the accretion and depreciation are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO has been settled. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. See Note 21 to the Financial Statements for related disclosures.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the estimate of the obligations. Any change to the capitalized asset is amortized over the remaining life of the associated long-lived asset.

At December 31, 2012, KU had AROs totaling \$69 million recorded on the Balance Sheet. Of the total amount, \$51 million, or 74%, relates to KU's ash ponds and landfill. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in the forecasted retirement costs, the discount rates or the inflation rates could have a significant impact on the ARO liabilities.

The following chart reflects the sensitivities related to KU's ARO liabilities for ash ponds and landfill at December 31, 2012:

	<u>Change in Assumption</u>	<u>Impact on ARO Liability</u>
Retirement Cost	10%	\$ 6
Discount Rate	(0.25)%	2
Inflation Rate	0.25%	3

Income Taxes

Significant management judgment is required in developing the provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2012, KU's existing reserve exposure to either increases or decreases in unrecognized tax benefits during the next 12 months is less than \$1 million. This change could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. See Note 5 to the Financial Statements for related disclosures.

Regulatory Assets and Liabilities

KU is a cost-based rate-regulated utility. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, the KPSC, the VSCC or the TRA.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-off would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of the depreciation of PP&E and amortization of regulatory assets.

At December 31, 2012, KU had regulatory assets of \$230 million and regulatory liabilities of \$536 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit, tax and other services permitted by Sarbanes-Oxley and SEC rules. The audit services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Reference is made to "Risk Management - Energy Marketing & Trading and Other" for PPL and PPL Energy Supply and "Risk Management" for PPL Electric, LKE, LG&E and KU in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowners of PPL Corporation

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2010 financial statements of LG&E and KU Energy LLC (LKE), a wholly owned subsidiary, which statements reflect total revenues of \$494 million for the period November 1, 2010 (date of acquisition) to December 31, 2010. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LKE, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and, for 2010, the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Corporation and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PPL Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2013

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowners of PPL Corporation

We have audited PPL Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PPL Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PPL Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2013

Report of Independent Registered Public Accounting Firm

To the Board of Managers and Sole Member of PPL Energy Supply, LLC

We have audited the accompanying consolidated balance sheets of PPL Energy Supply, LLC and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Energy Supply, LLC and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2013

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowners of PPL Electric Utilities Corporation

We have audited the accompanying consolidated balance sheets of PPL Electric Utilities Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Electric Utilities Corporation and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2013

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Sole Member of LG&E and KU Energy LLC

We have audited the accompanying consolidated balance sheets of LG&E and KU Energy LLC and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, cash flows, and equity for each of the two years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LG&E and KU Energy LLC and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles . Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 28, 2013

Report of Independent Registered Public Accounting Firm

To the Member of LG&E and KU Energy LLC

In our opinion, the accompanying consolidated statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of LG&E and KU Energy LLC and its subsidiaries (Successor Company) for the period from November 1, 2010 to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10 to the consolidated financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Member of LG&E and KU Energy LLC

In our opinion, the accompanying consolidated statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of LG&E and KU Energy LLC and its subsidiaries (formerly E.ON U.S. LLC, Predecessor Company) for the period from January 1, 2010 to October 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10 to the consolidated financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Louisville Gas and Electric Company

We have audited the accompanying balance sheets of Louisville Gas and Electric Company as of December 31, 2012 and 2011, and the related statements of income and comprehensive income, cash flows, and equity for each of the two years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Gas and Electric Company at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles .

/s/ Ernst & Young LLP

Louisville, Kentucky
February 28, 2013

Report of Independent Registered Public Accounting Firm

To the Stockholder of Louisville Gas and Electric Company

In our opinion, the accompanying statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of Louisville Gas and Electric Company (Successor Company) for the period from November 1, 2010 to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Stockholder of Louisville Gas and Electric Company

In our opinion, the accompanying statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of Louisville Gas and Electric Company (Predecessor Company) for the period from January 1, 2010 to October 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Kentucky Utilities Company

We have audited the accompanying balance sheets of Kentucky Utilities Company as of December 31, 2012 and 2011, and the related statements of income and comprehensive income, cash flows, and equity for each of the two years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Utilities Company at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 28, 2013

Report of Independent Registered Public Accounting Firm

To the Stockholder of Kentucky Utilities Company

In our opinion, the accompanying statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of Kentucky Utilities Company (Successor Company) for the period from November 1, 2010 to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Stockholder of Kentucky Utilities Company

In our opinion, the accompanying statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of Kentucky Utilities Company (Predecessor Company) for the period from January 1, 2010 to October 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, except share data)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Utility	\$ 6,808	\$ 6,292	\$ 3,668
Unregulated retail electric and gas	844	726	415
Wholesale energy marketing			
Realized	4,433	3,807	4,832
Unrealized economic activity (Note 19)	(311)	1,407	(805)
Net energy trading margins	4	(2)	2
Energy-related businesses	508	507	409
Total Operating Revenues	<u>12,286</u>	<u>12,737</u>	<u>8,521</u>
Operating Expenses			
Operation			
Fuel	1,837	1,946	1,235
Energy purchases			
Realized	2,997	2,130	2,773
Unrealized economic activity (Note 19)	(442)	1,123	(286)
Other operation and maintenance	2,835	2,667	1,756
Depreciation	1,100	960	556
Taxes, other than income	366	326	238
Energy-related businesses	484	484	383
Total Operating Expenses	<u>9,177</u>	<u>9,636</u>	<u>6,655</u>
Operating Income	3,109	3,101	1,866
Other Income (Expense) - net	(39)	4	(31)
Other-Than-Temporary Impairments	27	6	3
Interest Expense	961	898	593
Income from Continuing Operations Before Income Taxes	2,082	2,201	1,239
Income Taxes	545	691	263
Income from Continuing Operations After Income Taxes	1,537	1,510	976
Income (Loss) from Discontinued Operations (net of income taxes)	(6)	2	(17)
Net Income	1,531	1,512	959
Net Income Attributable to Noncontrolling Interests	5	17	21
Net Income Attributable to PPL Shareowners	\$ 1,526	\$ 1,495	\$ 938
Amounts Attributable to PPL Shareowners:			
Income from Continuing Operations After Income Taxes	\$ 1,532	\$ 1,493	\$ 955
Income (Loss) from Discontinued Operations (net of income taxes)	(6)	2	(17)
Net Income	<u>\$ 1,526</u>	<u>\$ 1,495</u>	<u>\$ 938</u>
Earnings Per Share of Common Stock:			
Income from Continuing Operations After Income Taxes Available to PPL			
Common Shareowners:			
Basic	\$ 2.62	\$ 2.70	\$ 2.21
Diluted	\$ 2.61	\$ 2.70	\$ 2.20
Net Income Available to PPL Common Shareowners:			
Basic	\$ 2.61	\$ 2.71	\$ 2.17
Diluted	\$ 2.60	\$ 2.70	\$ 2.17
Dividends Declared Per Share of Common Stock	\$ 1.44	\$ 1.40	\$ 1.40
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	580,276	550,395	431,345
Diluted	581,626	550,952	431,569

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,**

PPL Corporation and Subsidiaries

(Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net income	\$ 1,531	\$ 1,512	\$ 959
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of \$2, (\$2), (\$1)	94	(48)	(59)
Available-for-sale securities, net of tax of (\$31), (\$6), (\$31)	29	9	29
Qualifying derivatives, net of tax of (\$32), (\$139), (\$148)	39	202	219
Equity investees' other comprehensive income (loss), net of tax of (\$1), \$0, \$0	2		
Defined benefit plans:			
Prior service costs, net of tax of \$0, (\$1), (\$14)	1	(3)	17
Net actuarial gain (loss), net of tax of \$343, \$58, \$50	(965)	(152)	(80)
Transition obligation, net of tax of \$0, \$0, (\$4)			8
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of \$1, \$5, \$3	(7)	(7)	(5)
Qualifying derivatives, net of tax of \$278, \$246, \$84	(434)	(370)	(126)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0		3	
Defined benefit plans:			
Prior service costs, net of tax of (\$5), (\$5), (\$7)	10	10	12
Net actuarial loss, net of tax of (\$29), (\$19), (\$14)	79	47	41
Transition obligation, net of tax of \$0, \$0, (\$1)			2
Total other comprehensive income (loss) attributable to PPL Shareowners	<u>(1,152)</u>	<u>(309)</u>	<u>58</u>
Comprehensive income (loss)	379	1,203	1,017
Comprehensive income attributable to noncontrolling interests	5	17	21
Comprehensive income (loss) attributable to PPL Shareowners	<u>\$ 374</u>	<u>\$ 1,186</u>	<u>\$ 996</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities			
Net income	\$ 1,531	\$ 1,512	\$ 959
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	1,100	961	567
Amortization	186	254	213
Defined benefit plans - expense	166	205	102
Deferred income taxes and investment tax credits	424	582	241
Impairment of assets	28	13	120
Unrealized (gains) losses on derivatives, and other hedging activities	27	(314)	542
Provision for Montana hydroelectric litigation		(74)	66
Other	52	36	32
Change in current assets and current liabilities			
Accounts receivable	7	(89)	(106)
Accounts payable	(29)	(36)	216
Unbilled revenues	(19)	64	(99)
Prepayments	(5)	294	(318)
Counterparty collateral	(34)	(190)	(18)
Taxes	24	(104)	20
Regulatory assets and liabilities, net	(2)	106	(110)
Accrued interest	32	109	50
Other	8	6	9
Other operating activities			
Defined benefit plans - funding	(607)	(667)	(396)
Other assets	(33)	(62)	(45)
Other liabilities	(92)	(99)	(12)
Net cash provided by (used in) operating activities	<u>2,764</u>	<u>2,507</u>	<u>2,033</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(3,105)	(2,487)	(1,597)
Proceeds from the sale of certain non-core generation facilities		381	
Proceeds from the sale of the Long Island generation business			124
Proceeds from the sale of the Maine hydroelectric generation business			38
Ironwood Acquisition, net of cash acquired	(84)		
Acquisition of WPD Midlands		(5,763)	
Acquisition of LKE, net of cash acquired			(6,812)
Purchases of nuclear plant decommissioning trust investments	(154)	(169)	(128)
Proceeds from the sale of nuclear plant decommissioning trust investments	139	156	114
Proceeds from the sale of other investments	20	163	
Net (increase) decrease in restricted cash and cash equivalents	96	(143)	85
Other investing activities	(35)	(90)	(53)
Net cash provided by (used in) investing activities	<u>(3,123)</u>	<u>(7,952)</u>	<u>(8,229)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	1,223	5,745	4,642
Retirement of long-term debt	(108)	(1,210)	(20)
Issuance of common stock	72	2,297	2,441
Payment of common stock dividends	(833)	(746)	(566)
Redemption of preference stock of a subsidiary	(250)		(54)
Debt issuance and credit facility costs	(17)	(102)	(175)
Contract adjustment payments on Equity Units	(94)	(72)	(13)
Net increase (decrease) in short-term debt	74	(125)	70
Other financing activities	(19)	(20)	(18)
Net cash provided by (used in) financing activities	<u>48</u>	<u>5,767</u>	<u>6,307</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>10</u>	<u>(45)</u>	<u>13</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(301)</u>	<u>277</u>	<u>124</u>
Cash and Cash Equivalents at Beginning of Period	1,202	925	801
Cash and Cash Equivalents at End of Period	<u>\$ 901</u>	<u>\$ 1,202</u>	<u>\$ 925</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 847	\$ 696	\$ 458
Income taxes - net	\$ 73	\$ (76)	\$ 313

The accompanying Notes to Financial Statements are an integral part of the financial statements.



CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**PPL Corporation and Subsidiaries***(Millions of Dollars, shares in thousands)*

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 901	\$ 1,202
Short-term investments		16
Restricted cash and cash equivalents	54	152
Accounts receivable (less reserve: 2012, \$64; 2011, \$54)		
Customer	745	732
Other	79	91
Unbilled revenues	857	834
Fuel, materials and supplies	673	654
Prepayments	166	160
Price risk management assets	1,525	2,548
Regulatory assets	19	9
Other current assets	49	28
Total Current Assets	5,068	6,426
Investments		
Nuclear plant decommissioning trust funds	712	640
Other investments	47	78
Total Investments	759	718
Property, Plant and Equipment		
Regulated utility plant	25,196	22,994
Less: accumulated depreciation - regulated utility plant	4,164	3,534
Regulated utility plant, net	21,032	19,460
Non-regulated property, plant and equipment		
Generation	11,295	10,514
Nuclear fuel	524	457
Other	726	637
Less: accumulated depreciation - non-regulated property, plant and equipment	5,942	5,676
Non-regulated property, plant and equipment, net	6,603	5,932
Construction work in progress	2,397	1,874
Property, Plant and Equipment, net (a)	30,032	27,266
Other Noncurrent Assets		
Regulatory assets	1,483	1,349
Goodwill	4,158	4,114
Other intangibles (a)	925	1,065
Price risk management assets	572	920
Other noncurrent assets	637	790
Total Other Noncurrent Assets	7,775	8,238
Total Assets	\$ 43,634	\$ 42,648

(a) At December 31, 2012 and December 31, 2011, includes \$428 million and \$416 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and \$10 million and \$11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant. See Note 22 for additional information.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	<u>2012</u>	<u>2011</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 652	\$ 578
Long-term debt due within one year	751	
Accounts payable	1,252	1,150
Taxes	90	65
Interest	325	287
Dividends	210	207
Price risk management liabilities	1,065	1,570
Regulatory liabilities	61	73
Other current liabilities	1,219	1,325
Total Current Liabilities	5,625	5,255
Long-term Debt	18,725	17,993
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,387	3,326
Investment tax credits	328	285
Price risk management liabilities	629	840
Accrued pension obligations	2,076	1,313
Asset retirement obligations	536	484
Regulatory liabilities	1,010	1,010
Other deferred credits and noncurrent liabilities	820	1,046
Total Deferred Credits and Other Noncurrent Liabilities	8,786	8,304
Commitments and Contingent Liabilities (Notes 6 and 15)		
Equity		
PPL Shareowners' Common Equity		
Common stock - \$0.01 par value (a)	6	6
Additional paid-in capital	6,936	6,813
Earnings reinvested	5,478	4,797
Accumulated other comprehensive loss	(1,940)	(788)
Total PPL Shareowners' Common Equity	10,480	10,828
Noncontrolling Interests	18	268
Total Equity	10,498	11,096
Total Liabilities and Equity	\$ 43,634	\$ 42,648

(a) 780,000 shares authorized; 581,944 and 578,405 shares issued and outstanding at December 31, 2012 and December 31, 2011.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries
(Millions of Dollars)

	PPL Shareowners						Total
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non- controlling interests	
December 31, 2009 (b)	377,183	\$ 4	\$ 2,280	\$ 3,749	\$ (537)	\$ 319	\$ 5,815
Common stock issued (c)	106,208	1	2,490				2,491
Purchase Contracts (d)			(176)				(176)
Stock-based compensation (e)			8				8
Net income				938		21	959
Dividends, dividend equivalents, redemptions and distributions (f)				(605)		(72)	(677)
Other comprehensive income (loss)					58		58
December 31, 2010 (b)	<u>483,391</u>	<u>\$ 5</u>	<u>\$ 4,602</u>	<u>\$ 4,082</u>	<u>\$ (479)</u>	<u>\$ 268</u>	<u>\$ 8,478</u>
Common stock issued (c)	95,014	\$ 1	\$ 2,344				\$ 2,345
Purchase Contracts (d)			(143)				(143)
Stock-based compensation (e)			10				10
Net income				\$ 1,495		\$ 17	1,512
Dividends, dividend equivalents, redemptions and distributions (f)				(780)		(17)	(797)
Other comprehensive income (loss)					\$ (309)		(309)
December 31, 2011 (b)	<u>578,405</u>	<u>\$ 6</u>	<u>\$ 6,813</u>	<u>\$ 4,797</u>	<u>\$ (788)</u>	<u>\$ 268</u>	<u>\$ 11,096</u>
Common stock issued (c)	3,543		\$ 99				\$ 99
Common stock repurchased	(4)						
Stock-based compensation (e)			18				18
Net income				\$ 1,526		\$ 5	1,531
Dividends, dividend equivalents, redemptions and distributions (f)			6	(845)		(255)	(1,094)
Other comprehensive income (loss)					\$ (1,152)		(1,152)
December 31, 2012 (b)	<u>581,944</u>	<u>\$ 6</u>	<u>\$ 6,936</u>	<u>\$ 5,478</u>	<u>\$ (1,940)</u>	<u>\$ 18</u>	<u>\$ 10,498</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

(b) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.

(c) 2011 includes the April issuance of 92 million shares of common stock, and 2010 includes the June issuance of 103.5 million shares of common stock. See Note 7 for additional information. All years presented include shares of common stock issued through various stock and incentive compensation plans.

(d) 2011 includes \$123 million for the 2011 Purchase Contracts and \$20 million of related fees and expenses, net of tax. 2010 includes \$157 million for the 2010 Purchase Contracts and \$19 million of related fees and expenses, net of tax. See Note 7 for additional information.

(e) 2012, 2011 and 2010 include \$47 million, \$33 million and \$26 million of stock-based compensation expense related to new and existing unvested equity awards, and \$(29) million, \$(23) million and \$(18) million related primarily to the reclassification from "Stock-based compensation" to "Common stock issued" for the issuance of common stock after applicable equity award vesting periods and tax adjustments related to stock-based compensation.

(f) "Earnings reinvested" includes dividends and dividend equivalents on PPL common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests. In April 2010 and June 2012, collectively, PPL Electric redeemed all of its outstanding preferred securities. See Note 3 for additional information on both redemptions.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Wholesale energy marketing			
Realized	\$ 4,433	\$ 3,807	\$ 4,832
Unrealized economic activity (Note 19)	(311)	1,407	(805)
Wholesale energy marketing to affiliate	78	26	320
Unregulated retail electric and gas	848	727	415
Net energy trading margins	4	(2)	2
Energy-related businesses	448	464	364
Total Operating Revenues	<u>5,500</u>	<u>6,429</u>	<u>5,128</u>
Operating Expenses			
Operation			
Fuel	965	1,080	1,096
Energy purchases			
Realized	2,260	1,160	1,636
Unrealized economic activity (Note 19)	(442)	1,123	(286)
Energy purchases from affiliate	3	3	3
Other operation and maintenance	1,041	929	979
Depreciation	285	244	236
Taxes, other than income	69	71	46
Energy-related businesses	432	458	357
Total Operating Expenses	<u>4,613</u>	<u>5,068</u>	<u>4,067</u>
Operating Income	887	1,361	1,061
Other Income (Expense) - net	18	23	22
Other-Than-Temporary Impairments	1	6	3
Interest Income from Affiliates	2	8	9
Interest Expense	168	174	208
Income (Loss) from Continuing Operations Before Income Taxes	738	1,212	881
Income Taxes	263	445	261
Income (Loss) from Continuing Operations After Income Taxes	475	767	620
Income (Loss) from Discontinued Operations (net of income taxes)	—	2	242
Net Income	475	769	862
Net Income Attributable to Noncontrolling Interests	1	1	1
Net Income Attributable to PPL Energy Supply Member	<u>\$ 474</u>	<u>\$ 768</u>	<u>\$ 861</u>
Amounts Attributable to PPL Energy Supply Member:			
Income (Loss) from Continuing Operations After Income Taxes	\$ 474	\$ 766	\$ 619
Income (Loss) from Discontinued Operations (net of income taxes)	—	2	242
Net Income	<u>\$ 474</u>	<u>\$ 768</u>	<u>\$ 861</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net income	\$ 475	\$ 769	\$ 862
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of \$0, \$0, (\$1)			(59)
Available-for-sale securities, net of tax of (\$31), (\$6), (\$31)	29	9	29
Qualifying derivatives, net of tax of (\$46), (\$164), (\$207)	68	267	305
Defined benefit plans:			
Prior service costs, net of tax of \$0, (\$2), (\$8)	1	(2)	12
Net actuarial gain (loss), net of tax of \$56, \$13, \$36	(82)	(22)	(63)
Transition obligation, net of tax of \$0, \$0, (\$3)			6
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of \$1, \$5, \$3	(7)	(7)	(5)
Qualifying derivatives, net of tax of \$291, \$242, \$99	(463)	(353)	(145)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0		3	
Defined benefit plans:			
Prior service costs, net of tax of (\$2), (\$3), (\$5)	5	4	9
Net actuarial loss, net of tax of (\$2), (\$2), (\$14)	10	4	39
Transition obligation, net of tax of \$0, \$0, (\$1)			1
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	(439)	(97)	129
Comprehensive income (loss)	36	672	991
Comprehensive income attributable to noncontrolling interests	1	1	1
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ 35	\$ 671	\$ 990

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,**PPL Energy Supply, LLC and Subsidiaries***(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities			
Net income	\$ 475	\$ 769	\$ 862
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Pre-tax gain from the sale of the Maine hydroelectric generation business			(25)
Depreciation	285	245	365
Amortization	119	137	160
Defined benefit plans - expense	43	36	52
Deferred income taxes and investment tax credits	152	317	(31)
Impairment of assets	3	13	120
Unrealized (gains) losses on derivatives, and other hedging activities	(41)	(283)	536
Provision for Montana hydroelectric litigation		(74)	66
Other	42	25	41
Change in current assets and current liabilities			
Accounts receivable	(54)	38	(18)
Accounts payable	(45)	(89)	20
Unbilled revenues	33	14	(88)
Counterparty collateral	(34)	(190)	(18)
Taxes	(27)	27	87
Other	(68)	(18)	8
Other operating activities			
Defined benefit plans - funding	(75)	(152)	(302)
Other assets	(41)	(30)	(71)
Other liabilities	17	(9)	76
Net cash provided by (used in) operating activities	<u>784</u>	<u>776</u>	<u>1,840</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(648)	(661)	(1,009)
Proceeds from the sale of certain non-core generation facilities		381	
Proceeds from the sale of the Long Island generation business			124
Proceeds from the sale of the Maine hydroelectric generation business			38
Ironwood Acquisition, net of cash acquired	(84)		
Expenditures for intangible assets	(45)	(57)	(82)
Purchases of nuclear plant decommissioning trust investments	(154)	(169)	(128)
Proceeds from the sale of nuclear plant decommissioning trust investments	139	156	114
Issuance of long-term notes receivable to affiliates			(1,816)
Repayment of long-term notes receivable from affiliates			1,816
Net (increase) decrease in notes receivable from affiliates	198	(198)	
Net (increase) decrease in restricted cash and cash equivalents	104	(128)	84
Other investing activities	21	8	34
Net cash provided by (used in) investing activities	<u>(469)</u>	<u>(668)</u>	<u>(825)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt		500	602
Retirement of long-term debt	(9)	(750)	
Contributions from member	563	461	3,625
Distributions to member	(787)	(316)	(4,692)
Cash included in net assets of subsidiary distributed to member		(325)	
Debt issuance and credit facility costs	(3)	(9)	(53)
Net increase (decrease) in short-term debt	(44)	50	(93)
Other financing activities	(1)	(1)	(1)
Net cash provided by (used in) financing activities	<u>(281)</u>	<u>(390)</u>	<u>(612)</u>
Effect of Exchange Rates on Cash and Cash Equivalents			13
Net Increase (Decrease) in Cash and Cash Equivalents	<u>34</u>	<u>(282)</u>	<u>416</u>
Cash and Cash Equivalents at Beginning of Period	379	661	245
Cash and Cash Equivalents at End of Period	<u>\$ 413</u>	<u>\$ 379</u>	<u>\$ 661</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 150	\$ 165	\$ 275
Income taxes - net	\$ 128	\$ 69	\$ 278

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 413	\$ 379
Restricted cash and cash equivalents	46	145
Accounts receivable (less reserve: 2012, \$23; 2011, \$15)		
Customer	183	169
Other	31	31
Accounts receivable from affiliates	125	89
Unbilled revenues	369	402
Note receivable from affiliates		198
Fuel, materials and supplies	327	298
Prepayments	15	14
Price risk management assets	1,511	2,527
Other current assets	10	11
Total Current Assets	<u>3,030</u>	<u>4,263</u>
Investments		
Nuclear plant decommissioning trust funds	712	640
Other investments	41	40
Total Investments	<u>753</u>	<u>680</u>
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,305	10,517
Nuclear fuel	524	457
Other	294	245
Less: accumulated depreciation - non-regulated property, plant and equipment	5,817	5,573
Non-regulated property, plant and equipment, net	6,306	5,646
Construction work in progress	987	840
Property, Plant and Equipment, net (a)	<u>7,293</u>	<u>6,486</u>
Other Noncurrent Assets		
Goodwill	86	86
Other intangibles (a)	252	386
Price risk management assets	557	896
Other noncurrent assets	404	382
Total Other Noncurrent Assets	<u>1,299</u>	<u>1,750</u>
Total Assets	<u>\$ 12,375</u>	<u>\$ 13,179</u>

(a) At December 31, 2012 and December 31, 2011, includes \$428 million and \$416 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and \$10 million and \$11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant. See Note 22 for additional information.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	<u>2012</u>	<u>2011</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 356	\$ 400
Long-term debt due within one year	751	
Accounts payable	438	472
Accounts payable to affiliates	31	14
Taxes	62	90
Interest	31	30
Price risk management liabilities	1,010	1,560
Deferred income taxes	158	315
Other current liabilities	319	344
Total Current Liabilities	<u>3,156</u>	<u>3,225</u>
Long-term Debt	<u>2,521</u>	<u>3,024</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,232	1,223
Investment tax credits	186	136
Price risk management liabilities	556	785
Accrued pension obligations	293	214
Asset retirement obligations	365	349
Other deferred credits and noncurrent liabilities	218	186
Total Deferred Credits and Other Noncurrent Liabilities	<u>2,850</u>	<u>2,893</u>
Commitments and Contingent Liabilities (Note 15)		
Equity		
Member's equity	3,830	4,019
Noncontrolling interests	18	18
Total Equity	<u>3,848</u>	<u>4,037</u>
Total Liabilities and Equity	<u>\$ 12,375</u>	<u>\$ 13,179</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF EQUITY
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	<u>Member's equity</u>	<u>Non- controlling interests</u>	<u>Total</u>
December 31, 2009 (a)	\$ 4,568	\$ 18	\$ 4,586
Net income	861	1	862
Other comprehensive income (loss)	129		129
Contributions from member	3,625		3,625
Distributions	(4,692)	(1)	(4,693)
December 31, 2010 (a)	<u>\$ 4,491</u>	<u>\$ 18</u>	<u>\$ 4,509</u>
Net income	\$ 768	\$ 1	\$ 769
Other comprehensive income (loss)	(97)		(97)
Contributions from member	461		461
Distributions	(316)	(1)	(317)
Distribution of membership interest in PPL Global (b)	(1,288)		(1,288)
December 31, 2011 (a)	<u>\$ 4,019</u>	<u>\$ 18</u>	<u>\$ 4,037</u>
Net income	\$ 474	\$ 1	\$ 475
Other comprehensive income (loss)	(439)		(439)
Contributions from member	563		563
Distributions	(787)	(1)	(788)
December 31, 2012 (a)	<u>\$ 3,830</u>	<u>\$ 18</u>	<u>\$ 3,848</u>

(a) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.

(b) See Note 9 for additional information.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Retail electric	\$ 1,760	\$ 1,881	\$ 2,448
Electric revenue from affiliate	3	11	7
Total Operating Revenues	<u>1,763</u>	<u>1,892</u>	<u>2,455</u>
Operating Expenses			
Operation			
Energy purchases	550	738	1,075
Energy purchases from affiliate	78	26	320
Other operation and maintenance	576	530	502
Depreciation	160	146	136
Taxes, other than income	105	104	138
Total Operating Expenses	<u>1,469</u>	<u>1,544</u>	<u>2,171</u>
Operating Income	294	348	284
Other Income (Expense) - net	9	7	7
Interest Expense	99	98	99
Income Before Income Taxes	204	257	192
Income Taxes	68	68	57
Net Income (a)	136	189	135
Distributions on Preferred Securities	4	16	20
Net Income Available to PPL	<u>\$ 132</u>	<u>\$ 173</u>	<u>\$ 115</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities			
Net income	\$ 136	\$ 189	\$ 135
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	160	146	136
Amortization	18	8	(23)
Defined benefit plans - expense	22	18	20
Deferred income taxes and investment tax credits	114	106	198
Other	2	1	4
Change in current assets and current liabilities			
Accounts receivable	3	(5)	(38)
Accounts payable	27	(68)	31
Unbilled revenues	(8)	36	59
Prepayments	2	58	(112)
Regulatory assets and liabilities	(1)	107	(85)
Taxes	12	(23)	(38)
Other	(5)	7	(27)
Other operating activities			
Defined benefit plans - funding	(59)	(113)	(55)
Other assets	(3)	(28)	5
Other liabilities	(31)	(19)	2
Net cash provided by (used in) operating activities	<u>389</u>	<u>420</u>	<u>212</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(624)	(481)	(401)
Other investing activities	11	4	(2)
Net cash provided by (used in) investing activities	<u>(613)</u>	<u>(477)</u>	<u>(403)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	249	645	
Retirement of long-term debt		(458)	
Contributions from PPL	150	100	55
Redemption of preference stock	(250)		(54)
Payment of common stock dividends to parent	(95)	(92)	(71)
Other financing activities	(10)	(22)	(20)
Net cash provided by (used in) financing activities	<u>44</u>	<u>173</u>	<u>(90)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(180)	116	(281)
Cash and Cash Equivalents at Beginning of Period	<u>320</u>	<u>204</u>	<u>485</u>
Cash and Cash Equivalents at End of Period	<u>\$ 140</u>	<u>\$ 320</u>	<u>\$ 204</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 81	\$ 75	\$ 87
Income taxes - net	\$ (42)	\$ (44)	\$ (33)

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 140	\$ 320
Accounts receivable (less reserve: 2012, \$18; 2011, \$17)		
Customer	249	267
Other	5	9
Accounts receivable from affiliates	29	35
Unbilled revenues	110	102
Materials and supplies	39	42
Prepayments	76	78
Deferred income taxes	45	25
Other current assets	4	5
Total Current Assets	<u>697</u>	<u>883</u>
Property, Plant and Equipment		
Regulated utility plant	6,286	5,830
Less: accumulated depreciation - regulated utility plant	2,316	2,217
Regulated utility plant, net	3,970	3,613
Other, net	2	2
Construction work in progress	370	242
Property, Plant and Equipment, net	<u>4,342</u>	<u>3,857</u>
Other Noncurrent Assets		
Regulatory assets	853	729
Intangibles	171	155
Other noncurrent assets	55	81
Total Other Noncurrent Assets	<u>1,079</u>	<u>965</u>
Total Assets	<u>\$ 6,118</u>	<u>\$ 5,705</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	<u>2012</u>	<u>2011</u>
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 259	\$ 171
Accounts payable to affiliates	63	64
Taxes	12	
Interest	26	24
Regulatory liabilities	52	53
Customer deposits and prepayments	21	39
Vacation	23	22
Other current liabilities	49	47
Total Current Liabilities	<u>505</u>	<u>420</u>
Long-term Debt	<u>1,967</u>	<u>1,718</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,233	1,115
Investment tax credits	3	5
Accrued pension obligations	237	186
Regulatory liabilities	8	7
Other deferred credits and noncurrent liabilities	103	129
Total Deferred Credits and Other Noncurrent Liabilities	<u>1,584</u>	<u>1,442</u>
Commitments and Contingent Liabilities (Notes 6 and 15)		
Shareowners' Equity		
Preferred securities		250
Common stock - no par value (a)	364	364
Additional paid-in capital	1,135	979
Earnings reinvested	563	532
Total Equity	<u>2,062</u>	<u>2,125</u>
Total Liabilities and Equity	<u>\$ 6,118</u>	<u>\$ 5,705</u>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at December 31, 2012 and December 31, 2011.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	Common stock shares outstanding (a)	Preferred securities	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2009	66,368	\$ 301	\$ 364	\$ 824	\$ 407	\$ 1,896
Net income					135	135
Redemption of preferred securities (b)		(51)			(3)	(54)
Capital contributions from PPL				55		55
Cash dividends declared on preferred securities					(17)	(17)
Cash dividends declared on common stock					(71)	(71)
December 31, 2010	<u>66,368</u>	<u>\$ 250</u>	<u>\$ 364</u>	<u>\$ 879</u>	<u>\$ 451</u>	<u>\$ 1,944</u>
Net income					\$ 189	\$ 189
Capital contributions from PPL				\$ 100		100
Cash dividends declared on preferred securities					(16)	(16)
Cash dividends declared on common stock					(92)	(92)
December 31, 2011	<u>66,368</u>	<u>\$ 250</u>	<u>\$ 364</u>	<u>\$ 979</u>	<u>\$ 532</u>	<u>\$ 2,125</u>
Net income					\$ 136	\$ 136
Redemption of preferred securities (b)		\$ (250)		\$ 6	(6)	(250)
Capital contributions from PPL				150		150
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(95)	(95)
December 31, 2012	<u>66,368</u>	<u>\$</u>	<u>\$ 364</u>	<u>\$ 1,135</u>	<u>\$ 563</u>	<u>\$ 2,062</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

(b) In April 2010 and June 2012, collectively, PPL Electric redeemed all of its outstanding preferred securities. See Note 3 for additional information on both redemptions.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Operating Revenues	\$ 2,759	\$ 2,793	\$ 494	\$ 2,214
Operating Expenses				
Operation				
Fuel	872	866	138	723
Energy purchases	195	238	68	211
Other operation and maintenance	778	751	141	586
Depreciation	346	334	49	235
Taxes, other than income	46	37	2	21
Total Operating Expenses	<u>2,237</u>	<u>2,226</u>	<u>398</u>	<u>1,776</u>
Operating Income	522	567	96	438
Other Income (Expense) - net	(15)	(1)	(2)	14
Other-Than-Temporary Impairments	25			
Interest Expense	150	146	20	21
Interest Expense with Affiliate	<u>1</u>	<u>1</u>	<u>4</u>	<u>131</u>
Income (Loss) from Continuing Operations Before Income Taxes	331	419	70	300
Income Taxes	<u>106</u>	<u>153</u>	<u>25</u>	<u>109</u>
Income (Loss) from Continuing Operations After Income Taxes	225	266	45	191
Income (Loss) from Discontinued Operations (net of income taxes)	<u>(6)</u>	<u>(1)</u>	<u>2</u>	<u>(1)</u>
Net Income (Loss)	<u>\$ 219</u>	<u>\$ 265</u>	<u>\$ 47</u>	<u>\$ 190</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net income (loss)	\$ 219	\$ 265	\$ 47	\$ 190
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Qualifying derivatives, net of tax of \$0, \$0, \$0, (\$7)				10
Equity investee's other comprehensive income (loss), net of tax of (\$1), \$0, \$0, \$1	1			(2)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$1, \$0, \$0		(2)		
Net actuarial loss, net of tax of \$13, (\$1), (\$3), \$15	(21)		6	(20)
Reclassification to net income - (gains) losses, net of tax expense (benefit):				
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, (\$1)				1
Net actuarial loss, net of tax of \$0, \$1, \$0, (\$1)	1			1
Total other comprehensive income (loss)	(19)	(2)	6	(10)
Comprehensive income (loss) attributable to member	\$ 200	\$ 263	\$ 53	\$ 180

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Cash Flows from Operating Activities				
Net income (loss)	\$ 219	\$ 265	\$ 47	\$ 190
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Depreciation	346	334	49	235
Amortization of regulatory assets	27	27	3	
Defined benefit plans - expense	40	51	12	52
Deferred income taxes and investment tax credits	133	218	52	65
Unrealized (gains) losses on derivatives				14
Loss from discontinued operations - net of tax				1
Impairment of assets	25			
Other	2	(9)	11	(23)
Change in current assets and current liabilities				
Accounts receivable	(9)	17	(17)	12
Accounts payable	1	(32)	(14)	(34)
Accounts payable to affiliates	(1)		4	(7)
Unbilled revenues	(10)	24	(70)	41
Fuel, materials and supplies	8	15	15	(28)
Income tax receivable	2	37	(40)	(2)
Taxes	1	(2)	4	18
Other		(1)	(27)	47
Other operating activities				
Defined benefit plans - funding	(70)	(170)	(8)	(57)
Discontinued operations				13
Other assets	(5)	(11)	12	14
Other liabilities	38	18	(7)	(63)
Net cash provided by (used in) operating activities	<u>747</u>	<u>781</u>	<u>26</u>	<u>488</u>
Cash Flows from Investing Activities				
Expenditures for property, plant and equipment	(768)	(477)	(152)	(447)
Proceeds from sales of discontinued operations				21
Proceeds from the sale of other investments		163		
Net (increase) decrease in notes receivable from affiliates	15	46	(61)	
Net (increase) decrease in restricted cash and cash equivalents	(3)	(9)	2	
Net cash provided by (used in) investing activities	<u>(756)</u>	<u>(277)</u>	<u>(211)</u>	<u>(426)</u>
Cash Flows from Financing Activities				
Issuance of short-term debt with affiliate			1,001	900
Retirement of short-term debt with affiliate			(1,001)	(575)
Net increase (decrease) in notes payable with affiliates	25			(3)
Issuance of long-term debt with affiliate			1,783	50
Retirement of long-term debt with affiliate			(1,783)	(325)
Issuance of long-term debt		250	2,890	
Retirement of long-term debt		(2)		
Net increase (decrease) in short-term debt	125	(163)	163	
Repayment to E.ON AG affiliates			(4,319)	
Debt issuance and credit facility costs	(2)	(8)	(32)	
Distributions to member	(155)	(533)	(100)	(87)
Contributions from member			1,565	
Net cash provided by (used in) financing activities	<u>(7)</u>	<u>(456)</u>	<u>167</u>	<u>(40)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(16)	48	(18)	22
Cash and Cash Equivalents at Beginning of Period	<u>59</u>	<u>11</u>	<u>29</u>	<u>7</u>
Cash and Cash Equivalents at End of Period	<u>\$ 43</u>	<u>\$ 59</u>	<u>\$ 11</u>	<u>\$ 29</u>
Supplemental Disclosures of Cash Flow Information				
Cash paid (received) during the period for:				
Interest - net of amount capitalized	\$ 139	\$ 126	\$ 41	\$ 153
Income taxes - net	\$ (45)	\$ (98)	\$ (1)	\$ 9

The accompanying Notes to Financial Statements are an integral part of the financial statements.



**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 43	\$ 59
Accounts receivable (less reserve: 2012, \$19; 2011, \$17)		
Customer	133	129
Other	19	20
Unbilled revenues	156	146
Accounts receivable from affiliates	1	
Notes receivable from affiliates		15
Fuel, materials and supplies	276	283
Prepayments	28	22
Price risk management assets from affiliates	14	
Income taxes receivable	1	3
Deferred income taxes	13	17
Regulatory assets	19	9
Other current assets	4	3
Total Current Assets	<u>707</u>	<u>706</u>
Investments	<u>1</u>	<u>31</u>
Property, Plant and Equipment		
Regulated utility plant	8,073	7,519
Less: accumulated depreciation - regulated utility plant	519	277
Regulated utility plant, net	7,554	7,242
Other, net	3	2
Construction work in progress	750	557
Property, Plant and Equipment, net	<u>8,307</u>	<u>7,801</u>
Other Noncurrent Assets		
Regulatory assets	630	620
Goodwill	996	996
Other intangibles	271	314
Other noncurrent assets	107	108
Total Other Noncurrent Assets	<u>2,004</u>	<u>2,038</u>
Total Assets	<u>\$ 11,019</u>	<u>\$ 10,576</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	<u>2012</u>	<u>2011</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 125	
Notes payable with affiliates	25	
Accounts payable	283	\$ 224
Accounts payable to affiliates	1	2
Customer deposits	48	45
Taxes	26	25
Regulatory liabilities	9	20
Interest	21	23
Salaries and benefits	69	59
Other current liabilities	36	35
Total Current Liabilities	<u>643</u>	<u>433</u>
Long-term Debt	<u>4,075</u>	<u>4,073</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	541	413
Investment tax credits	138	144
Price risk management liabilities	53	55
Accrued pension obligations	414	359
Asset retirement obligations	125	116
Regulatory liabilities	1,002	1,003
Other deferred credits and noncurrent liabilities	242	239
Total Deferred Credits and Other Noncurrent Liabilities	<u>2,515</u>	<u>2,329</u>
Commitments and Contingent Liabilities (Notes 6 and 15)		
Member's equity	<u>3,786</u>	<u>3,741</u>
Total Liabilities and Equity	<u>\$ 11,019</u>	<u>\$ 10,576</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	<u>Member's Equity</u>	<u>Non- controlling interests</u>	<u>Total</u>
December 31, 2009 - Predecessor (a)	\$ 2,192	\$ 32	\$ 2,224
Net income	190		190
Distributions to member	(81)		(81)
Other comprehensive income (loss)	(10)		(10)
Noncontrolling interest - income (loss) from discontinued operations	(11)	(32)	(43)
October 31, 2010 - Predecessor (a)	<u>\$ 2,280</u>	<u>\$</u>	<u>\$ 2,280</u>
Effect of PPL acquisition	\$ 213		\$ 213
Net income	47		47
Contributions from member	1,565		1,565
Distributions to member	(100)		(100)
Other comprehensive income (loss)	6		6
December 31, 2010 - Successor (a)	<u>\$ 4,011</u>	<u>\$</u>	<u>\$ 4,011</u>
Net income	\$ 265		\$ 265
Distributions to member	(533)		(533)
Other comprehensive income (loss)	(2)		(2)
December 31, 2011 - Successor (a)	<u>\$ 3,741</u>	<u>\$</u>	<u>\$ 3,741</u>
Net income	\$ 219		\$ 219
Distributions to member	(155)		(155)
Other comprehensive income (loss)	(19)		(19)
December 31, 2012 - Successor (a)	<u>\$ 3,786</u>	<u>\$</u>	<u>\$ 3,786</u>

(a) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF INCOME
Louisville Gas and Electric Company
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended December 31, 2010
Operating Revenues				
Retail and wholesale	\$ 1,247	\$ 1,281	\$ 233	\$ 978
Electric revenue from affiliate	77	83	21	79
Total Operating Revenues	1,324	1,364	254	1,057
Operating Expenses				
Operation				
Fuel	374	350	60	306
Energy purchases	163	209	61	142
Energy purchases from affiliate	12	36	2	13
Other operation and maintenance	363	363	67	281
Depreciation	152	147	23	115
Taxes, other than income	23	18	1	12
Total Operating Expenses	1,087	1,123	214	869
Operating Income	237	241	40	188
Other Income (Expense) - net	(3)	(2)	(3)	17
Interest Expense	42	44	7	16
Interest Expense with Affiliate			1	22
Income Before Income Taxes	192	195	29	167
Income Taxes	69	71	10	58
Net Income	\$ 123	\$ 124	\$ 19	\$ 109

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

Louisville Gas and Electric Company

(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net income	\$ 123	\$ 124	\$ 19	\$ 109
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Qualifying derivatives, net of tax of \$0, \$0, \$0, (\$7)				10
Total other comprehensive income (loss)				10
Comprehensive income	\$ 123	\$ 124	\$ 19	\$ 119

The accompanying Notes to the Financial Statements are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Cash Flows from Operating Activities				
Net income	\$ 123	\$ 124	\$ 19	\$ 109
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation	152	147	23	115
Amortization	11	12	2	
Defined benefit plans - expense	18	21	4	20
Deferred income taxes and investment tax credits	69	51	13	21
Unrealized (gains) losses on derivatives				14
Regulatory asset for previously recorded losses on interest rate swaps				(22)
Other	(13)	1	2	2
Change in current assets and current liabilities				
Accounts receivable	(2)	25	(27)	(2)
Accounts payable		(24)	17	
Accounts payable to affiliates	(3)	6	(31)	23
Unbilled revenues	(7)	16	(38)	22
Fuel, materials and supplies		20	10	(22)
Taxes	(7)	3		
Other	(7)	(7)	(2)	(47)
Other operating activities				
Defined benefit plans - funding	(27)	(70)	(1)	(25)
Other assets	(21)	(7)		(5)
Other liabilities	22	7	1	(14)
Net cash provided by (used in) operating activities	<u>308</u>	<u>325</u>	<u>(8)</u>	<u>189</u>
Cash Flows from Investing Activities				
Expenditures for property, plant and equipment	(286)	(196)	(65)	(155)
Proceeds from the sale of assets to affiliate				48
Proceeds from the sale of other investments		163		
Net (increase) decrease in restricted cash and cash equivalents	(3)	(9)	2	
Net cash provided by (used in) investing activities	<u>(289)</u>	<u>(42)</u>	<u>(63)</u>	<u>(107)</u>
Cash Flows from Financing Activities				
Net increase (decrease) in notes payable with affiliates		(12)	(130)	(28)
Issuance of long-term debt with affiliate			485	
Retirement of long-term debt with affiliate			(485)	
Issuance of long-term debt			531	
Net increase (decrease) in short-term debt	55	(163)	163	
Repayment to E.ON AG affiliates			(485)	
Debt issuance and credit facility costs	(2)	(2)	(10)	
Payment of common stock dividends to parent	(75)	(83)		(55)
Net cash provided by (used in) financing activities	<u>(22)</u>	<u>(260)</u>	<u>69</u>	<u>(83)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3)</u>	<u>23</u>	<u>(2)</u>	<u>(1)</u>
Cash and Cash Equivalents at Beginning of Period	25	2	4	5
Cash and Cash Equivalents at End of Period	<u>\$ 22</u>	<u>\$ 25</u>	<u>\$ 2</u>	<u>\$ 4</u>
Supplemental Disclosures of Cash Flow Information				
Cash paid (received) during the period for:				
Interest - net of amount capitalized	\$ 39	\$ 40	\$ 11	\$ 39
Income taxes - net	\$ 5	\$ 20	\$ (8)	\$ 60

The accompanying Notes to Financial Statements are an integral part of the financial statements.

BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 22	\$ 25
Accounts receivable (less reserve: 2012, \$1; 2011, \$2)		
Customer	59	60
Other	8	9
Unbilled revenues	72	65
Accounts receivable from affiliates	14	11
Fuel, materials and supplies	142	142
Prepayments	7	7
Price risk management from affiliates	7	
Income taxes receivable	8	4
Deferred income taxes		2
Regulatory assets	19	9
Other current assets	1	
Total Current Assets	<u>359</u>	<u>334</u>
Property, Plant and Equipment		
Regulated utility plant	3,187	2,956
Less: accumulated depreciation - regulated utility plant	220	116
Regulated utility plant, net	2,967	2,840
Construction work in progress	259	215
Property, Plant and Equipment, net	<u>3,226</u>	<u>3,055</u>
Other Noncurrent Assets		
Regulatory assets	400	403
Goodwill	389	389
Other intangibles	144	166
Other noncurrent assets	44	40
Total Other Noncurrent Assets	<u>977</u>	<u>998</u>
Total Assets	<u>\$ 4,562</u>	<u>\$ 4,387</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	<u>2012</u>	<u>2011</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 55	
Accounts payable	117	\$ 94
Accounts payable to affiliates	23	26
Customer deposits	23	22
Taxes	2	13
Regulatory liabilities	4	10
Interest	5	6
Salaries and benefits	18	14
Deferred income taxes	4	
Other current liabilities	17	14
Total Current Liabilities	<u>268</u>	<u>199</u>
Long-term Debt	<u>1,112</u>	<u>1,112</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	544	475
Investment tax credits	40	43
Accrued pension obligations	102	95
Asset retirement obligations	56	55
Regulatory liabilities	471	478
Price risk management liabilities	53	55
Other deferred credits and noncurrent liabilities	106	113
Total Deferred Credits and Other Noncurrent Liabilities	<u>1,372</u>	<u>1,314</u>
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,278	1,278
Earnings reinvested	108	60
Total Equity	<u>1,810</u>	<u>1,762</u>
Total Liabilities and Equity	<u>\$ 4,562</u>	<u>\$ 4,387</u>

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at December 31, 2012 and December 31, 2011.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2009 - Predecessor (b)	21,294	\$ 424	\$ 84	\$ 755	\$ (10)	\$ 1,253
Net income				109		109
Cash dividends declared on common stock				(55)		(55)
Other comprehensive income (loss)					10	10
October 31, 2010 - Predecessor	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 84</u>	<u>\$ 809</u>	<u>\$</u>	<u>\$ 1,317</u>
Effect of PPL acquisition			\$ 1,194	\$ (809)		\$ 385
Net income				19		19
December 31, 2010 - Successor	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 19</u>	<u>\$</u>	<u>\$ 1,721</u>
Net income				\$ 124		\$ 124
Cash dividends declared on common stock				(83)		(83)
December 31, 2011 - Successor	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 60</u>	<u>\$</u>	<u>\$ 1,762</u>
Net income				\$ 123		\$ 123
Cash dividends declared on common stock				(75)		(75)
December 31, 2012 - Successor	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 108</u>	<u>\$</u>	<u>\$ 1,810</u>

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

(b) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF INCOME
Kentucky Utilities Company
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Operating Revenues				
Retail and wholesale	\$ 1,512	\$ 1,512	\$ 261	\$ 1,235
Electric revenue from affiliate	12	36	2	13
Total Operating Revenues	1,524	1,548	263	1,248
Operating Expenses				
Operation				
Fuel	498	516	78	417
Energy purchases	32	29	7	68
Energy purchases from affiliate	77	83	21	79
Other operation and maintenance	384	362	65	271
Depreciation	193	186	26	119
Taxes, other than income	23	19	1	9
Total Operating Expenses	1,207	1,195	198	963
Operating Income	317	353	65	285
Other Income (Expense) - net	(8)	(1)		1
Other-Than-Temporary Impairments	25			
Interest Expense	69	70	8	6
Interest Expense with Affiliate			2	62
Income Before Income Taxes	215	282	55	218
Income Taxes	78	104	20	78
Net Income	\$ 137	\$ 178	\$ 35	\$ 140

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

Kentucky Utilities Company

(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net income	\$ 137	\$ 178	\$ 35	\$ 140
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Equity investees' other comprehensive income (loss), net of tax of (\$1), \$0, \$0, \$1	1			(2)
Total other comprehensive income (loss)	<u>1</u>			<u>(2)</u>
Comprehensive income	<u>\$ 138</u>	<u>\$ 178</u>	<u>\$ 35</u>	<u>\$ 138</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS
Kentucky Utilities Company
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Cash Flows from Operating Activities				
Net income	\$ 137	\$ 178	\$ 35	\$ 140
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation	193	186	26	119
Amortization	14	13	2	
Defined benefit plans - expense	11	14	3	13
Deferred income taxes and investment tax credits	99	108	4	23
Impairment of assets	25			
Other	10	(10)	12	(3)
Change in current assets and current liabilities				
Accounts receivable	(17)	22	(12)	13
Accounts payable	1	2	9	(17)
Accounts payable to affiliates		(12)	(41)	46
Unbilled revenues	(3)	8	(32)	19
Fuel, materials and supplies	7	(5)	5	(6)
Taxes	15	(14)	14	
Other	6	(3)	6	10
Other operating activities				
Defined benefit plans - funding	(21)	(50)	(2)	(18)
Other assets	(3)	(2)		15
Other liabilities	26	9	1	(10)
Net cash provided by (used in) operating activities	<u>500</u>	<u>444</u>	<u>30</u>	<u>344</u>
Cash Flows from Investing Activities				
Expenditures for property, plant and equipment	(480)	(279)	(89)	(292)
Purchases of assets from affiliate				(48)
Net cash provided by (used in) investing activities	<u>(480)</u>	<u>(279)</u>	<u>(89)</u>	<u>(340)</u>
Cash Flows from Financing Activities				
Issuance of short-term debt with affiliate			33	
Retirement of short-term debt with affiliate			(33)	
Net increase (decrease) in notes payable with affiliates		(10)	(83)	48
Issuance of long-term debt with affiliate			1,298	
Retirement of long-term debt with affiliate			(1,298)	
Issuance of long-term debt			1,489	
Net increase (decrease) in short-term debt	70			
Repayment to E.ON AG affiliates			(1,331)	
Debt issuance and credit facility costs		(3)	(17)	
Payment of common stock dividends to parent	(100)	(124)		(50)
Net cash provided by (used in) financing activities	<u>(30)</u>	<u>(137)</u>	<u>58</u>	<u>(2)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(10)	28	(1)	2
Cash and Cash Equivalents at Beginning of Period	<u>31</u>	<u>3</u>	<u>4</u>	<u>2</u>
Cash and Cash Equivalents at End of Period	<u>\$ 21</u>	<u>\$ 31</u>	<u>\$ 3</u>	<u>\$ 4</u>
Supplemental Disclosures of Cash Flow Information				
Cash paid (received) during the period for:				
Interest - net of amount capitalized	\$ 62	\$ 60	\$ 22	\$ 62
Income taxes - net	\$ (39)	\$ 16	\$ (12)	\$ 74

The accompanying Notes to Financial Statements are an integral part of the financial statements.

BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 21	\$ 31
Accounts receivable (less reserve: 2012, \$2; 2011, \$2)		
Customer	74	69
Other	11	9
Unbilled revenues	84	81
Accounts receivable from affiliates	7	
Fuel, materials and supplies	134	141
Prepayments	10	7
Price risk management assets from affiliates	7	
Income taxes receivable	2	5
Deferred income taxes	3	5
Other current assets	3	3
Total Current Assets	<u>356</u>	<u>351</u>
Investments		31
Property, Plant and Equipment		
Regulated utility plant	4,886	4,563
Less: accumulated depreciation - regulated utility plant	299	161
Regulated utility plant, net	4,587	4,402
Other, net	1	
Construction work in progress	490	340
Property, Plant and Equipment, net	<u>5,078</u>	<u>4,742</u>
Other Noncurrent Assets		
Regulatory assets	230	217
Goodwill	607	607
Other intangibles	127	148
Other noncurrent assets	57	60
Total Other Noncurrent Assets	<u>1,021</u>	<u>1,032</u>
Total Assets	<u>\$ 6,455</u>	<u>\$ 6,156</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	<u>2012</u>	<u>2011</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 70	
Accounts payable	147	\$ 112
Accounts payable to affiliates	33	33
Customer deposits	25	23
Taxes	26	11
Regulatory liabilities	5	10
Interest	10	11
Salaries and benefits	17	15
Other current liabilities	16	13
Total Current Liabilities	349	228
Long-term Debt	1,842	1,842
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	587	484
Investment tax credits	98	101
Accrued pension obligations	104	83
Asset retirement obligations	69	61
Regulatory liabilities	531	525
Other deferred credits and noncurrent liabilities	92	87
Total Deferred Credits and Other Noncurrent Liabilities	1,481	1,341
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,348	2,348
Accumulated other comprehensive income (loss)	1	
Earnings reinvested	126	89
Total Equity	2,783	2,745
Total Liabilities and Equity	\$ 6,455	\$ 6,156

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at December 31, 2012 and December 31, 2011.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF EQUITY
Kentucky Utilities Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2009 - Predecessor	37,818	\$ 308	\$ 316	\$ 1,328		\$ 1,952
Net income				140		140
Cash dividends declared on common stock				(50)		(50)
Other comprehensive income (loss)					\$ (2)	(2)
October 31, 2010 - Predecessor (b)	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 316</u>	<u>\$ 1,418</u>	<u>\$ (2)</u>	<u>\$ 2,040</u>
Effect of PPL acquisition			\$ 2,032	\$ (1,418)	\$ 2	\$ 616
Net income				35		35
December 31, 2010 - Successor	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 35</u>		<u>\$ 2,691</u>
Net income				\$ 178		\$ 178
Cash dividends declared on common stock				(124)		(124)
December 31, 2011 - Successor	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 89</u>		<u>\$ 2,745</u>
Net income				\$ 137		\$ 137
Cash dividends declared on common stock				(100)		(100)
Other comprehensive income (loss)					\$ 1	1
December 31, 2012 - Successor (b)	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 126</u>	<u>\$ 1</u>	<u>\$ 2,783</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

(b) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

COMBINED NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

General

Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

Business and Consolidation

(PPL)

PPL is an energy and utility holding company that, through its subsidiaries, is primarily engaged in: 1) the regulated generation, transmission, distribution and sale of electricity and the regulated distribution and sale of natural gas, primarily in Kentucky; 2) the regulated distribution of electricity in the U.K.; 3) the regulated transmission, distribution and sale of electricity in Pennsylvania; and 4) the competitive generation and marketing of electricity in portions of the northeastern and northwestern U.S. Headquartered in Allentown, PA, PPL's principal subsidiaries are LKE (including its principal subsidiaries, LG&E and KU), PPL Global, PPL Electric and PPL Energy Supply (including its principal subsidiaries, PPL EnergyPlus and PPL Generation). PPL's corporate level financing subsidiary is PPL Capital Funding.

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently referred to as WPD Midlands), from subsidiaries of E.ON AG. WPD Midlands' operating results are included in PPL's results of operations for the full year of 2012, but as PPL is consolidating WPD Midlands on a one-month lag, eight months of operating results are included in PPL's results of operations for 2011 with no comparable amounts for 2010.

On November 1, 2010, PPL acquired all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC. LKE's operating results are included in PPL's results of operations for the full years of 2012 and 2011, while 2010 includes LKE's operating results for the two months ended December 31, 2010.

See Note 10 for additional information regarding the acquisitions of WPD Midlands and LKE.

(PPL and PPL Energy Supply)

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. See Note 10 for additional information.

(PPL, LKE, LG&E and KU)

LKE is a holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU, and is subject to PUHCA. LG&E and KU are engaged in the regulated generation, transmission, distribution and sale of electricity. LG&E also engages in the regulated distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia (under the Old Dominion Power name) and in Tennessee.

(LKE, LG&E and KU)

LKE's, LG&E's and KU's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010 and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, and the cost bases of certain assets and liabilities were changed as of November 1, 2010 as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LKE, LG&E and KU have not changed as a result of the acquisition.

(PPL and PPL Energy Supply)

PPL Generation owns and operates a portfolio of competitive domestic power generating assets. These power plants are located in Pennsylvania and Montana and use well-diversified fuel sources including coal, uranium, natural gas, oil and water. PPL EnergyPlus sells electricity produced by PPL Generation subsidiaries, participates in wholesale market load-following auctions, and markets various energy products and commodities such as: capacity, transmission, FTRs, coal, natural gas, oil, uranium, emission allowances, RECs and other commodities in competitive wholesale and competitive retail markets, primarily in the northeastern and northwestern U.S.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing all of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011. See Note 9 for additional information.

(PPL, PPL Energy Supply and LKE)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of various businesses that were sold or distributed. See Note 9 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations, except for the LKE Predecessor period, which separately discloses these cash flows within operating, investing and financing activities, consistent with LKE's pre-acquisition accounting policy.

(PPL and PPL Electric)

PPL Electric is a cost-based rate-regulated subsidiary of PPL. PPL Electric's principal business is the regulated transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania and the regulated supply of electricity to retail customers in that territory as a PLR.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for VIEs. The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE, and thus are the primary beneficiary of the entity. For PPL and PPL Energy Supply, see Note 22 for information regarding a consolidated VIE. Investments in entities in which a company has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated. Any noncontrolling interests are reflected in the financial statements.

The financial statements of PPL, PPL Energy Supply, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 14 for additional information.

(PPL)

PPL consolidates WPD, including WPD Midlands, on a one-month lag. Material intervening events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

Regulation

(PPL, PPL Electric, LKE, LG&E and KU)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Rates are generally established based on a historical test period adjusted to exclude unusual or nonrecurring items. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 6 for additional details regarding regulatory matters.

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set by Ofgem every five years through price control reviews that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. As a result, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

Accounting Records *(PPL, PPL Electric, LKE, LG&E and KU)*

The system of accounts for domestic regulated entities is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

Changes in Classification

The classification of certain amounts in the 2011 and 2010 financial statements have been changed to conform to the current presentation. The changes in classification did not affect the Registrants' net income or equity.

Comprehensive Income (PPL, PPL Energy Supply, LKE, LG&E and KU)

Comprehensive income, which includes net income and OCI, is shown on the Statements of Comprehensive Income.

AOCI, which is presented on the Balance Sheets of PPL and included in Member's equity on the Balance Sheets of PPL Energy Supply and LKE, consisted of the following after-tax gains (losses).

	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans			Total
		Available- for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	Transition asset (obligation)	
PPL								
December 31, 2009	\$ (136)	\$ 62	\$ 602	\$ (2)	\$ (61)	\$ (993)	\$ (9)	\$ (537)
OCI	(59)	24	93		29	(39)	10	58
December 31, 2010	\$ (195)	\$ 86	\$ 695	\$ (2)	\$ (32)	\$ (1,032)	\$ 1	\$ (479)
OCI	(48)	2	(168)	3	7	(105)		(309)
December 31, 2011	\$ (243)	\$ 88	\$ 527	\$ 1	\$ (25)	\$ (1,137)	\$ 1	\$ (788)
OCI	94	22	(395)	2	11	(886)		(1,152)
December 31, 2012	\$ (149)	\$ 110	\$ 132	\$ 3	\$ (14)	\$ (2,023)	\$ 1	\$ (1,940)
PPL Energy Supply								
December 31, 2009	\$ (136)	\$ 62	\$ 573	\$ (2)	\$ (44)	\$ (930)	\$ (7)	\$ (484)
OCI	(59)	24	159		21	(23)	7	129
December 31, 2010	\$ (195)	\$ 86	\$ 732	\$ (2)	\$ (23)	\$ (953)		\$ (355)
OCI		2	(86)	3	2	(18)		(97)
Distribution of membership interest in PPL Global (a)	195		(41)		5	780		939
December 31, 2011	\$	\$ 88	\$ 605	\$ 1	\$ (16)	\$ (191)		\$ 487
OCI		22	(395)		6	(72)		(439)
December 31, 2012		\$ 110	\$ 210	\$ 1	\$ (10)	\$ (263)		\$ 48

(a) See Note 9 for additional information.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
LKE						
December 31, 2009 - Predecessor	\$ 11	\$ (6)		\$ (12)	\$ (36)	\$ (43)
Disposal of discontinued operations	(11)					(11)
OCI		10	(2)	1	(19)	(10)
October 31, 2010 - Predecessor	\$	\$ 4	\$ (2)	\$ (11)	\$ (55)	\$ (64)
Effect of PPL acquisition		(4)	2	11	55	64
OCI					6	6
December 31, 2010 - Successor					6	6
OCI				(2)		(2)
December 31, 2011 - Successor				(2)	6	4
OCI			1		(20)	(19)
December 31, 2012 - Successor			1	(2)	(14)	(15)

LG&E had an AOCI balance that was a loss of \$10 million at December 31, 2009 (a Predecessor period). LG&E had no AOCI balances at December 31, 2010, 2011 or 2012 (Successor periods). During the ten months ended October 31, 2010 (a Predecessor period), LG&E had \$10 million of gains on qualifying derivatives that were recorded in OCI.

KU had no AOCI balances at December 31, 2009 (a Predecessor period), 2010 or 2011 (Successor periods). KU had an AOCI balance that was a gain of \$1 million at December 31, 2012 (a Successor period) related to an equity investee's AOCI. KU recorded \$2 million of losses related to an equity investee's OCI during the ten months ended October 31, 2010 (a Predecessor period), which were eliminated with the effect of the PPL acquisition.

Earnings Per Share (PPL)

EPS is computed using the two-class method, which is an earnings allocation method for computing EPS that treats a participating security as having rights to earnings that would otherwise have been available to common shareowners. Share-based payment awards that provide recipients a non-forfeitable right to dividends or dividend equivalents are considered participating securities.

Price Risk Management

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Energy and energy-related contracts are used to hedge the variability of expected cash flows associated with the generating units and marketing activities, as well as for trading purposes. Interest rate contracts are used to hedge exposures to changes in the fair value of debt instruments and to hedge exposures to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exchange exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain energy and energy-related contracts meet the definition of a derivative, while others do not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative energy contracts have been excluded from the requirements of derivative accounting treatment because they meet the definition of NPNS. These contracts are accounted for using accrual accounting. All other contracts that have been classified as derivative contracts are reflected on the balance sheet at their fair value. These contracts are recorded as "Price risk management assets" and "Price risk management liabilities" on the Balance Sheets. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities."

Energy and energy-related contracts are assigned a strategy and accounting classification. Processes exist that allow for subsequent review and validation of the contract information. These strategies are discussed in more detail in Note 19. The accounting department provides the traders and the risk management department with guidelines on appropriate accounting classifications for various contract types and strategies. Some examples of these guidelines include, but are not limited to:

- Physical coal, limestone, lime, uranium, electric transmission, gas transportation, gas storage and renewable energy credit contracts are not derivatives due to the lack of net settlement provisions.
- Only contracts where physical delivery is deemed probable throughout the entire term of the contract can qualify for NPNS.
- Physical transactions that permit cash settlement and financial transactions do not qualify for NPNS because physical delivery cannot be asserted; however, these transactions can receive cash flow hedge treatment if they lock in the future cash flows for energy-related commodities.
- Certain purchased option contracts or net purchased option collars may receive hedge accounting treatment. Those that are not eligible are recorded at fair value through earnings.
- Derivative transactions that do not qualify for NPNS or hedge accounting treatment are recorded at fair value through earnings.

A similar process is also followed by the treasury department as it relates to interest rate and foreign currency derivatives. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions entered into to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions entered into to hedge the value of a net investment of foreign operations can be designated as net investment hedges.

- Derivative transactions that do not qualify for hedge accounting treatment are marked to fair value through earnings. These transactions generally include foreign currency swaps and options to hedge GBP earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.
- Derivative transactions may be marked to fair value through regulatory assets/liabilities if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the underlying nature of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL Energy Supply reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in "Net energy trading margins" on the Statements of Income.

See Notes 18 and 19 for additional information on derivatives.

(PPL and PPL Electric)

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, these contracts qualify for NPNS. See Notes 18 and 19 for additional information.

Revenue

Utility Revenue (PPL)

For the years ended December 31, the Statements of Income "Utility" line item contains rate-regulated revenue from the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Domestic electric and gas revenue (a)	\$ 4,519	\$ 4,674	\$ 2,941
U.K. electric revenue (b)	2,289	1,618	727
Total	<u>\$ 6,808</u>	<u>\$ 6,292</u>	<u>\$ 3,668</u>

(a) Represents revenue from regulated generation, transmission and/or distribution in Pennsylvania, Kentucky, Virginia and Tennessee, including regulated wholesale revenue. 2010 includes two months of revenue for LKE.

(b) Represents electric distribution revenue from the operation of WPD's distribution networks. 2011 includes eight months of revenue for WPD Midlands.

Revenue Recognition

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Operating revenues, except for certain energy and energy-related contracts that meet the definition of derivative instruments and "Energy-related businesses," are recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' meters are read and bills are rendered throughout the month, rather than all being read at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Unbilled wholesale energy revenues are recorded at month-end to reflect estimated amounts until actual dollars and MWhs are confirmed and invoiced. Any difference between estimated and actual revenues is adjusted the following month.

Certain PPL subsidiaries participate primarily in the PJM RTO, as well as in other RTOs and ISOs. In PJM, PPL EnergyPlus is a marketer, a load-serving entity and a seller for PPL Energy Supply's generation subsidiaries. A function of interchange accounting is to match participants' MWh entitlements (generation plus scheduled bilateral purchases) against their MWh obligations (load plus scheduled bilateral sales) during every hour of every day. If the net result during any given hour is an entitlement, the participant is credited with a spot-market sale to the RTO at the respective market price for that hour; if the net result is an obligation, the participant is charged with a spot-market purchase at the respective market price for that hour. PPL Energy Supply records the hourly net sales in its Statements of Income as "Wholesale energy marketing" if in a net sales position and "Energy purchases" if in a net purchase position.

(PPL)

WPD's revenue is primarily from charges to suppliers to use its distribution system to deliver electricity to the end-user. WPD's allowed revenue is not dependent on volume delivered over the five-year price control period. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a given period. Under recoveries are recovered and recorded in the next regulatory year. Over recoveries are reflected in the current period as a liability and are not included in revenue.

(PPL and PPL Energy Supply)

PPL Energy Supply records non-derivative energy marketing activity in the period when the energy is delivered. Generally, sales contracts held for non-trading purposes are reported gross on the Statements of Income within "Wholesale energy marketing" and "Unregulated retail electric and gas." However, non-trading physical sales and purchases of electricity at major market delivery points (which is any delivery point with liquid pricing available, such as the pricing hub for PJM West), are netted and reported in the Statements of Income within "Wholesale energy marketing" or "Energy purchases," depending on the net hourly position. Certain energy and energy-related contracts that meet the definition of derivative instruments are recorded at fair value with subsequent changes in fair value recognized as revenue or expense (see Note 19), unless hedge accounting is applied. If derivatives meet cash flow hedging criteria, changes in fair value are recorded in AOCI. Derivative and non-derivative contracts that are designated as proprietary trading activities are reported net on the Statements of Income within "Net energy trading margins."

"Energy-related businesses" revenue primarily includes revenue from the mechanical contracting and engineering subsidiaries. The mechanical contracting and engineering subsidiaries record revenue from construction contracts on the percentage-of-completion method of accounting, measured by the actual cost incurred to date as a percentage of the estimated total cost for each contract. Accordingly, costs and estimated earnings in excess of billings on uncompleted contracts are recorded within "Unbilled revenues" on the Balance Sheets, and billings in excess of costs and estimated earnings on uncompleted contracts are recorded within "Other current liabilities" on the Balance Sheets. The amount of costs and estimated earnings in excess of billings was \$12 million and \$15 million at December 31, 2012 and 2011, and the amount of billings in excess of costs and estimated earnings was \$70 million and \$59 million at December 31, 2012 and 2011.

Accounts Receivable

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. See Note 10 for information related to the acquisitions of WPD Midlands and LKE.

(PPL, PPL Energy Supply and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative suppliers (including PPL EnergyPlus) at a nominal discount, which reflects a provision for uncollectible accounts. The alternative suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. PPL Electric receives a nominal fee for administering its program. During 2012, 2011 and 2010, PPL Electric purchased \$848 million, \$875 million and \$617 million of accounts receivable from unaffiliated third parties. During 2012, 2011 and 2010, PPL Electric purchased \$313 million, \$264 million and \$215 million of accounts receivable from PPL EnergyPlus.

Allowance for Doubtful Accounts (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs, the age of the receivable, counterparty creditworthiness and economic conditions. Specific events, such as bankruptcies, are also considered. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when it is known they will be received.

The changes in the allowance for doubtful accounts were:

	Balance at Beginning of Period	Additions		Deductions (a)	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
PPL					
2012	\$ 54	\$ 55 (c)		\$ 45	\$ 64
2011	55	65 (c)		66 (d)	54
2010	37	42 (b)	\$ 7 (b) (e)	31	55 (b)
PPL Energy Supply					
2012	\$ 15	\$ 12 (c)		\$ 4	\$ 23
2011	20	14 (c)		19 (d)	15
2010	21	1		2	20
PPL Electric					
2012	\$ 17	\$ 32		\$ 31	\$ 18
2011	17	33		33	17
2010	16	30		29	17
LKE					
2012 - Successor	\$ 17	\$ 9		\$ 7	\$ 19
2011 - Successor	17	15		15	17
2010 - Successor		10	\$ 7 (e)		17
2010 - Predecessor	4	10		10	4
LG&E					
2012 - Successor	\$ 2	\$ 2		\$ 3	\$ 1
2011 - Successor	2	5		5	2
2010 - Successor		1	\$ 2 (e)	1	2
2010 - Predecessor	2	4		4	2
KU					
2012 - Successor	\$ 2	\$ 4		\$ 4	\$ 2
2011 - Successor	6	6		10	2
2010 - Successor		1	\$ 6 (e)	1	6
2010 - Predecessor	3	6		6	3

(a) Primarily related to uncollectible accounts written off.

(b) Includes amounts associated with LKE activity since the November 1, 2010 acquisition date. See Note 10 for additional information related to the acquisition of LKE.

(c) Includes amounts related to the SMTG bankruptcy. See Note 15 for additional information.

(d) Includes amounts related to the June 2011, FERC approved settlement agreement between PPL and the California ISO related to the sales made to the California ISO during the period October 2000 through June 2001 that were not paid to PPL subsidiaries. Therefore, the receivable and the related allowance for doubtful accounts were reversed and the settlement recorded.

(e) Primarily related to capital projects, thus the provision was recorded as an adjustment to construction work in progress.

Cash (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Cash Equivalents

All highly liquid debt instruments purchased with original maturities of three months or less are considered to be cash equivalents.

Restricted Cash and Cash Equivalents

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. The change in restricted cash and cash equivalents is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, the current portion of restricted cash and cash equivalents is shown as "Restricted cash and cash equivalents" for PPL and PPL Energy Supply and included in "Other current assets" for PPL Electric, LKE, LG&E and KU while the noncurrent portion is included in "Other noncurrent assets" for all Registrants. At December 31, the balances of restricted cash and cash equivalents included the following.

	PPL		PPL Energy Supply		PPL Electric		LKE		LG&E	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Margin deposits posted to counterparties	\$ 43	\$ 137	\$ 43	\$ 137						
Cash collateral posted to counterparties	32	29					\$ 32	\$ 29	\$ 32	\$ 29
Low carbon network fund (a)	14	9								
Captive insurance reserves (b)	6	6								
Funds deposited with a trustee (c)	13	12			\$ 13	\$ 12				
Ironwood debt service reserves	17		17							
Other	10	16	3	8		1				
Total	\$ 135	\$ 209	\$ 63	\$ 145	\$ 13	\$ 13	\$ 32	\$ 29	\$ 32	\$ 29

- (a) Funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.
(b) Funds required by law to be held by WPD's captive insurance company to meet claims.
(c) Funds deposited with a trustee to defease PPL Electric's 1945 First Mortgage Bonds.

Fair Value Measurements (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities including investments in the NDT funds and defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

The Registrants classify fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.
- **Level 3** - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, the Registrants' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

Investments

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Short-term investments" or "Other current assets" on the Balance Sheets.

Investments in Debt and Equity Securities

Investments in debt securities are classified as held-to-maturity and measured at amortized cost when there is an intent and ability to hold the securities to maturity. Debt and equity securities held principally to capitalize on fluctuations in their value with the intention of selling them in the near-term are classified as trading. All other investments in debt and equity securities are classified as available-for-sale. Both trading and available-for-sale securities are carried at fair value. The specific identification method is used to calculate realized gains and losses on debt and equity securities. Any unrealized gains and losses on trading securities are included in earnings.

The criteria for determining whether a decline in fair value of a debt security is other than temporary and whether the other-than-temporary impairment is recognized in earnings or reported in OCI require that when a debt security is in an unrealized loss position and:

- there is an intent or a requirement to sell the security before recovery, the other-than-temporary impairment is recognized currently in earnings; or
- there is no intent or requirement to sell the security before recovery, the portion of the other-than-temporary impairment that is considered a credit loss is recognized currently in earnings and the remainder of the other-than-temporary impairment is reported in OCI, net of tax; or
- there is no intent or requirement to sell the security before recovery and there is no credit loss, the unrealized loss is reported in OCI, net of tax.

Unrealized gains and losses on available-for-sale equity securities are reported, net of tax, in OCI. When an equity security's decline in fair value below amortized cost is determined to be an other-than-temporary impairment, the unrealized loss is recognized currently in earnings. See Notes 18 and 23 for additional information on investments in debt and equity securities.

Equity Method Investment *(PPL, LKE and KU)*

Investments in entities over which PPL, LKE and KU have the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting and are reported in "Other Investments" on PPL's Balance Sheet and in "Investments" on LKE's and KU's Balance Sheets. In accordance with the accounting guidance for equity method investments, the recoverability of the investment is periodically assessed. If an identified event or change in circumstances requires an impairment evaluation, the fair value of the investment is assessed. The difference between the carrying amount of the investment and its estimated fair value is recognized as an impairment loss when the loss in value is deemed other-than-temporary and such loss is included in "Other-Than-Temporary Impairments" on the Statements of Income.

KU owns 20% of the common stock of EEI, which is accounted for as an equity method investment. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment. During 2012, KU recorded gains (losses) of \$(8) million from its share of EEI's operating results. In December 2012, KU concluded that an other-than-temporary decline in the value of its investment in EEI had occurred. KU recorded an impairment charge of \$25 million (\$15 million, after-tax) which reduced the investment balance to zero, the estimated fair value at December 31, 2012. See Note 18 for additional information.

Cost Method Investment (LKE, LG&E and KU)

LG&E and KU each have an investment in OVEC, which is accounted for using the cost method. The investment is recorded in "Investments" on the LKE and KU Balance Sheets, in "Other noncurrent assets" on the LG&E Balance Sheets and in "Other investments" on the PPL Balance Sheets. LG&E and KU and ten other electric utilities are equity owners of OVEC. OVEC's power is currently supplied to LG&E and KU and 11 other companies affiliated with the various owners. LG&E and KU own 5.63% and 2.5% of OVEC's common stock. Pursuant to a power purchase agreement, LG&E and KU are contractually entitled to their ownership percentage of OVEC's output, which is approximately 134 MW for LG&E and approximately 60 MW for KU.

LG&E's and KU's combined investment in OVEC is not significant. The direct exposure to loss as a result of LG&E's and KU's involvement with OVEC is generally limited to the value of their investments; however, LG&E and KU may be conditionally responsible for a pro-rata share of certain OVEC obligations. As part of PPL's acquisition of LKE, the value of the power purchase contract was recorded as an intangible asset with an offsetting regulatory liability, both of which are being amortized using the units-of-production method until March 2026, the expiration date of the agreement. See Notes 15 and 20 for additional discussion on the power purchase agreement.

Long-Lived and Intangible Assets

Property, Plant and Equipment

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PP&E is recorded at original cost, unless impaired. PP&E acquired in a business combination is recorded at fair value at the time of acquisition. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs associated with planned major maintenance projects are accrued in advance of the period in which the work is performed. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. See "Asset Retirement Obligations" below and Note 6 for additional information.

(PPL and PPL Energy Supply)

The original cost for the PP&E acquired in the Ironwood Acquisition is its fair value on April 13, 2012. See Note 10 for additional information on the acquisition.

(PPL)

The original cost for the PP&E acquired in the WPD Midlands acquisition is its fair value on April 1, 2011, which approximated RAV as of the acquisition date. See Note 10 for additional information on the acquisition.

(PPL, PPL Electric, LKE and KU)

AFUDC is capitalized as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. LKE and KU have not recorded significant AFUDC as a return has been provided during the construction period for most projects.

(PPL and PPL Energy Supply)

Nuclear fuel-related costs, including fuel, conversion, enrichment, fabrication and assemblies, are capitalized as PP&E. Such costs are amortized as the fuel is spent using the units-of-production method and included in "Fuel" on the Statements of Income. PPL Energy Supply capitalizes interest costs as part of construction costs.

Capitalized interest, excluding AFUDC for PPL, is as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>
2012	\$ 53	\$ 47
2011	51	47
2010	30	33

Depreciation

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.

Following are the weighted-average rates of depreciation at December 31.

	<u>2012</u>					
	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Regulated utility plant	3.12		2.57	4.39	4.91	4.06
Non-regulated PP&E - Generation	3.05	3.05				
	<u>2011</u>					
	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Regulated utility plant	3.03		2.49	4.54	5.11	4.17
Non-regulated PP&E - Generation	2.88	2.88				

(PPL, LKE, LG&E and KU)

The KPSC approved new lower depreciation rates for LG&E and KU as part of the rate-case settlement agreement reached in November 2012. The new rates became effective January 1, 2013 and will result in lower depreciation of approximately \$19 million (\$9 million for LG&E and \$10 million for KU) in 2013, exclusive of net additions to PP&E.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider the expected use of the asset; the expected useful life of other assets to which the useful life of the intangible asset may relate; legal, regulatory, or contractual provisions that may limit the useful life; the company's historical experience as evidence of its ability to support renewal or extension; the effects of obsolescence, demand, competition, and other economic factors; and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

PPL and PPL Energy Supply account for RECs as intangible assets. PPL and PPL Energy Supply buy and/or sell RECs and also create RECs through owned renewable energy generation facilities. In any period, PPL and PPL Energy Supply can be a net purchaser or seller of RECs depending on their contractual obligations to purchase or deliver RECs and the production of RECs from their renewable energy generation facilities. The carrying value of RECs created from their renewable energy generation facilities is initially recorded at zero value and purchased RECs are initially recorded based on their purchase price. When RECs are consumed to satisfy an obligation to deliver RECs to meet a state's Renewable Portfolio Standard Obligation or when RECs are sold to third parties, they are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of RECs are not diminished until they are consumed, RECs are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in "Energy purchases" on the Statements of Income. Gains and losses on the sale of RECs are included in "Other operation and maintenance" on the Statements of Income.

PPL, PPL Energy Supply, LKE, LG&E and KU account for emission allowances as intangible assets. PPL, PPL Energy Supply, LKE, LG&E and KU are allocated emission allowances by states based on their generation facilities' historical emissions experience, and have purchased emission allowances generally when it is expected that additional allowances will be needed. The carrying value of allocated emission allowances is initially recorded at zero value and purchased allowances are initially recorded based on their purchase price. When consumed or sold, emission allowances are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of emission allowances are not diminished until they are consumed, emission allowances are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in "Fuel" on the Statements of Income. Gains and losses on the sale of emission allowances are included in "Other operation and maintenance" on the Statements of Income.

Asset Impairment (Excluding Investments)

The Registrants review long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable. See Note 18 for a discussion of impairments related to certain intangible assets.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value. See Note 15 for a discussion of the Corette coal-fired plant in Montana which was determined to not be impaired.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell. See Notes 9 and 18 for a discussion of impairment charges recorded associated with long-lived assets classified as held for sale.

PPL, PPL Energy Supply, LKE, LG&E and KU review goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed of. PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's reporting units are at the operating segment level. If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

The goodwill recognized upon the acquisition of LKE, although entirely recorded at LG&E and KU, was assigned for impairment testing by PPL to its reporting units expected to benefit from the acquisition, which were the Kentucky Regulated segment and the Supply segment. The goodwill recognized upon the acquisition of WPD Midlands was assigned for impairment testing by PPL to its U.K. Regulated segment. See Note 10 for additional information regarding the acquisition.

PPL, PPL Energy Supply, LKE, LG&E and KU tested the goodwill of all of their reporting units for impairment in the fourth quarter of 2012 and no impairment was recognized.

Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased to reflect changes in the obligation due to the passage of time through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income. The accretion and depreciation related to LG&E's and KU's AROs are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO is settled.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is amortized over the remaining life of the associated long-lived asset. See Note 21 for additional information on AROs.

Compensation and Benefits

Defined Benefits (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to OCI or, for LG&E, KU and PPL Electric, to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

See Note 13 for a discussion of defined benefits.

Stock-Based Compensation

(PPL, PPL Energy Supply, PPL Electric and LKE)

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Stock options that vest in installments are valued as a single award. PPL grants stock options with an exercise price that is not less than the fair value of PPL's common stock on the date of grant. See Note 12 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Energy Supply, PPL Electric and LKE includes an allocation of PPL Services' expense.

Other

Debt Issuance Costs (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Debt issuance costs are deferred and amortized over the term of the related debt using the interest method or another method, generally straight-line, if the results obtained are not materially different than those that would result from the interest method.

Income Taxes

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return. Prior to PPL's acquisition of LKE, LKE and its subsidiaries were included in E.ON US Investments Corp.'s consolidated U.S. federal income tax return.

Significant management judgment is required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Registrants use a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Registrants in future periods.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

The Registrants record valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. The Registrants consider the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If the Registrants determine that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if the Registrants determine that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The Registrants defer investment tax credits when the credits are utilized and amortize the deferred amounts over the average lives of the related assets.

The Registrants recognize interest and penalties in "Income Taxes" on their Statements of Income.

See Note 5 for additional discussion regarding income taxes.

(PPL, PPL Electric, LKE, LG&E and KU)

The provision for PPL, PPL Electric, LKE, LG&E and KU's deferred income taxes for regulated assets is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulated assets and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheet in noncurrent "Regulatory assets" or "Regulatory liabilities."

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The income tax provision for PPL Energy Supply, PPL Electric, LKE, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if PPL Energy Supply, PPL Electric, LKE, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes. At December 31, the following intercompany tax receivables (payables) were recorded.

	<u>2012</u>	<u>2011</u>
PPL Energy Supply	\$ (38)	\$ (50)
PPL Electric	22	22
LKE	(12)	3
LG&E	5	4
KU	(15)	5

Taxes, Other Than Income (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants present sales taxes in "Other current liabilities" and PPL presents value-added taxes in "Taxes" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 5 for details on taxes included in "Taxes, other than income" on the Statements of Income.

Leases

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 11 for a discussion of arrangements under which PPL Energy Supply, LG&E and KU are lessees for accounting purposes.

Fuel, Materials and Supplies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fuel, natural gas stored underground and materials and supplies are valued at the lower of cost or market using the average cost method. Fuel costs for electric generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 6 for further discussion of the fuel adjustment clause and gas supply clause.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31.

	<u>PPL</u>		<u>PPL Energy Supply</u>		<u>LKE</u>		<u>LG&E</u>		<u>KU</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Fuel	\$ 284	\$ 246	\$ 135	\$ 96	\$ 149	\$ 150	\$ 61	\$ 53	\$ 88	\$ 97
Natural gas stored underground (a)	50	73	8	20	42	53	42	53		
Materials and supplies	339	335	184	182	85	80	39	36	46	44
	<u>\$ 673</u>	<u>\$ 654</u>	<u>\$ 327</u>	<u>\$ 298</u>	<u>\$ 276</u>	<u>\$ 283</u>	<u>\$ 142</u>	<u>\$ 142</u>	<u>\$ 134</u>	<u>\$ 141</u>

(a) The majority of LKE's and LG&E's natural gas stored underground is held to serve native load. The majority of PPL Energy Supply's natural gas stored underground is available for resale.

Guarantees (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 15 for further discussion of recorded and unrecorded guarantees.

Treasury Stock (PPL and PPL Electric)

PPL and PPL Electric restore all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions (PPL)

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in OCI.

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. See Note 17 for additional information.

New Accounting Guidance Adopted (*PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU*)

Fair Value Measurements

Effective January 1, 2012, the Registrants prospectively adopted accounting guidance that was issued to clarify existing fair value measurement guidance and to enhance fair value disclosures. The additional disclosures required by this guidance include quantitative information about significant unobservable inputs used for Level 3 measurements, qualitative information about the sensitivity of recurring Level 3 measurements, information about any transfers between Levels 1 and 2 of the fair value hierarchy, information about when the current use of a non-financial asset is different from the highest and best use, and the fair value hierarchy classification for assets and liabilities whose fair value is disclosed only in the notes to the financial statements.

The adoption of this standard resulted in additional disclosures but did not have a significant impact on the Registrants. See Note 18 for additional disclosures required by this guidance.

Testing Goodwill for Impairment

Effective January 1, 2012, the Registrants prospectively adopted accounting guidance which allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of goodwill. If, based on this assessment, the entity determines it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step goodwill impairment test is not necessary. However, the first step of the impairment test is required if an entity concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the qualitative assessment.

The adoption of this standard did not have a significant impact on the Registrants.

2. Segment and Related Information

(PPL)

Since the acquisition of LKE on November 1, 2010, PPL is organized into four segments: Kentucky Regulated, U.K. Regulated (name change in 2012 from International Regulated to more specifically reflect the focus of the segment), Pennsylvania Regulated and Supply. Other than the name change for the U.K. Regulated segment, there were no other changes to this segment. PPL's segments are split between its regulated and competitive businesses with its regulated businesses further segmented by geographic location.

The Kentucky Regulated segment consists primarily of LKE's regulated electric generation, transmission and distribution operations, primarily in Kentucky. This segment also includes LKE's regulated distribution and sale of natural gas in Kentucky. In addition, the Kentucky Regulated segment is allocated certain financing costs. See Note 10 for additional information regarding the acquisition.

The U.K. Regulated segment primarily consists of the regulated electric distribution operations in the U.K. This includes the operating results and assets of WPD Midlands since the April 1, 2011 acquisition date, recorded on a one-month lag. The U.K. Regulated segment is also allocated certain WPD Midlands acquisition-related costs and financing costs. See Note 10 for additional information regarding the acquisition.

The Pennsylvania Regulated segment includes the regulated electric transmission and distribution operations of PPL Electric.

The Supply segment primarily consists of the domestic energy marketing and trading activities, as well as the competitive generation operations of PPL Energy Supply.

The results of operations of several facilities and businesses have been classified as Discontinued Operations on the Statements of Income. See Note 9 for additional information on these discontinued operations. Therefore, with the exception of "Net Income Attributable to PPL Shareowners" the operating results from these facilities and businesses have been excluded from the income statement data tables below.

"Corporate and Other" represents costs incurred at the corporate level that have not been allocated or assigned to the segments, which is presented to reconcile segment information to PPL's consolidated results. For 2012 and 2011, there were no significant costs in this category. For 2010, these costs represent LKE acquisition-related costs including advisory, accounting and legal fees, certain internal costs and 2010 Bridge Facility costs.

Beginning in 2013, PPL anticipates more costs to be included in the Corporate and Other category primarily due to an anticipated increase in the use of financing issued by PPL Capital Funding not directly attributable to a particular segment. PPL's recent growth in rate-regulated businesses provides the organization with an enhanced corporate level financing alternative, through PPL Capital Funding, that further enables PPL to support targeted credit profiles cost effectively across all of PPL's rated companies. As a result, PPL plans to further utilize PPL Capital Funding in addition to continued direct financing by the operating companies, as appropriate. The financing costs associated primarily with PPL Capital Funding's future securities issuances are not expected to be directly assignable or allocable to any segment and generally will be reflected in Corporate and Other beginning in 2013.

Financial data for the segments are:

Income Statement Data	2012	2011	2010
Revenues from external customers by product			
Kentucky Regulated			
Utility service (a)	\$ 2,759	\$ 2,793	\$ 493
U.K. Regulated			
Utility service (a)	2,289	1,618	727
Energy-related businesses	47	35	34
Total	<u>2,336</u>	<u>1,653</u>	<u>761</u>
Pennsylvania Regulated			
Utility service (a)	1,760	1,881	2,448
Supply			
Energy (b)	4,970	5,938	4,444
Energy-related businesses	461	472	375
Total	<u>5,431</u>	<u>6,410</u>	<u>4,819</u>
Total	<u>12,286</u>	<u>12,737</u>	<u>8,521</u>
Intersegment electric revenues			
Pennsylvania Regulated	3	11	7
Supply (c)	79	26	320
Depreciation			
Kentucky Regulated	346	334	49
U.K. Regulated	279	218	117
Pennsylvania Regulated	160	146	136
Supply	315	262	254
Total	<u>1,100</u>	<u>960</u>	<u>556</u>
Amortization (d)			
Kentucky Regulated	27	27	
U.K. Regulated	15	83	13
Pennsylvania Regulated	18	7	(22)
Supply	126	137	148
Corporate and Other			74
Total	<u>186</u>	<u>254</u>	<u>213</u>
Unrealized (gains) losses on derivatives and other hedging activities (b)			
Kentucky Regulated		(2)	1
Supply	27	(312)	541
Total	<u>27</u>	<u>(314)</u>	<u>542</u>
Interest income			
U.K. Regulated	3	4	2
Pennsylvania Regulated	1	1	4
Supply	1	2	2
Total	<u>5</u>	<u>7</u>	<u>8</u>
Interest Expense			
Kentucky Regulated	219	217	55
U.K. Regulated	421	391	135
Pennsylvania Regulated	99	98	99
Supply	222	192	224
Corporate and Other			80
Total	<u>961</u>	<u>898</u>	<u>593</u>

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Income from Continuing Operations Before Income Taxes			
Kentucky Regulated	263	349	40
U.K. Regulated	953	358	261
Pennsylvania Regulated	204	257	192
Supply (b)	662	1,237	860
Corporate and Other			(114)
Total	<u>2,082</u>	<u>2,201</u>	<u>1,239</u>
Income Taxes (e)			
Kentucky Regulated	80	127	16
U.K. Regulated	150	33	
Pennsylvania Regulated	68	68	57
Supply	247	463	228
Corporate and Other			(38)
Total	<u>545</u>	<u>691</u>	<u>263</u>
Deferred income taxes and investment tax credits (f)			
Kentucky Regulated	136	218	51
U.K. Regulated	26	(39)	17
Pennsylvania Regulated	114	106	198
Supply	150	299	(15)
Total	<u>426</u>	<u>584</u>	<u>251</u>
Net Income Attributable to PPL Shareowners			
Kentucky Regulated	177	221	26
U.K. Regulated	803	325	261
Pennsylvania Regulated	132	173	115
Supply (b)	414	776	612
Corporate and Other			(76)
Total	<u>\$ 1,526</u>	<u>\$ 1,495</u>	<u>\$ 938</u>

Cash Flow Data	<u>2012</u>	<u>2011</u>	<u>2010</u>
Expenditures for long-lived assets			
Kentucky Regulated	\$ 768	\$ 465	\$ 152
U.K. Regulated	1,016	862	281
Pennsylvania Regulated	633	490	411
Supply	736	739	795
Total	<u>\$ 3,153</u>	<u>\$ 2,556</u>	<u>\$ 1,639</u>

	<u>As of December 31,</u>	
	<u>2012</u>	<u>2011</u>
Balance Sheet Data		
Total Assets		
Kentucky Regulated	\$ 10,670	\$ 10,229
U.K. Regulated	14,073	13,364
Pennsylvania Regulated	6,023	5,610
Supply	12,868	13,445
Total	<u>\$ 43,634</u>	<u>\$ 42,648</u>

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Geographic Data			
Revenues from external customers			
U.S.	\$ 9,950	\$ 11,084	\$ 7,760
U.K.	2,336	1,653	761
Total	<u>\$ 12,286</u>	<u>\$ 12,737</u>	<u>\$ 8,521</u>

	<u>As of December 31,</u>	
	<u>2012</u>	<u>2011</u>
Long-Lived Assets		
U.S.	\$ 20,776	\$ 19,129
U.K.	9,951	8,996
Total	<u>\$ 30,727</u>	<u>\$ 28,125</u>

- (a) See Note 1 for additional information on Utility Revenue.
- (b) Includes unrealized gains and losses from economic activity. See Note 19 for additional information.
- (c) See "PLR Contracts/Purchase of Accounts Receivable" and "NUG Purchases" in Note 16 for a discussion of the basis of accounting between reportable segments.
- (d) Represents non-cash expense items that include amortization of nuclear fuel, regulatory assets, debt discounts and premiums, debt issuance costs, emission allowances and RECs.
- (e) Represents both current and deferred income taxes, including investment tax credits.
- (f) Represents a non-cash expense item that is also included in "Income Taxes."

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL Energy Supply, PPL Electric, LKE, LG&E and KU each operate within a single reportable segment.

3. Preferred Securities

(PPL)

PPL classifies preferred securities of subsidiaries as "Noncontrolling interests" on the Balance Sheets and related dividend requirements of \$4 million for 2012, \$16 million for 2011 and \$17 million for 2010 have been included in "Net Income Attributable to Noncontrolling Interests" on the Statements of Income. In June 2012, PPL Electric redeemed all of its Preference Stock at par value, without premium (\$250 million in the aggregate).

Preferred Stock

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2012, 2011, or 2010.

(PPL Electric)

PPL Electric is authorized to issue up to 629,936 shares of 4-1/2% Preferred Stock and 10 million shares of series preferred stock. In April 2010, PPL Electric redeemed all of its outstanding preferred stock (247,524 shares of 4-1/2% Preferred Stock and 257,665 shares of four series of preferred stock), with a par value in the aggregate of \$51 million, for \$54 million including accumulated dividends.

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a \$25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2012, 2011 or 2010.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock without par value. KU had no preferred stock issued or outstanding in 2012, 2011 or 2010.

Preference Stock

(PPL Electric)

PPL Electric is authorized to issue up to 10 million shares of Preference Stock and had 2.5 million shares of 6.25% Series Preference Stock (Preference Shares) issued and outstanding at December 31, 2011 and 2010. In June 2012, PPL Electric redeemed all 2.5 million shares of its outstanding Preference Shares, par value of \$100 per share. The price paid for the redemption was the par value, without premium (\$250 million in the aggregate).

The Preference Shares were held by a bank that acted as depository for 10 million depository shares, each of which represented a one-quarter interest in a Preference Share. Holders of the depository shares were entitled to all proportional rights and preferences of the Preference Shares, including dividend, voting, redemption and liquidation rights, exercised through the bank acting as a depository. The Preference Shares ranked senior to PPL Electric's common stock but had no voting rights, except as provided by law, and they had a liquidation preference of \$100 per share (equivalent to \$25 per depository share).

(KU)

KU is authorized to issue up to 2,000,000 shares of preference stock without par value. KU had no preference stock issued or outstanding in 2012, 2011 or 2010.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method. In 2012, 2011 and 2010, these securities included stock options and performance units granted under incentive compensation plans and the Purchase Contracts associated with the 2011 and 2010 Equity Units. For 2012, these securities also included the PPL common stock forward sale agreements. See Note 7 for additional information on the forward sale agreements. The forward sale agreements were dilutive under the treasury stock method for 2012 because the average stock price of PPL's common shares exceeded the forward sale price indicated in the forward sale agreements.

The Purchase Contracts are dilutive under the treasury stock method if the average VWAP of PPL common stock for a certain period exceeds approximately \$30.99 and \$28.80 for the 2011 and 2010 Purchase Contracts. The 2010 Purchase Contracts were dilutive for 2012 and 2011. Subject to antidilution adjustments at December 31, 2012, the maximum number of shares issuable to settle the Purchase Contracts was 93.8 million shares, including 86.6 million shares that could be issued under standard provisions of the Purchase Contracts and 7.2 million shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change. See Note 7 for additional information on the 2011 and 2010 Equity Units.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended December 31 used in the EPS calculation are:

	2012	2011	2010
Income (Numerator)			
Income from continuing operations after income taxes attributable to PPL shareowners	\$ 1,532	\$ 1,493	\$ 955
Less amounts allocated to participating securities	8	6	4
Less issuance costs on subsidiary's preferred securities redeemed	6		
Income from continuing operations after income taxes available to PPL common shareowners	<u>\$ 1,518</u>	<u>\$ 1,487</u>	<u>\$ 951</u>
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners	<u>\$ (6)</u>	<u>\$ 2</u>	<u>\$ (17)</u>
Net income attributable to PPL shareowners	\$ 1,526	\$ 1,495	\$ 938
Less amounts allocated to participating securities	8	6	4
Less issuance costs on subsidiary's preferred securities redeemed	6		
Net income available to PPL common shareowners	<u>\$ 1,512</u>	<u>\$ 1,489</u>	<u>\$ 934</u>
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	580,276	550,395	431,345
Add incremental non-participating securities:			
Stock options and performance units	563	400	224
2010 Purchase Contracts	195	157	
Forward sale agreements	592		
Weighted-average shares - Diluted EPS	<u>581,626</u>	<u>550,952</u>	<u>431,569</u>
Basic EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	\$ 2.62	\$ 2.70	\$ 2.21
Income (loss) from discontinued operations (net of income taxes)	(0.01)	0.01	(0.04)
Net Income	<u>\$ 2.61</u>	<u>\$ 2.71</u>	<u>\$ 2.17</u>
Diluted EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	\$ 2.61	\$ 2.70	\$ 2.20
Income (loss) from discontinued operations (net of income taxes)	(0.01)		(0.03)
Net Income	<u>\$ 2.60</u>	<u>\$ 2.70</u>	<u>\$ 2.17</u>

During 2012, PPL issued 936,218 shares of common stock related to the exercise of stock options, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors under its stock-based compensation plans. In addition, PPL issued 279,945 and 2,326,917 shares of common stock related to its ESOP and DRIP during 2012. See Note 12 for a discussion of PPL's stock-based compensation plans.

The following stock options to purchase PPL common stock and performance units were excluded from the computations of diluted EPS for the years ended December 31 because the effect would have been antidilutive.

(Shares in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Stock options	5,293	5,084	4,936
Performance units	58	2	45

5. Income and Other Taxes

(PPL)

"Income from Continuing Operations Before Income Taxes" included the following components:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Domestic income	\$ 994	\$ 1,715	\$ 952
Foreign income	1,088	486	287
Total	<u>\$ 2,082</u>	<u>\$ 2,201</u>	<u>\$ 1,239</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 6 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and certain foreign jurisdictions in which PPL's operations have historically been profitable.

Significant components of PPL's deferred income tax assets and liabilities were as follows:

	<u>2012</u>	<u>2011</u>
Deferred Tax Assets		
Deferred investment tax credits	\$ 130	\$ 113
Regulatory obligations	124	149
Accrued pension costs	276	325
Federal loss carryforwards	524	305
State loss carryforwards	305	272
Federal and state tax credit carryforwards	287	240
Foreign capital loss carryforwards	525	578
Foreign loss carryforwards	6	7
Foreign - pensions	254	74
Foreign - regulatory obligations	27	67
Foreign - other	16	21
Contributions in aid of construction	134	133
Domestic - other	239	229
Valuation allowances	(706)	(724)
Total deferred tax assets	<u>2,141</u>	<u>1,789</u>
Deferred Tax Liabilities		
Domestic plant - net	3,967	3,465
Taxes recoverable through future rates	141	137
Unrealized gain on qualifying derivatives	122	331
Other regulatory assets	319	234
Reacquired debt costs	40	93
Foreign plant - net	937	975
Foreign - other	66	22
Domestic - other	66	103
Total deferred tax liabilities	<u>5,592</u>	<u>5,360</u>
Net deferred tax liability	<u>\$ 3,451</u>	<u>\$ 3,571</u>

At December 31, PPL had the following loss and tax credit carryforwards.

	<u>2012</u>	<u>Expiration</u>
Loss carryforwards		
Federal net operating losses	\$ 1,481	2028-2032
Federal charitable contributions	19	2016-2017
State net operating losses	5,099	2013-2032
State capital losses	138	2013-2016
Foreign net operating losses	27	Indefinite
Foreign capital losses	2,282	Indefinite
Credit carryforwards		
Federal investment tax credit	233	2025-2032
Federal alternative minimum tax credit	20	Indefinite
Federal foreign tax credit	1	2017-2022
Federal - other	30	2016-2032
State - other	4	2022

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were:

	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions</u>	<u>Balance at End of Period</u>
		<u>Charged to Income</u>	<u>Charged to Other Accounts</u>		
2012	\$ 724	\$ 18	\$ 10	\$ 46 (a)	\$ 706
2011	464	190	112 (b)	42 (c)	724
2010	312	221	6	75 (d)	464

- (a) The reduction of the U.K. statutory income tax rate resulted in a reduction in deferred tax assets and the corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Act of 2012.
- (b) Primarily related to a \$101 million valuation allowance that was recorded against certain deferred tax assets as a result of the 2011 acquisition of WPD Midlands. See Note 10 for additional information on the acquisition.
- (c) The reduction of the U.K. statutory income tax rate resulted in a \$35 million reduction in deferred tax assets and the corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Act of 2011.
- (d) Resulting from the projected revenue increase in connection with the expiration of the Pennsylvania generation rate caps in 2010, the valuation allowance related to state net operating loss carryforwards over the remaining carryforward period was reduced by \$72 million.

PPL Global does not pay or record U.S. income taxes on the undistributed earnings of WPD, with the exception of certain financing entities, as management has determined that the earnings are indefinitely reinvested. Historically, dividends paid by WPD have been distributions from current year's earnings. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings, and WPD would have to issue debt or access credit facilities to fund any distributions in excess of current earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate distributions from WPD in excess of some portion of future WPD earnings. The cumulative undistributed earnings are included in "Earnings Reinvested" on the Balance Sheets. The amounts considered indefinitely reinvested at December 31, 2012 and 2011 were \$2.0 billion and \$1.2 billion. If the WPD undistributed earnings were remitted as dividends, PPL Global could be subject to additional U.S. taxes, net of allowable foreign tax credits. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2012	2011	2010
Income Tax Expense (Benefit)			
Current - Federal		\$ 54	\$ (51)
Current - State	\$ (2)	(20)	43
Current - Foreign	121	73	20
Total Current Expense (Benefit)	119	107	12
Deferred - Federal	553	558	358
Deferred - State	103	127	(82)
Deferred - Foreign	35	(23)	(9)
Total Deferred Expense (Benefit), excluding operating loss carryforwards	691	662	267
Investment tax credit, net - Federal	(10)	(10)	(5)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(195)	(30)	6
Deferred - State	(60)	(38)	(17)
Total Tax Benefit of Operating Loss Carryforwards	(255)	(68)	(11)
Total income taxes from continuing operations (a)	\$ 545	\$ 691	\$ 263
Total income tax expense - Federal	\$ 348	\$ 572	\$ 308
Total income tax expense (benefit) - State	41	69	(56)
Total income tax expense - Foreign	156	50	11
Total income taxes from continuing operations (a)	\$ 545	\$ 691	\$ 263

- (a) Excludes current and deferred federal and state tax expense (benefit) recorded to Discontinued Operations of \$(4) million in 2012, \$2 million in 2011 and \$(6) million in 2010. Excludes realized tax expense (benefits) related to stock-based compensation, recorded as a decrease (increase) to additional paid-in capital of \$(1) million in 2012, \$3 million in 2011 and an insignificant amount in 2010. Excludes tax benefits related to the issuance costs of the Purchase Contracts, recorded as an increase to additional paid-in capital of an insignificant amount in 2012, \$5 million in 2011 and \$10 million in 2010, offset by an insignificant amount of related valuation allowances for state deferred taxes in 2012 and 2011. Also excludes federal, state, and foreign tax expense (benefit) recorded to OCI of \$(526) million in 2012, \$(137) million in 2011 and \$83 million in 2010, and related valuation allowances for state deferred taxes of an insignificant amount in 2012 and \$3 million in 2011.

	2012	2011	2010
Reconciliation of Income Tax Expense			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 729	\$ 770	\$ 434
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	27	63	36
State valuation allowance adjustments (a)	13	36	(65)
Impact of lower U.K. income tax rates (b)	(123)	(41)	(20)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	43	(14)	34
Federal and state tax reserves adjustments (d)	(1)	39	(60)
Foreign tax reserves adjustments (e)	(5)	(141)	
Federal and state income tax return adjustments (a) (f)	16	(17)	(3)
Foreign income tax return adjustments	(6)		
Domestic manufacturing deduction (f) (g)			(11)
Health Care Reform (h)			8
Foreign losses resulting from restructuring (e)			(261)
Enactment of the U.K.'s Finance Acts (b)	(75)	(69)	(18)
Federal income tax credits (i)	(12)	(13)	(12)
Depreciation not normalized (a)	(11)	(20)	(3)
Foreign valuation allowance adjustments (e)		147	215
State deferred tax rate change (j)	(19)	(26)	
Net operating loss carryforward adjustments (k)	(9)		
Intercompany interest on U.K. financing entities (l)	(13)	(12)	
Other	(9)	(11)	(11)
Total increase (decrease)	(184)	(79)	(171)
Total income taxes from continuing operations	\$ 545	\$ 691	\$ 263
Effective income tax rate	26.2%	31.4%	21.2%

- (a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL recorded \$43 million in state deferred income tax expense related to deferred tax valuation allowances during 2011.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed into service before January 1, 2012. The placed-in-service deadline is extended to January 1, 2013 for property that has a cost in excess of \$1 million, has a production period longer than one year and has a tax life of at least ten years. PPL's tax deduction for 100% bonus regulated tax depreciation was significantly lower in 2012 than in 2011.

- Pennsylvania H.B. 1531, enacted in October 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. Based on the projected revenue increase related to the expiration of the generation rate caps in 2010, PPL recorded a \$72 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances related to the future projections of taxable income over the remaining carryforward period of the net operating losses.
- (b) The U.K.'s Finance Act of 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2012 related to both rate decreases.
- The U.K.'s Finance Act of 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2011 related to both rate decreases.
- The U.K.'s Finance Act of 2010, enacted in July 2010, reduced the U.K. statutory income tax rate from 28% to 27% effective April 1, 2011. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2010.
- (c) During 2012, PPL recorded a \$23 million adjustment to federal income tax expense related to the recalculation of 2010 U.K. earnings and profits and \$19 million of U.S. income tax expense on foreign earnings of certain U.K. financing entities not indefinitely reinvested.
- During 2011, PPL recorded a \$28 million federal income tax benefit related to U.K. pension contributions.
- During 2010, PPL recorded additional U.S. income tax expense primarily resulting from increased taxable dividends.
- (d) In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its federal income tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result, and with the finalization of other issues, PPL recorded a \$42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in 2011. In February 2012, PPL filed a petition for rehearing of the Third Circuit's opinion. In March 2012, the Third Circuit denied PPL's petition. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition on October 29, 2012, and oral argument was held on February 20, 2013. PPL expects the case to be decided before the end of the Supreme Court's current term in June 2013 and cannot predict the outcome of this matter.
- In July 2010, the Tax Court ruled in PPL's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL recorded a \$7 million tax benefit to federal and state income tax reserves and related deferred income taxes. The IRS did not appeal this decision.
- PPL recorded a tax benefit of \$6 million during 2012 and 2011 and \$7 million during 2010 to federal and state income tax reserves related to stranded cost securitization.
- (e) During 2012, PPL recorded a foreign tax benefit following resolution of a U.K. tax issue related to interest expense.
- During 2011, WPD reached an agreement with HMRC related to the amount of the capital losses that resulted from prior years' restructuring in the U.K. and recorded a \$147 million foreign tax benefit for the reversal of tax reserves related to the capital losses. Additionally, WPD recorded a \$147 million valuation allowance for the amount of capital losses that, more likely than not, will not be utilized.
- During 2010, PPL recorded a \$261 million foreign tax benefit in conjunction with losses resulting from restructuring in the U.K. A portion of these losses offset tax on a deferred gain from a prior year sale of WPD's supply business. WPD recorded a \$215 million valuation allowance for the amount of capital losses that, more likely than not, will not be utilized.
- (f) During 2012, PPL recorded federal and state income tax expense related to the filing of the 2011 federal and state income tax returns. Of this amount, \$5 million relates to the reversal of prior years' state income tax benefits related to regulated depreciation. PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL adopted the safe harbor method with the filing of its 2011 federal income tax return.
- During 2011, PPL recorded federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of this amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts and \$3 million in tax benefits related to the flow-through impact of Pennsylvania regulated state tax depreciation.
- (g) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminated the tax benefits related to domestic manufacturing deductions in 2012 and 2011.
- (h) Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL recorded deferred income tax expense during 2010. See Note 13 for additional information.
- (i) During 2012, 2011 and 2010, PPL recorded a deferred tax benefit related to investment tax credits on progress expenditures related to hydroelectric plant expansions. See Note 8 for additional information.
- (j) In 2011, PPL completed the sale of certain non-core generation facilities. See Note 9 for additional information. Due to changes in state apportionment resulting in reductions in the future estimated state tax rate, PPL recorded deferred tax benefits related to its December 31, 2012 and 2011 state deferred tax liabilities.
- (k) During 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
- (l) During 2012 and 2011, PPL recorded foreign income tax benefits related to interest expense on intercompany loans for which there was no domestic income tax expense.

	2012	2011	2010
Taxes, other than income			
State gross receipts	\$ 135	\$ 140	\$ 145
State utility realty	2	(9)	5
State capital stock	7	18	6
Foreign property (a)	147	113	52
Domestic property and other (b)	75	64	30
Total	<u>\$ 366</u>	<u>\$ 326</u>	<u>\$ 238</u>

(a) The increase between 2011 and 2010 is due primarily to the acquisition of WPD Midlands on April 1, 2011. See Note 10 for additional information.

(b) The increase between 2011 and 2010 is due primarily to the acquisition of LKE on November 1, 2010. See Note 10 for additional information.

(PPL Energy Supply)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. jurisdictions in which PPL Energy Supply's operations have historically been profitable.

Significant components of PPL Energy Supply's deferred income tax assets and liabilities were as follows:

	2012	2011
Deferred Tax Assets		
Deferred investment tax credits	\$ 75	\$ 55
Accrued pension costs	94	100
Federal loss carryforwards	51	1
Federal tax credit carryforwards	113	58
State loss carryforwards	79	78
Other	68	80
Valuation allowances	(74)	(72)
Total deferred tax assets	<u>406</u>	<u>300</u>
Deferred Tax Liabilities		
Plant - net	1,579	1,407
Unrealized gain on qualifying derivatives	173	380
Other	44	51
Total deferred tax liabilities	<u>1,796</u>	<u>1,838</u>
Net deferred tax liability	<u>\$ 1,390</u>	<u>\$ 1,538</u>

At December 31, PPL Energy Supply had the following loss and tax credit carryforwards.

	2012	Expiration
Loss carryforwards		
Federal net operating losses	\$ 143	2031-2032
Federal charitable contributions	3	2016
State net operating losses	1,202	2013-2032
Credit carryforwards		
Federal investment tax credit	108	2031-2032
Federal - other	5	2031-2032

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
2012	\$ 72	\$ 2			\$ 74
2011	408	22		\$ 358 (a)	72
2010	255	205		52 (b)	408

(a) During 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Funding. See Note 9 for additional information.

(b) Resulting from the projected revenue increase in connection with the expiration of the Pennsylvania generation rate caps in 2010, the valuation allowance related to state net operating loss carryforwards over the remaining carryforward period was reduced by \$52 million.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income (Loss) from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2012	2011	2010
Income Tax Expense (Benefit)			
Current - Federal	\$ 89	\$ 139	\$ 208
Current - State	22	(12)	78
Total Current Expense (Benefit)	111	127	286
Deferred - Federal	193	251	66
Deferred - State	10	70	(89)
Total Deferred Expense (Benefit), excluding operating loss carryforwards	203	321	(23)
Investment tax credit, net - federal	(2)	(3)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(48)		
Deferred - State	(1)		
Total Tax Benefit of Operating Loss Carryforwards	(49)		
Total income taxes from continuing operations (a)	<u>\$ 263</u>	<u>\$ 445</u>	<u>\$ 261</u>
Total income tax expense - Federal	\$ 232	\$ 387	\$ 272
Total income tax expense (benefit) - State	31	58	(11)
Total income taxes from continuing operations (a)	<u>\$ 263</u>	<u>\$ 445</u>	<u>\$ 261</u>

- (a) Excludes current and deferred federal, state and foreign tax expense (benefit) recorded to Discontinued Operations of \$3 million in 2011 and \$(5) million in 2010. Also, excludes federal, state and foreign tax expense (benefit) recorded to OCI of \$(267) million in 2012, \$(83) million in 2011 and \$132 million in 2010. The deferred tax benefit of operating loss carryforwards was insignificant for 2011 and 2010.

	2012	2011	2010
Reconciliation of Income Tax Expense			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 258	\$ 424	\$ 308
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	33	60	41
State valuation allowance adjustments (a)	2	22	(52)
State deferred tax rate change (b)	(19)	(26)	
Federal and state tax reserves adjustments	(2)	2	(11)
Domestic manufacturing deduction (c) (d)			(11)
Federal and state income tax return adjustments (d)	4	(22)	(6)
Health Care Reform (e)			5
Federal income tax credits (f)	(12)	(12)	(12)
Other	(1)	(3)	(1)
Total increase (decrease)	5	21	(47)
Total income taxes from continuing operations	<u>\$ 263</u>	<u>\$ 445</u>	<u>\$ 261</u>
Effective income tax rate	35.6%	36.7%	29.6%

- (a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL Energy Supply recorded \$22 million in state deferred income tax expense related to deferred tax valuation allowances during 2011.

Pennsylvania H.B. 1531, enacted in October 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. Based on the projected revenue increase related to the expiration of the generation rate caps, PPL Energy Supply recorded a \$52 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances over the remaining carry forward period of the net operating losses during 2010.

- (b) In 2011, PPL Energy Supply completed the sale of certain non-core generation facilities. See Note 9 for additional information. Due to changes in state apportionment resulting in reductions in the future estimated state tax rate, PPL Energy Supply recorded deferred tax benefits related to its December 31, 2012 and 2011 state deferred tax liabilities.
- (c) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation deduction eliminated the tax benefits related to domestic manufacturing deductions in 2012 and 2011.
- (d) During 2011, PPL recorded federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of this amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts.
- (e) Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense during 2010. See Note 13 for additional information.
- (f) During 2012, 2011 and 2010, PPL Energy Supply recorded a deferred tax benefit related to investment tax credits on progress expenditures related to hydroelectric plant expansions. See Note 8 for additional information.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Taxes, other than income			
State gross receipts	\$ 35	\$ 31	\$ 15
State capital stock	5	12	4
Property and other	29	28	27
Total	<u>\$ 69</u>	<u>\$ 71</u>	<u>\$ 46</u>

(PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulated liabilities" on the Balance Sheets.

Significant components of PPL Electric's deferred income tax assets and liabilities were as follows:

	<u>2012</u>	<u>2011</u>
Deferred Tax Assets		
Accrued pension costs	\$ 81	\$ 93
Contributions in aid of construction	106	104
Regulatory obligations	24	28
State loss carryforwards	39	26
Federal loss carryforwards	81	3
Other	46	29
Total deferred tax assets	<u>377</u>	<u>283</u>
Deferred Tax Liabilities		
Electric utility plant - net	1,229	1,078
Taxes recoverable through future rates	122	120
Reacquired debt costs	27	32
Other regulatory assets	174	127
Other	12	16
Total deferred tax liabilities	<u>1,564</u>	<u>1,373</u>
Net deferred tax liability	<u>\$ 1,187</u>	<u>\$ 1,090</u>

At December 31, PPL Electric had the following loss carryforwards.

	<u>2012</u>	<u>Expiration</u>
Loss carryforwards		
Federal net operating losses	\$ 229	2031-2032
Federal charitable contributions	2	2016
State net operating losses	597	2030-2032

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Income Tax Expense (Benefit)			
Current - Federal	\$ (28)	\$ (25)	\$ (127)
Current - State	(18)	(13)	(14)
Total Current Expense (Benefit)	<u>(46)</u>	<u>(38)</u>	<u>(141)</u>
Deferred - Federal	162	123	184
Deferred - State	42	25	27
Total Deferred Expense (Benefit), excluding operating loss carryforwards	<u>204</u>	<u>148</u>	<u>211</u>
Investment tax credit, net - Federal	(1)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(72)	(12)	6
Deferred - State	(17)	(28)	(17)
Total Tax Benefit of Operating Loss Carryforwards	<u>(89)</u>	<u>(40)</u>	<u>(11)</u>
Total income tax expense	<u>\$ 68</u>	<u>\$ 68</u>	<u>\$ 57</u>
Total income tax expense - Federal	\$ 61	\$ 84	\$ 61
Total income tax expense (benefit) - State	7	(16)	(4)
Total income tax expense	<u>\$ 68</u>	<u>\$ 68</u>	<u>\$ 57</u>

	2012	2011	2010
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 71	\$ 90	\$ 67
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	9	12	9
Amortization of investment tax credit	(1)	(2)	(2)
Federal and state tax reserves adjustments (a)	(8)	(9)	(12)
Federal and state income tax return adjustments (b) (c)	7	(4)	(1)
Depreciation not normalized (c)	(8)	(17)	(3)
Other	(2)	(2)	(1)
Total increase (decrease)	(3)	(22)	(10)
Total income tax expense	\$ 68	\$ 68	\$ 57
Effective income tax rate	33.3%	26.5%	29.7%

(a) In July 2010, the U.S. Tax Court ruled in PPL Electric's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL Electric recorded a \$7 million tax benefit to federal and state income tax reserves and related deferred income taxes. The IRS did not appeal this decision.

PPL Electric recorded a tax benefit of \$6 million during 2012 and 2011 and \$7 million during 2010 to federal and state income tax reserves related to stranded cost securitization.

(b) PPL Electric changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL Electric adopted the safe harbor method with the filing of its 2011 federal income tax return and recorded a \$5 million adjustment to federal and state income tax expense resulting from the reversal of prior years' state income tax benefits related to regulated depreciation.

During 2011, PPL Electric recorded a \$5 million federal and state income tax benefit as a result of filing its 2010 federal and state income tax returns. Of this amount, \$3 million in tax benefits related to the flow-through impact of Pennsylvania regulated 100% bonus tax depreciation.

(c) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed into service before January 1, 2012. The placed-in-service deadline is extended to January 1, 2013 for property that has a cost in excess of \$1 million, has a production period longer than one year and has a tax life of at least ten years. PPL Electric's tax deduction for 100% bonus depreciation was significantly lower in 2012 than in 2011.

	2012	2011	2010
Taxes, other than income			
State gross receipts	\$ 101	\$ 109	\$ 130
State utility realty (a)	2	(10)	5
State capital stock	1	4	2
Property and other	1	1	1
Total	\$ 105	\$ 104	\$ 138

(a) 2011 includes PURTA tax that was refunded to PPL Electric customers in 2011.

(LKE)

The provision for LKE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC, TRA and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LKE's deferred income tax assets and liabilities were as follows:

	2012	2011
Deferred Tax Assets		
Net operating loss carryforward	\$ 376	\$ 318
Federal tax credit carryforwards	170	170
Regulatory liabilities	99	124
Accrued pension costs	42	67
State capital loss carryforward	5	5
Income taxes due to customers	26	30
Deferred investment tax credits	54	56
Other	41	30
Valuation allowances	(5)	(5)
Total deferred tax assets	808	795

	2012	2011
Deferred Tax Liabilities		
Plant - net	1,171	986
Regulatory assets	152	180
Other	13	25
Total deferred tax liabilities	1,336	1,191
Net deferred tax liability	\$ 528	\$ 396

LKE expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, LKE had the following loss and tax credit carryforwards.

	2012	Expiration
Loss carryforwards		
Federal net operating losses	\$ 948	2028-2032
State net operating losses	1,173	2028-2032
State capital losses	119	2013-2016
Credit carryforwards		
Federal investment tax credit	125	2025-2028
Federal alternative minimum tax credit	20	Indefinite
Federal - other	25	2016-2032
State - other	4	2022

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2012	\$ 5			\$ 5
2011	6		\$ 1 (a)	5
2010	7	\$ 6 (b)	7 (c)	6

(a) Primarily related to the expiration of state capital loss carryforwards.

(b) A valuation allowance was recorded against deferred tax assets for state capital loss carryforwards.

(c) Related to release of a valuation allowance associated with federal capital loss carryforwards due to the LKE acquisition by PPL.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income (Loss) from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Income Tax Expense (Benefit)				
Current - Federal	\$ (32)	\$ (71)	\$ (31)	\$ 33
Current - State	2	6	4	11
Total Current Expense (Benefit)	(30)	(65)	(27)	44
Deferred - Federal	185	208	52	62
Deferred - State	15	16	1	5
Total Deferred Expense, excluding operating loss carryforwards	200	224	53	67
Investment tax credit, net - Federal	(6)	(6)	(1)	(2)
Tax benefit of operating loss carryforwards				
Deferred - Federal	(46)			
Deferred - State	(12)			
Total Tax Benefit of Operating Loss Carryforwards	(58)			
Total income tax expense from continuing operations (a)	\$ 106	\$ 153	\$ 25	\$ 109
Total income tax expense - Federal	\$ 101	\$ 131	\$ 20	\$ 93
Total income tax expense - State	5	22	5	16
Total income tax expense from continuing operations (a)	\$ 106	\$ 153	\$ 25	\$ 109

(a) Excludes current and deferred federal and state tax expense (benefit) recorded to Discontinued Operations of \$(4) million in 2012, \$(1) million in 2011, \$1 million for the two month period ended December 31, 2010 and \$(1) million for the ten month period ended October 31, 2010. Also, excludes deferred federal and state tax expense (benefit) recorded to OCI of \$(12) million in 2012, \$(1) million in 2011, \$3 million for the two month period ended December 31, 2010 and \$(7) million for the ten month period ended October 31, 2010.

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Reconciliation of Income Taxes				
Federal income tax on Income Before Income Taxes at				
statutory tax rate - 35%	\$ 116	\$ 147	\$ 25	\$ 105
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	6	15	2	9
Amortization of investment tax credit	(6)	(5)		(2)
Net operating loss carryforward (a)	(9)			
Other	(1)	(4)	(2)	(3)
Total increase (decrease)	(10)	6		4
Total income tax expense from continuing operations	\$ 106	\$ 153	\$ 25	\$ 109
Effective income tax rate	32.0%	36.5%	35.7%	36.3%

(a) During 2012, LKE recorded adjustments to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Taxes, other than income				
Property and other	\$ 46	\$ 37	\$ 2	\$ 21
Total	\$ 46	\$ 37	\$ 2	\$ 21

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LG&E's deferred income tax assets and liabilities were as follows:

	2012	2011
Deferred Tax Assets		
Regulatory liabilities	\$ 54	\$ 65
Deferred investment tax credits	16	17
Income taxes due to customers	21	23
Other	9	10
Total deferred tax assets	100	115
Deferred Tax Liabilities		
Plant - net	526	462
Regulatory assets	86	98
Accrued pension costs	27	19
Other	9	9
Total deferred tax liabilities	648	588
Net deferred tax liability	\$ 548	\$ 473

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2012, LG&E had \$22 million of state net operating loss carryforwards that expire in 2030.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Income Tax Expense (Benefit)				
Current - Federal	\$ (2)	\$ 12	\$ (4)	\$ 32
Current - State	3	8	1	5
Total Current Expense (Benefit)	1	20	(3)	37
Deferred - Federal	65	52	12	21
Deferred - State	6	2	1	2
Total Deferred Expense	71	54	13	23
Investment tax credit, net - Federal	(3)	(3)		(2)
Total income tax expense (a)	\$ 69	\$ 71	\$ 10	\$ 58
Total income tax expense - Federal	\$ 60	\$ 61	\$ 8	\$ 51
Total income tax expense - State	9	10	2	7
Total income tax expense (a)	\$ 69	\$ 71	\$ 10	\$ 58

(a) Excludes deferred federal and state tax expense recorded to OCI of \$7 million for the ten month period ended October 31, 2010.

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Reconciliation of Income Taxes				
Federal income tax on Income Before Income Taxes at				
statutory tax rate - 35%	\$ 67	\$ 68	\$ 10	\$ 58
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	7	1	4
Other	(3)	(4)	(1)	(4)
Total increase (decrease)	2	3		
Total income tax expense	\$ 69	\$ 71	\$ 10	\$ 58
Effective income tax rate	35.9%	36.4%	34.5%	34.7%

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Taxes, other than income				
Property and other	\$ 23	\$ 18	\$ 1	\$ 12
Total	\$ 23	\$ 18	\$ 1	\$ 12

(KU)

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC, TRA and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2012	2011
Deferred Tax Assets		
Regulatory liabilities	\$ 45	\$ 58
Deferred investment tax credits	38	39
Net operating loss carryforward	20	
Income taxes due to customers	5	7
Accrued pension costs	(5)	9
Other	7	6
Total deferred tax assets	110	119

	2012	2011
Deferred Tax Liabilities		
Plant - net	623	500
Regulatory assets	65	82
Other	5	16
Total deferred tax liabilities	693	598
Net deferred tax liability	\$ 583	\$ 479

KU expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2012, KU had \$56 million of federal net operating loss carryforwards that expire in 2032.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Income Tax Expense (Benefit)				
Current - Federal	\$ (20)	\$ (8)	\$ 13	\$ 46
Current - State	(1)	4	3	9
Total Current Expense (Benefit)	(21)	(4)	16	55
Deferred - Federal	111	101	4	20
Deferred - State	11	10		3
Total Deferred Expense, excluding operating loss carryforwards	122	111	4	23
Investment tax credit, net - Federal	(3)	(3)		
Tax benefit of operating loss carryforwards				
Deferred - Federal	(20)			
Total Tax Benefit of Operating Loss Carryforwards	(20)			
Total income tax expense (a)	\$ 78	\$ 104	\$ 20	\$ 78
Total income tax expense - Federal	\$ 68	\$ 90	\$ 17	\$ 66
Total income tax expense - State	10	14	3	12
Total income tax expense (a)	\$ 78	\$ 104	\$ 20	\$ 78

(a) Excludes deferred federal and state tax (benefit) recorded to OCI of \$1 million in 2012 and \$(1) million for the ten month period ended October 31, 2010.

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Reconciliation of Income Taxes				
Federal income tax on Income Before Income Taxes at				
statutory tax rate - 35%	\$ 75	\$ 99	\$ 19	\$ 77
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	6	9	2	8
Other	(3)	(4)	(1)	(7)
Total increase (decrease)	3	5	1	1
Total income tax expense	\$ 78	\$ 104	\$ 20	\$ 78
Effective income tax rate	36.3%	36.9%	36.4%	35.8%

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Taxes, other than income				
Property and other	\$ 23	\$ 19	\$ 1	\$ 9
Total	\$ 23	\$ 19	\$ 1	\$ 9

Unrecognized Tax Benefits (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Changes to unrecognized tax benefits were as follows:

	<u>2012</u>	<u>2011</u>
PPL		
Beginning of period	\$ 145	\$ 251
Additions based on tax positions of prior years	15	40
Reductions based on tax positions of prior years	(61)	(160)
Additions based on tax positions related to the current year	7	25
Reductions based on tax positions related to the current year	(3)	(4)
Settlements	(2)	
Lapse of applicable statute of limitation	(9)	(10)
Effects of foreign currency translation		3
End of period	<u>\$ 92</u>	<u>\$ 145</u>
PPL Energy Supply		
Beginning of period	\$ 28	\$ 183
Additions based on tax positions of prior years	4	1
Reductions based on tax positions of prior years	(2)	
Reductions based on tax positions related to the current year		(1)
Derecognize unrecognized tax benefits (a)		(155)
End of period	<u>\$ 30</u>	<u>\$ 28</u>
PPL Electric		
Beginning of period	\$ 73	\$ 62
Reductions based on tax positions of prior years	(43)	
Additions based on tax positions related to the current year	5	22
Reductions based on tax positions related to the current year		(1)
Lapse of applicable statute of limitation	(9)	(10)
End of period	<u>\$ 26</u>	<u>\$ 73</u>

(a) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 9 for additional information on the distribution.

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant at December 31, 2012 and December 31, 2011.

At December 31, 2012, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

	<u>Increase</u>	<u>Decrease</u>
PPL	\$ 10	\$ 90
PPL Energy Supply	1	30
PPL Electric	11	25

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

At December 31, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	<u>2012</u>	<u>2011</u>
PPL	\$ 38	\$ 41
PPL Energy Supply	13	13
PPL Electric	3	8

At December 31, the following receivable (payable) balances were recorded for interest related to tax positions. The amounts for LKE, LG&E and KU were insignificant.

	<u>2012</u>	<u>2011</u>
PPL	\$ (16)	\$ (20)
PPL Energy Supply	17	2
PPL Electric	1	8

The following interest expense (benefit) was recognized in income taxes. The amounts for LKE, LG&E and KU were insignificant.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PPL	\$ (4)	\$ 27	\$ (39)
PPL Energy Supply	(4)	6	(30)
PPL Electric	(4)	(5)	(8)

PPL or its subsidiaries file tax returns in five major tax jurisdictions. The income tax provisions for PPL Energy Supply, PPL Electric, LKE, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Energy Supply or its subsidiaries indirectly or directly file tax returns in three major tax jurisdictions, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2012, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows:

	<u>PPL</u>	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
	<u>PPL</u>	<u>Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
U.S. (federal) (a)	1997 and prior	1997 and prior	1997 and prior	10/31/2010 and prior	10/31/2010 and prior	10/31/2010 and prior
Pennsylvania (state)	2008 and prior	2008 and prior	2008 and prior			
Kentucky (state)	2008 and prior			2010 and prior	2010 and prior	2010 and prior
Montana (state)	2008 and prior	2008 and prior				
U.K. (foreign)	2010 and prior					

(a) For LKE, LG&E and KU 2009, as well as the ten month period ending October 31, 2010, remain open under the standard three year statute of limitations; however, the IRS has completed its audit of these periods under the Compliance Assurance Process, effectively closing them to audit adjustments. No issues remain outstanding.

Other (PPL and PPL Energy Supply)

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for Pennsylvania operations. PPL made the same change for its Montana operations for tax year 2009. In 2011, the IRS issued guidance on repair expenditures related to network assets providing a safe harbor method of determining whether the repair expenditures can be currently deducted for tax purposes. The IRS has not yet issued guidance to provide a safe harbor method related to generation property. The IRS may assert and ultimately conclude that PPL's deduction for generation-related expenditures should be disallowed in whole or in part. PPL believes that it has established an adequate reserve for this contingency.

Tax Legislation (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

On January 2, 2013, H.R. 8, The American Taxpayer Relief Act of 2012, was signed into law. The most significant extension of tax relief under this Act applicable to PPL is the extension of bonus depreciation. This provision extends the current 50% expensing provision for qualifying property purchased and placed in service before January 1, 2014 (before January 1, 2015 for certain longer-lived and transportation assets). PPL is still evaluating the changes. However, PPL does not expect that the changes related to this legislation will have a material impact on income tax expense.

6. Utility Rate Regulation

Regulatory Assets and Liabilities

(PPL, PPL Electric, LKE, LG&E and KU)

As discussed in Note 1 and summarized below, PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to that item will be recovered or refunded within a year of the balance sheet date. As such, the primary items classified as current are related to rate mechanisms that periodically adjust to account for over- or under-collections.

(PPL, LKE, LG&E and KU)

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC, VSCC and TRA.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including certain adjustments to exclude non-regulated investments and costs recovered separately through other rate mechanisms. As such, LG&E and KU earn a return on the net cash invested in regulatory assets and regulatory liabilities.

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of coal contracts, power purchases and emission allowances. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at LKE's acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate making impact of the fair value adjustments. LG&E's and KU's customer rates will continue to reflect the original contracted prices for these contracts.

(PPL, LKE and KU)

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates; therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates; therefore, no return is earned on the related assets.

(PPL and PPL Electric)

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related plant and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

(PPL, PPL Electric, LKE, LG&E and KU)

The following tables provide information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	2012	2011	2012	2011
Current Regulatory Assets:				
Gas supply clause	\$ 11	\$ 6		
Fuel adjustment clause	6	3		
Other	2			
Total current regulatory assets	\$ 19	\$ 9		
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 730	\$ 615	\$ 362	\$ 276
Taxes recoverable through future rates	293	289	293	289
Storm costs	168	154	59	31
Unamortized loss on debt	96	110	65	77
Interest rate swaps	67	69		
Accumulated cost of removal of utility plant	71	53	71	53
Coal contracts (a)	4	11		
AROs	26	18		
Other	28	30	3	3
Total noncurrent regulatory assets	\$ 1,483	\$ 1,349	\$ 853	\$ 729
Current Regulatory Liabilities:				
Generation supply charge	\$ 27	\$ 42	\$ 27	\$ 42
ECR	4	7		
Gas supply clause	4	6		
Transmission service charge	6	2	6	2
Transmission formula rate		5		5
Universal Service Rider	17	1	17	1
Other	3	10	2	3
Total current regulatory liabilities	\$ 61	\$ 73	\$ 52	\$ 53
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 679	\$ 651		
Coal contracts (a)	141	180		
Power purchase agreement - OVEC (a)	108	116		
Net deferred tax assets	34	39		
Act 129 compliance rider	8	7	8	7
Defined benefit plans	17	9		
Interest rate swaps	14			
Other	9	8		
Total noncurrent regulatory liabilities	\$ 1,010	\$ 1,010	\$ 8	\$ 7

	LKE		LG&E		KU	
	2012	2011	2012	2011	2012	2011
Current Regulatory Assets:						
Gas supply clause	\$ 11	\$ 6	\$ 11	\$ 6		
Fuel adjustment clause	6	3	6	3		
Other	2		2			
Total current regulatory assets	\$ 19	\$ 9	\$ 19	\$ 9		
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 368	\$ 339	\$ 232	\$ 225	\$ 136	\$ 114
Storm costs	109	123	59	66	50	57
Unamortized loss on debt	31	33	20	21	11	12
Interest rate swaps	67	69	67	69		
Coal contracts (a)	4	11	2	5	2	6
AROs	26	18	15	11	11	7
Other	25	27	5	6	20	21
Total noncurrent regulatory assets	\$ 630	\$ 620	\$ 400	\$ 403	\$ 230	\$ 217
Current Regulatory Liabilities:						
ECR	\$ 4	\$ 7			\$ 4	\$ 7
Gas supply clause	4	6	4	6		
Other	1	7		4	1	3
Total current regulatory liabilities	\$ 9	\$ 20	\$ 4	\$ 10	\$ 5	\$ 10

	LKE		LG&E		KU	
	2012	2011	2012	2011	2012	2011
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal						
of utility plant	\$ 679	\$ 651	\$ 297	\$ 286	\$ 382	\$ 365
Coal contracts (a)	141	180	61	78	80	102
Power purchase agreement - OVEC (a)	108	116	75	80	33	36
Net deferred tax assets	34	39	28	31	6	8
Defined benefit plans	17	9			17	9
Interest rate swaps	14		7		7	
Other	9	8	3	3	6	5
Total noncurrent regulatory liabilities	\$ 1,002	\$ 1,003	\$ 471	\$ 478	\$ 531	\$ 525

(a) These regulatory assets and liabilities were recorded as offsets to certain intangible assets and liabilities that were recorded at fair value upon the acquisition of LKE.

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

(PPL and PPL Electric)

Generation Supply Charge

The generation supply charge is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply (energy and capacity and ancillary services), as well as administration of the acquisition process. In addition, the generation supply charge contains a reconciliation mechanism whereby any over- or under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarter.

Universal Service Rider (USR)

PPL Electric's distribution rates permit recovery of applicable costs associated with the universal service programs provided to PPL Electric's residential customers. Universal service programs include low-income programs, such as OnTrack and Winter Relief Assistance Program (WRAP). OnTrack is a special payment program for low-income households within the federal poverty level who have difficulty paying their electric bills. This program is funded by residential customers and administered by community-based organizations. Customers who participate in OnTrack receive assistance in the form of reduced payment arrangements, protection against termination of electric service and referrals to other community programs and services. The WRAP program reduces electric bills and improves living comfort for low-income customers by providing services such as weatherization measures and energy education services. The USR is applied to distribution charges for each customer who receives distribution service under PPL Electric's residential service rate schedules. The USR contains a reconciliation mechanism whereby any over- or under-recovery from the current year is refunded to or recovered from residential customers through the adjustment factor determined for the subsequent year.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, PPL Electric's energy efficiency and conservation plan was approved by a PUC order in October 2009. The order allows PPL Electric to recover the maximum \$250 million cost of the program ratably over the life of the plan, from January 1, 2010 through May 31, 2013. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered at the end of the program. See below under "Regulatory Matters - Pennsylvania Activities" for additional information on Act 129.

Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Transmission Formula Rates

PPL Electric's transmission revenues are billed in accordance with a FERC-approved open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is based on prior year expenditures and forecasted current calendar year transmission plant additions. An adjustment to the prior year expenditures is recorded as a regulatory asset or liability.

(PPL, PPL Electric, LKE, LG&E and KU)

Defined Benefit Plans

Recoverable costs of defined benefit plans represent the portion of unrecognized transition obligation, prior service cost and net actuarial losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and are amortized over the average service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is re-measured. Of the regulatory asset and liability balances recorded, costs of \$60 million for PPL, \$22 million for PPL Electric, \$38 million for LKE, \$24 million for LG&E and \$14 million for KU are expected to be amortized into net periodic defined benefit costs in 2013.

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer and amortize such costs for regulatory accounting and reporting purposes. Once such authority is granted, PPL Electric, LG&E and KU can request recovery of those expenses in a base rate case.

Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric. Such costs are being amortized through 2035 for LG&E and 2036 for PPL, LKE and KU.

Accumulated Cost of Removal of Utility Plant

LG&E and KU accrue for costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred. See Note 1 for additional information.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the deferral of costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

(PPL, LKE, LG&E and KU)

ECR

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements which apply to coal combustion wastes and by-products from coal-fired electric generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered within 12 months. LG&E and KU are authorized to receive a 10.63% and 10.10% return on projects associated with the 2009 and 2011 compliance plans. As a result of the settlement agreement in the 2012

rate case, beginning in 2013, LG&E and KU will receive a 10.25% return on all ECR projects included in the 2009 and 2011 compliance plans.

Coal Contracts

As a result of purchase accounting associated with PPL's acquisition of LKE, LG&E's and KU's coal contracts were recorded at fair value on the Balance Sheets with offsets to regulatory assets for those contracts with unfavorable terms relative to current market prices and offsets to regulatory liabilities for those contracts with favorable terms relative to current market prices. These regulatory assets and liabilities are being amortized over the same terms as the related contracts, which expire at various times through 2016.

Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause includes a separate natural gas procurement incentive mechanism, a performance-based rate, which allows LG&E's rates to be adjusted annually to share variances between actual costs and market indices between the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are recovered within 18 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel for electric generation, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel clause and, to the extent appropriate, reestablish the fuel charge included in base rates.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

Interest Rate Swaps

(PPL, LKE and LG&E)

Because realized amounts associated with LG&E's interest rate swaps, including a terminated swap contract, are recoverable through rates based on an order from the KPSC, LG&E's unrealized gains and losses are recorded as a regulatory asset or liability until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033. Amortization of the gain/loss related to the terminated swap contract is recovered through 2035, as approved by the KPSC.

(LKE and LG&E)

In the third quarter of 2010, LG&E recorded a pre-tax gain to reverse previously recorded losses of \$21 million and \$9 million to reflect the reclassification of its ineffective swaps and terminated swap to regulatory assets based on an order from the KPSC in the 2010 rate case whereby the cost of LG&E's terminated swap was allowed to be recovered in base rates. Previously, gains and losses on interest rate swaps designated as effective cash flow hedges were recorded within OCI and common equity. The gains and losses on the ineffective portion of interest rate swaps designated as cash flow hedges were recorded to earnings monthly, as was the entire change in the market value of the ineffective swaps.

(PPL, LKE, LG&E and KU)

In November 2012, LG&E and KU entered into forward-starting interest rate swaps with PPL that hedge the interest payments on new debt that is expected to be issued in 2013. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. LG&E and KU believe that realized gains and losses from the swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives have been reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt. See Note 19 for additional information related to the forward-starting interest rate swaps.

AROs

As discussed in Note 1, the accretion and depreciation related to LG&E's and KU's AROs are offset with a regulatory credit on the income statement, such that there is no earnings impact. When an asset with an ARO is retired, the related ARO regulatory asset created by the regulatory credit is offset against the associated regulatory liability, PP&E and ARO liability.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition.

Regulatory Liability associated with Net Deferred Tax Assets

LG&E's and KU's regulatory liabilities associated with net deferred tax assets represent the future revenue impact from the reversal of deferred income taxes required primarily for unamortized investment tax credits. These regulatory liabilities are recognized when the offsetting deferred tax assets are recognized. For general-purpose financial reporting, these regulatory liabilities and the deferred tax assets are not offset; rather, each is displayed separately.

Regulatory Matters

Kentucky Activities

(PPL, LKE, LG&E and KU)

Rate Case Proceedings

In June 2012, LG&E and KU filed requests with the KPSC for increases in annual base electric rates of approximately \$62 million at LG&E and approximately \$82 million at KU and an increase in annual base gas rates of approximately \$17 million at LG&E. In November 2012, LG&E and KU along with all of the parties filed a unanimous settlement agreement. Among other things, the settlement provided for increases in annual base electric rates of \$34 million at LG&E and \$51 million at KU and an increase in annual base gas rates of \$15 million at LG&E. The settlement agreement also included revised depreciation rates that result in reduced annual electric depreciation expense of approximately \$9 million for LG&E and approximately \$10 million for KU. The settlement agreement included an authorized return on equity at LG&E and KU of 10.25%. On December 20, 2012, the KPSC issued orders approving the provisions in the settlement agreement. The new rates became effective on January 1, 2013. In addition to the increased base rates, the KPSC approved a gas line tracker mechanism for LG&E to provide for recovery of costs associated with LG&E's gas main replacement program, gas service lines and risers.

Independent Transmission Operators

In September 2012, LG&E and KU completed the transition of their independent transmission operator contractual arrangements from Southwest Power Pool, Inc. to TransServ International, Inc. This change had previously received approvals of the FERC and the KPSC.

(PPL, LKE and LG&E)

CPCN Filing

In October 2012, LG&E filed an application with the KPSC to construct a new wet scrubber to serve Unit 3 at the Mill Creek Generating Station. The application partially modifies the existing authority granted by the KPSC in 2011, which authorized LG&E to build two new scrubbers to serve Mill Creek Units 1 and 2 and another to serve Mill Creek Unit 4. Additionally, authority was granted allowing the Mill Creek Unit 3 to be served by the existing Unit 4 scrubber. The CPCN sought approval to construct a new wet scrubber on Mill Creek Unit 3 instead of utilizing the Unit 4 scrubber. In February 2013, LG&E received the requested KPSC approval to construct a new wet scrubber to serve Unit 3 at the Mill Creek Generating Station.

Storm Costs

In August 2011, a strong storm hit LG&E's service area causing significant damage and widespread outages for approximately 139,000 customers. LG&E filed an application with the KPSC in September 2011, requesting approval of a regulatory asset recorded to defer, for future recovery, \$8 million in incremental operation and maintenance expenses related to the storm restoration. An order was received in December 2011 granting the request. On December 20, 2012, the KPSC in the approval of the unanimous rate case settlement agreement, authorized regulatory asset recovery effective January 1, 2013, over a five year period.

Pennsylvania Activities *(PPL and PPL Electric)*

Rate Case Proceeding

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately \$105 million, effective January 1, 2013. In its December 28, 2012 final order, the PUC approved a 10.4% return on equity and a total distribution revenue increase of about \$71 million. The approved rates became effective January 1, 2013.

Also, in its December 28, 2012 final order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider within 90 days following the order. PPL Electric plans to file a proposed Storm Damage Expense Rider with the PUC and, as part of that filing, request recovery of the \$28 million of qualifying storm costs incurred as a result of the October 2012 landfall of Hurricane Sandy. See "Storm Costs" below for additional information regarding Hurricane Sandy.

ACT 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are exposed to significant penalties.

Under Act 129, EDCs must file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. Act 129 requires EDCs to reduce overall electricity consumption by 1.0% by May 2011 and, by May 2013, reduce overall electricity consumption by 3.0% and reduce peak demand by 4.5%. The peak demand reduction must occur for the 100 hours of highest demand, which is determined by actual demand reduction during the June 2012 through September 2012 period. EDCs will be able to recover the costs (capped at 2.0% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's EE&C Plan, and in March 2012 confirmed that PPL Electric met the 2011 requirement. PPL Electric will determine if it met the peak demand reduction target and the May 2013 energy reduction target after it completes the final program evaluation on November 5, 2013.

Act 129 requires the PUC to evaluate the costs and benefits of the EE&C program by November 30, 2013 and adopt additional reductions if the benefits of the program exceed the costs. In August 2012, after receiving input from stakeholders, the PUC issued a Final Implementation Order establishing a three-year Phase II program, ending May 31, 2016, with individual consumption reduction targets for each EDC. PPL Electric's reduction target is 2.1%. The PUC did not establish demand reduction targets for the Phase II program. PPL Electric filed its Phase II EE&C Plan with the PUC on November 15, 2012 and the PUC is expected to issue its decision in March 2013. Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20

years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. The DSP will be able to recover the costs associated with a competitive procurement plan.

The PUC has approved PPL Electric's procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric concluded all competitive solicitations to procure power for its PLR obligations under that plan.

The PUC has directed all EDCs to file default service procurement plans for the period June 1, 2013 through May 31, 2015. PPL Electric filed its plan in May 2012. In that plan, PPL Electric proposed a process to obtain supply for its default service customers and a number of initiatives designed to encourage more customers to purchase electricity from the competitive retail market. In its January 24, 2013 final order, the PUC approved PPL Electric's plan with modifications and directed PPL Electric to establish collaborative processes to address several retail competition issues.

Smart Meter Rider

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs will be able to recover the costs of providing smart metering technology. In August 2009, PPL Electric filed its proposed smart meter technology procurement and installation plan with the PUC. All of PPL Electric's metered customers currently have smart meters installed at their service locations. PPL Electric's current advanced metering technology generally satisfies the requirements of Act 129 and does not need to be replaced. In June 2010, the PUC entered its order approving PPL Electric's smart meter plan with several modifications. In compliance with the order, in the third quarter of 2010, PPL Electric submitted a revised plan with a cost estimate of \$38 million to be incurred over a five-year period, beginning in 2009, and filed its Section 1307(e) cost recovery mechanism, the Smart Meter Rider (SMR) to recover these costs beginning January 1, 2011. In December 2010, the PUC approved PPL Electric's SMR which reflects the costs of its smart meter program plus a return on its Smart Meter investments. The SMR, which became effective January 1, 2011, contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to or collected from customers in the subsequent year. In August 2011, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter plan in 2011 and its planned actions for 2012. PPL Electric also submitted revised SMR charges which became effective January 1, 2012. In August 2012, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter plan in 2012 and its planned actions for 2013. PPL Electric also submitted revised SMR charges which became effective January 1, 2013.

PUC Investigation of Retail Electricity Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market to be conducted in two phases. Phase one addressed the status of the existing retail market and explored potential changes. Questions issued by the PUC for this phase of the investigation focused primarily on default service issues. Phase two was initiated in July 2011 to develop specific proposals for changes to the retail market and default service model. In December 2011, the PUC issued a final order providing guidance to EDCs on the design of their next default service procurement plan filings. In December 2011, the PUC also issued a tentative order proposing an intermediate work plan to address issues raised in the investigation. In March 2012, the PUC entered a final order on the intermediate work plan, issued three possible models for the default service "end state" and held a hearing regarding those three models. In September 2012, the PUC issued a Secretarial Letter setting forth an "RMI End State Proposal" for discussion. The PUC issued a tentative implementation order in early November 2012, following which parties had 30 days to provide comment. PPL Electric and PPL EnergyPlus filed joint comments. A final implementation order was issued on February 15, 2013. Although the final implementation order contains provisions that will require numerous modifications to PPL Electric's current default service model for retail customers, those modifications are not expected to have a material adverse effect on PPL Electric's results of operations.

Legislation - Regulatory Procedures and Mechanisms

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC. In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC. The PUC approved the LTIP on January 10, 2013 and PPL Electric filed a petition requesting permission to establish a DSIC on January 15, 2013, with rates proposed to be effective beginning May 1, 2013.

Storm Costs

During 2012, PPL Electric experienced several PUC-reportable storms, including Hurricane Sandy, resulting in total restoration costs of \$81 million, of which \$61 million were initially recorded in "Other operation and maintenance" on the Statement of Income. In particular, in late October 2012, PPL Electric experienced widespread significant damage to its distribution network from Hurricane Sandy resulting in total restoration costs of \$66 million, of which \$50 million were initially recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric had storm insurance coverage, the costs incurred from Hurricane Sandy exceeded the policy limits. Probable insurance recoveries recorded during 2012 were \$18.25 million, of which \$14 million were included in "Other operation and maintenance" on the Statement of Income. PPL Electric recorded a regulatory asset of \$28 million in December 2012 (offset to "Other operation and maintenance" on the Statement of Income). In February 2013, PPL Electric received an order from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Sandy. See "Rate Case Proceeding" above for information regarding PPL Electric's plan to file a proposed Storm Damage Expense Rider with the PUC.

PPL Electric experienced several PUC-reportable storms during 2011 including Hurricane Irene and a late October snow storm. Total restoration costs were \$84 million, of which \$54 million were initially recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric had storm insurance coverage with a PPL affiliate, the costs associated with the unusually high number of PUC-reportable storms exceeded policy limits. Probable insurance recoveries recorded during 2011 were \$26.5 million, of which \$16 million were included in "Other operation and maintenance" on the Statements of Income. In December 2011, PPL Electric received orders from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Irene and a late October 2011 snowstorm. PPL Electric recorded a regulatory asset of \$25 million in December 2011 (offset to "Other operation and maintenance" on the Statement of Income). The PUC granted PPL Electric's recovery of the 2011 storm costs in its final order in the 2012 rate case. Recovery began in January 2013 and will continue over a five year period.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism.

PPL Electric has initiated its formula rate 2012, 2011 and 2010 Annual Updates. Each update has been subsequently challenged by a group of municipal customers, which challenges have been opposed by PPL Electric. In August 2011, the FERC issued an order substantially rejecting the 2010 formal challenge and the municipal customers filed a request for rehearing of that order. In September 2012, the FERC issued an order setting for evidentiary hearings and settlement judge procedures a number of issues raised in the 2010 and 2011 formal challenges. Settlement conferences were held in late 2012 and early 2013. In February 2013, the FERC set for evidentiary hearings and settlement judge procedures a number of issues in the 2012 formal challenge and consolidated that challenge with the 2010 and 2011 challenges. PPL Electric anticipates that there will be additional settlement conferences held in 2013. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings, which remain pending before the FERC.

In March 2012, PPL Electric filed a request with the FERC seeking recovery of its regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to FERC. At December 31, 2012 and 2011, \$52 million and \$53 million respectively, are classified as taxes recoverable through future rates and included on the Balance Sheets in "Other Noncurrent Assets - Regulatory assets." In May 2012, the FERC issued an order approving PPL Electric's request to recover the deferred tax regulatory asset over a 34-year period beginning June 1, 2012.

U.K. Activities (PPL)

Ofgem Review of Line Loss Calculation

WPD had a \$94 million liability recorded at December 31, 2012, compared with \$170 million at December 31, 2011, related to the close-out of line losses for the prior price control period, DPCR4. Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentive/penalty for the DPCR4. In October 2011, Ofgem issued a consultation paper citing two potential changes to the methodology, both of which would result in a reduction of the liability. In March 2012, Ofgem issued a decision regarding the preferred methodology. In July 2012, Ofgem issued a

consultation paper regarding certain aspects of the preferred methodology as it relates to the DPCR4 line loss incentive/penalty and a proposal to delay the target date for making a final decision until April 2013. In October 2012, a license modification was issued to allow Ofgem to publish the final decisions on these matters by April 2013. In November 2012, Ofgem issued an additional consultation on the final DPCR4 line loss close-out that published values for each DNO and further indicated the preferred methodology that would replace the methodology under WPD's licenses. Based on applying the preferred methodology for DPCR4, the liability was reduced by \$79 million, with a credit recorded in "Utility" on the Statement of Income, to reflect what WPD expects to be the final close-out settlement under Ofgem's preferred methodology. This consultation also confirmed the final decisions will be published by April 2013. In February 2013, Ofgem issued additional consultation proposing to delay the April 2013 decision date. PPL cannot predict when this matter will be resolved.

Ofgem also stated in the November 2012 consultation that the line loss incentive implemented at the last rate review will be withdrawn and no incentive will apply for the DPCR5 period. That decision resulted in the elimination of the DPCR5 liability of \$11 million, with a credit recorded in "Utility" on the Statement of Income.

European Market Infrastructure Regulation

Regulation No. 648/2012 of the European Parliament and of the Council, commonly referred to as the European Market Infrastructure Regulation (EMIR), entered into force on August 16, 2012 and the European Commission adopted most of the Regulatory Technical Standards without modification in December 2012. The EMIR establishes certain transaction clearing and other recordkeeping requirements for parties to over-the-counter derivatives transactions. Included in the derivative transactions that are subject to EMIR are certain interest rate and currency derivative contracts utilized by WPD. Generally, WPD is expected to qualify under the EMIR as a non-financial counterparty to the transactions in which it engages and further to qualify for certain exemptions that will relieve WPD from the mandatory clearing obligations imposed by the EMIR. Although the EMIR will potentially impose significant additional recordkeeping requirements on WPD, the effect of the EMIR is not currently expected to have a significant adverse impact on WPD's financial condition or results of operation.

7. Financing Activities

Credit Arrangements and Short-term Debt

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants maintain credit facilities to enhance liquidity, provide credit support, and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities of PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL and the credit facilities of LG&E and KU also apply to LKE. The following credit facilities were in place at:

	December 31, 2012				December 31, 2011		
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup
PPL							
<i>WPD Credit Facilities</i>							
<i>PPL WW Syndicated</i>							
Credit Facility (b) (c) (f)	Jan. 2013	£ 150	£ 106	n/a	£ 44	£ 111	n/a
<i>WPD (South West)</i>							
Syndicated Credit Facility (c) (f)	Jan. 2017	245		n/a	245		n/a
<i>WPD (East Midlands)</i>							
Syndicated Credit Facility (c) (d) (f)	Apr. 2016	300			300	£ 70	
<i>WPD (West Midlands)</i>							
Syndicated Credit Facility (c) (d) (f)	Apr. 2016	300			300		71
Uncommitted Credit Facilities		84		£ 4	80		3
Total WPD Credit Facilities (e)		£ 1,079	£ 106	£ 4	£ 969	£ 111	£ 144
PPL Energy Supply							
Syndicated Credit Facility (f) (g) (h)	Nov. 2017	\$ 3,000		\$ 499	\$ 2,501		\$ 541
Letter of Credit Facility (k)	Mar. 2013	200	n/a	132	68	n/a	89
Uncommitted Credit Facilities (h)		200	n/a	40	160	n/a	n/a
Total PPL Energy Supply Credit Facilities		\$ 3,400		\$ 671	\$ 2,729		\$ 630

	December 31, 2012				December 31, 2011		
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup
PPL Electric							
Syndicated Credit Facility (f) (h)	Oct. 2017	\$ 300		\$ 1	\$ 299		\$ 1
Asset-backed Credit Facility (i)	Sept 2013	100		n/a	100		n/a
Total PPL Electric Credit Facilities		\$ 400		\$ 1	\$ 399		\$ 1
LG&E							
Syndicated Credit Facility (f) (h)	Nov. 2017	\$ 500		55	\$ 445		
KU							
Syndicated Credit Facility (f) (h)	Nov. 2017	\$ 400		\$ 70	\$ 330		
Letter of Credit Facility (f) (h) (j)	Apr. 2014	198		198		n/a	\$ 198
Total KU Credit Facilities		\$ 598		\$ 268	\$ 330		\$ 198

- (a) Amounts borrowed are recorded as "Short-term debt" on the Balance Sheets.
- (b) In December 2012, the PPL WW credit facility was subsequently replaced with a credit facility expiring in December 2016 and the capacity was increased to £210 million.
- (c) The facilities contain financial covenants that require the company to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
- (d) Under these facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing.
- (e) The total amounts borrowed at December 31, 2012 and 2011 were USD-denominated borrowings of \$171 million and \$178 million, which equated to £106 million and £111 million at the time of the borrowings. The interest rates at December 31, 2012 and 2011 were 0.8452% and 1.05%. At December 31, 2012, the unused capacity of WPD's credit facilities was approximately \$1.6 billion.
- (f) Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (g) In October 2010, PPL Energy Supply borrowed \$3.2 billion under this facility in order to enable a subsidiary to make loans to certain affiliates to provide interim financing of amounts required by PPL to partially fund PPL's acquisition of LKE. Such borrowing bore interest at 2.26% and was refinanced primarily through the issuance of long-term debt by LKE, LG&E and KU and the use of internal funds. This borrowing and related payments were included in "Net increase (decrease) in short-term debt" on the Statement of Cash Flows.

PPL Energy Supply incurred an aggregate of \$41 million of fees in 2010 in connection with establishing this facility. Such fees were initially deferred and amortized through December 2014. In connection with the reduction in the capacity from \$4 billion to \$3 billion in December 2010, PPL Energy Supply wrote off \$10 million, \$6 million after tax, of deferred fees, which was reflected in "Interest Expense" in the Statement of Income.

- (h) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 65% for PPL Energy Supply and 70% for PPL Electric, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, as it relates to the syndicated credit facilities and subject to certain conditions, PPL Energy Supply may request that its facility's capacity be increased by up to \$500 million and PPL Electric and KU each may request up to a \$100 million increase in its facility's capacity.
- (i) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.

At December 31, 2012 and December 31, 2011, \$238 million and \$251 million of accounts receivable and \$106 million and \$98 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at December 31, 2012, the amount available for borrowing under the facility was \$100 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

- (j) KU's letter of credit facility agreement allows for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.
- (k) In February 2013, PPL Energy Supply extended the expiration date of the agreement to March 2014 and, effective April 2013, the capacity will be reduced to \$150 million.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At December 31, 2012, PPL Energy Supply has not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an \$800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees, which had an aggregate carrying value of \$2.7 billion at December 31, 2012. The facility expires in November 2017, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at December 31, 2012.

In April 2012, PPL Energy Supply increased the capacity of its commercial paper program from \$500 million to \$750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At December 31, 2012 and 2011, PPL Energy Supply had \$356 million and \$400 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at weighted-average interest rates of 0.50% and 0.53%.

(PPL and PPL Electric)

In May 2012, PPL Electric increased the capacity of its commercial paper program from \$200 million to \$300 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at December 31, 2012.

(PPL, LKE, LG&E and KU)

In February 2012, LG&E and KU each established a commercial paper program for up to \$250 million to provide an additional financing source to fund their short-term liquidity needs. Commercial paper issuances are supported by LG&E's and KU's Syndicated Credit Facilities. At December 31, 2012, LG&E had \$55 million of commercial paper outstanding at a weighted-average interest rate of 0.42% and KU had \$70 million of commercial paper outstanding at a weighted-average interest rate of 0.42%, included in "Short-term debt" on the Balance Sheet.

(PPL Energy Supply, LKE, LG&E and KU)

See Note 16 for discussion of intercompany borrowings.

2011 Bridge Facility (PPL)

In March 2011, concurrently and in connection with entering into the agreement to acquire WPD Midlands, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into a 364-day unsecured £3.6 billion bridge facility to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. During 2011, PPL incurred \$44 million of fees in connection with establishing the 2011 Bridge Facility, which is reflected in "Interest Expense" on the Statement of Income. On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. Borrowings bore interest at approximately 2.62%, determined by one-month LIBOR rates plus a spread, based on PPL Capital Funding's senior unsecured debt rating and the length of time from the date of the acquisition closing that borrowings were outstanding. See Note 10 for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately \$2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011. In April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings then-outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands).

In anticipation of the repayment of a portion of the borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 19 for additional information.

Long-term Debt (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

	Weighted-Average Rate	Maturities	December 31,	
			2012	2011
<u>PPL</u>				
<u>U.S.</u>				
Senior Unsecured Notes (a)	4.66%	2013 - 2038	\$ 4,506	\$ 3,805
Senior Secured Notes/First Mortgage Bonds (b) (c) (d) (e)	4.19%	2013 - 2041	5,587	5,111
Junior Subordinated Notes	4.89%	2018 - 2067	2,608	2,608
Other	6.95%	2014 - 2020	15	15
Total U.S. Long-term Debt			<u>12,716</u>	<u>11,539</u>
<u>U.K.</u>				
Senior Unsecured Notes (f)	5.71%	2016 - 2040	6,111	5,862
Index-linked Senior Unsecured Notes (g)	1.85%	2043 - 2056	608	581
Total U.K. Long-term Debt (h)			<u>6,719</u>	<u>6,443</u>
Total Long-term Debt Before Adjustments			19,435	17,982
Fair market value adjustments			78	65
Unamortized premium and (discount), net			(37)	(54)
Total Long-term Debt			<u>19,476</u>	<u>17,993</u>
Less current portion of Long-term Debt			751	
Total Long-term Debt, noncurrent			<u>\$ 18,725</u>	<u>\$ 17,993</u>
<u>PPL Energy Supply</u>				
Senior Unsecured Notes (a)	5.50%	2013 - 2038	\$ 2,581	\$ 2,581
Senior Secured Notes (b)	8.31%	2013 - 2025	663	437
Other	6.00%	2020	5	5
Total Long-term Debt Before Adjustments			<u>3,249</u>	<u>3,023</u>
Fair market value adjustments			22	
Unamortized premium and (discount), net			1	1
Total Long-term Debt			<u>3,272</u>	<u>3,024</u>
Less current portion of Long-term Debt			751	
Total Long-term Debt, noncurrent			<u>\$ 2,521</u>	<u>\$ 3,024</u>
<u>PPL Electric</u>				
Senior Secured Notes/First Mortgage Bonds (c) (d)	4.60%	2015 - 2041	\$ 1,964	\$ 1,714
Other	7.38%	2014	10	10
Total Long-term Debt Before Adjustments			<u>1,974</u>	<u>1,724</u>
Unamortized discount			(7)	(6)
Total Long-term Debt			<u>\$ 1,967</u>	<u>\$ 1,718</u>
<u>LKE</u>				
Senior Unsecured Notes	3.31%	2015 - 2021	\$ 1,125	\$ 1,125
Senior Secured Notes/First Mortgage Bonds (c) (e)	3.00%	2015 - 2040	2,960	2,960
Total Long-term Debt Before Adjustments			<u>4,085</u>	<u>4,085</u>
Fair market value adjustments			7	7
Unamortized discount			(17)	(19)
Total Long-term Debt			<u>\$ 4,075</u>	<u>\$ 4,073</u>
<u>LG&E</u>				
Senior Secured Notes/First Mortgage Bonds (c) (e)	2.49%	2015 - 2040	\$ 1,109	\$ 1,109
Total Long-term Debt Before Adjustments			<u>1,109</u>	<u>1,109</u>
Fair market value adjustments			6	6
Unamortized discount			(3)	(3)
Total Long-term Debt			<u>\$ 1,112</u>	<u>\$ 1,112</u>
<u>KU</u>				
Senior Secured Notes/First Mortgage Bonds (c) (e)	3.30%	2015 - 2040	\$ 1,851	\$ 1,851
Total Long-term Debt Before Adjustments			<u>1,851</u>	<u>1,851</u>
Fair market value adjustments			1	1
Unamortized discount			(10)	(10)
Total Long-term Debt			<u>\$ 1,842</u>	<u>\$ 1,842</u>

- (a) Includes \$300 million of 5.70% REset Put Securities due 2035 (REPS). The REPS bear interest at a rate of 5.70% per annum to, but excluding, October 15, 2015 (Remarketing Date). The REPS are required to be put by existing holders on the Remarketing Date either for (a) purchase and remarketing by a designated remarketing dealer or (b) repurchase by PPL Energy Supply. If the remarketing dealer elects to purchase the REPS for remarketing, it will purchase the REPS at 100% of the principal amount, and the REPS will bear interest on and after the Remarketing Date at a new fixed rate per annum determined in the remarketing. PPL Energy Supply has the right to terminate the remarketing process. If the remarketing is terminated at the option of PPL Energy Supply or under certain other circumstances, including the occurrence of an event of default by PPL Energy Supply under the related indenture or a failed remarketing for certain specified reasons, PPL Energy Supply will be required to pay the remarketing dealer a settlement amount as calculated in accordance with the related remarketing agreement.
- (b) Includes lease financing consolidated through a VIE. See Note 22 for additional information.
- (c) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately \$4.3 billion and \$3.9 billion at December 31, 2012 and 2011.

LG&E's first mortgage bonds are secured by the lien of the LG&E 2010 Mortgage Indenture, which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was \$2.7 billion and \$2.6 billion at December 31, 2012 and December 31, 2011.

KU's first mortgage bonds are secured by the lien of the KU 2010 Mortgage Indenture, which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was \$4.4 billion and \$4.1 billion at December 31, 2012 and December 31, 2011.

- (d) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (c) above. This amount includes \$224 million that may be redeemed at par beginning in 2015 and \$90 million that may be redeemed, in whole or in part, at par beginning in October 2020 and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.
- (e) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (c) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2012, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled \$321 million for LKE, comprised of \$294 million and \$27 million for LG&E and KU. At December 31, 2012, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled \$604 million for LKE, comprised of \$280 million and \$324 million for LG&E and KU.

Several series of the tax-exempt revenue bonds are insured by monoline bond insurers whose ratings were reduced due to exposures relating to insurance of sub-prime mortgages. Of the bonds outstanding, \$231 million are in the form of insured auction rate securities, wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. During 2008, interest rates increased, and LG&E and KU experienced failed auctions when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. As noted above, the instruments governing these auction rate bonds permit LG&E and KU to convert the bonds to other interest rate modes.

Certain variable rate tax-exempt revenue bonds totaling \$348 million at December 31, 2012, are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

- (f) Includes £225 million (\$361 million at December 31, 2012) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.
- (g) The principal amount of the notes issued by WPD (South West) and WPD (East Midlands) are adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2011 to 2012 was an increase of approximately £9 million (\$14 million) resulting from inflation. In addition, this amount includes £225 million (\$361 million at December 31, 2012) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.
- (h) Includes £3.3 billion (\$5.3 billion at December 31, 2012) of notes that may be put by the holders back to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's, S&P or Fitch) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt for the periods 2013 through 2017 and thereafter are as follows.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
2013	\$ 751	\$ 751				
2014	328	318	\$ 10			
2015	1,317	317	100	\$ 900	\$ 250	\$ 250
2016	828	368				
2017	118	18				
Thereafter	16,093	1,477	1,864	3,185	859	1,601
Total	<u>\$ 19,435</u>	<u>\$ 3,249</u>	<u>\$ 1,974</u>	<u>\$ 4,085</u>	<u>\$ 1,109</u>	<u>\$ 1,851</u>

Long-term Debt and Equity Securities Activities

(PPL)

In April 2012, PPL made a registered underwritten public offering of 9.9 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 591 thousand additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 9.9 million shares of PPL common stock. Settlement of these initial forward sale agreements will occur no later than April 2013. As a result of the underwriters' exercise of the overallotment option, PPL entered into additional forward sale agreements covering the 591 thousand additional shares of PPL common stock. Settlement of the subsequent forward sale agreements will occur no later than July 2013. Upon any physical settlement of any forward sale agreement, PPL will issue and deliver to the forward counterparties shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of \$27.02 per share reduced during the period the contracts are outstanding as specified in the forward sale agreements. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under the forward sale agreements.

PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement to repay short-term debt obligations and for other general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to those settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method. See Note 4 for information on the forward sale agreements impact on the calculation of diluted EPS.

In April 2012, WPD (East Midlands) issued £100 million aggregate principal amount of 5.25% Senior Notes due 2023. WPD (East Midlands) received proceeds of £111 million, which equated to \$178 million at the time of issuance, net of underwriting fees. The net proceeds were used for general corporate purposes.

In June 2012, PPL Capital Funding issued \$400 million of 4.20% Senior Notes due 2022. The notes may be redeemed at PPL Capital Funding's option any time prior to maturity at make-whole redemption prices. PPL Capital Funding received proceeds of \$396 million, net of a discount and underwriting fees, which were used for general corporate purposes.

In August 2012, PPL Capital Funding redeemed at par, plus accrued interest, the \$99 million outstanding principal amount of its 6.85% Senior Notes due 2047.

In October 2012, PPL Capital Funding issued \$400 million of 3.50% Senior Notes due 2022. The notes may be redeemed at PPL Capital Funding's option any time prior to maturity at make-whole redemption prices. PPL Capital Funding received proceeds of \$397 million, net of a discount and underwriting fees, which were used to repay short-term debt obligations, including commercial paper borrowings and for general corporate purposes.

(PPL and PPL Energy Supply)

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. See Note 10 for information on the transaction and the long-term debt of PPL Ironwood, LLC assumed through consolidation as part of the acquisition.

In February 2013, PPL Energy Supply completed an exchange offer to exchange up to all, but not less than a majority, of 8.857% Senior Secured Bonds due 2025 of its wholly owned subsidiary, PPL Ironwood (the "Ironwood Bonds") for newly issued PPL Energy Supply Senior Notes, Series 4.60% due 2021. A total of \$167 million aggregate principal amount of outstanding Ironwood Bonds was exchanged for \$212 million aggregate principal amount of PPL Energy Supply Senior Notes, Series 4.60% due 2021.

(PPL and PPL Electric)

See Note 3 for information regarding PPL Electric's June 2012 redemption of all 2.5 million shares of its 6.25% Series Preference Stock, par value \$100 per share.

In August 2012, PPL Electric issued \$250 million of 2.50% First Mortgage Bonds due 2022. The notes may be redeemed at PPL Electric's option any time prior to maturity at make-whole redemption prices. PPL Electric received proceeds of \$247 million, net of a discount and underwriting fees. The net proceeds were used to repay short-term debt incurred to fund PPL Electric's redemption of its 6.25% Series Preference Stock in June 2012 and for other general corporate purposes.

(PPL and LKE)

In June 2012, LKE completed an exchange of \$250 million of 4.375% Senior Notes due 2021 issued in September 2011 in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered with the SEC.

(PPL)

2011 Equity Units

In April 2011, in connection with the acquisition of WPD Midlands, PPL issued 92 million shares of its common stock at a public offering price of \$25.30 per share, for a total of \$2.328 billion. Proceeds from the issuance were \$2.258 billion, net of the \$70 million underwriting discount. PPL also issued 19.55 million 2011 Equity Units at a stated amount per unit of \$50.00 for a total of \$978 million. Proceeds from the issuance were \$948 million, net of the \$30 million underwriting discount. PPL used the net proceeds to repay PPL Capital Funding's borrowings under the 2011 Bridge Facility, as discussed above, to pay certain acquisition-related fees and expenses and for general corporate purposes.

Each 2011 Equity Unit consists of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019 (2019 Notes).

Each 2011 Purchase Contract obligates the holder to purchase, and PPL to sell, for \$50.00 a number of shares of PPL common stock to be determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to May 1, 2014, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds approximately \$30.99, then 1.6133 shares (a minimum of 31,540,015 shares);
- if the average VWAP is less than approximately \$30.99 but greater than \$25.30, a number of shares of common stock having a value, based on the average VWAP, equal to \$50.00; and
- if the average VWAP is less than or equal to \$25.30, then 1.9763 shares (a maximum of 38,636,665 shares).

If holders elect to settle the 2011 Purchase Contract prior to May 1, 2014, they will receive 1.6133 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change.

A holder's ownership interest in the 2019 Notes is pledged to PPL to secure the holder's obligation under the related 2011 Purchase Contract. If a holder of a 2011 Purchase Contract chooses at any time no longer to be a holder of the 2019 Notes, such holder's obligation under the 2011 Purchase Contract must be secured by a U.S. Treasury security.

Each 2011 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.43% per year on the \$50.00 stated amount of the 2011 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2011 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 8.75% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2019 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2019 Notes initially bear interest at 4.32% and are not subject to redemption prior to May 2016. Beginning May 2016, PPL Capital Funding may, at its option, redeem the 2019 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2019 Notes are expected to be remarketed in 2014 into two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of \$250 million and 50% of the aggregate principal amount of the 2019 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. Upon a successful remarketing, the interest rate on the 2019 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the 2019 Notes will have the right to put their notes to PPL Capital Funding on May 1, 2014 for an amount equal to the principal amount plus accrued interest.

Prior to May 2016, PPL Capital Funding may elect at one or more times to defer interest payments on the 2019 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and May 2016. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2019 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon its liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2019 Notes by PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2019 Notes as of the date of their issuance.

In the financial statements, the proceeds from the sale of the 2011 Equity Units were allocated to the 2019 Notes and the 2011 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2019 Notes were recorded at \$978 million, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of \$123 million was recorded to other liabilities representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital for the issuance of the 2011 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2011 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that is excluded from the Statement of Cash Flows in 2011. Costs to issue the 2011 Equity Units were primarily allocated on a relative cost basis, resulting in \$25 million being recorded to "Additional paid-in capital" and \$6 million being recorded to "Other noncurrent assets" on the Balance Sheet. See Note 4 for EPS considerations related to the 2011 Purchase Contracts.

2010 Equity Units

In June 2010, in connection with the acquisition of LKE, PPL issued 103.5 million shares of its common stock at a public offering price of \$24.00 per share, for a total of \$2.484 billion. Proceeds from the issuance were \$2.409 billion, net of the \$75 million underwriting discount. PPL also issued 23 million 2010 Equity Units at a stated amount per unit of \$50.00 for a total of \$1.150 billion. Proceeds from the issuance were \$1.116 billion, net of the \$34 million underwriting discount.

Each 2010 Equity Unit consists of a Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018 (2018 Notes).

Each 2010 Purchase Contract obligates the holder to purchase, and PPL to sell, for \$50.00 a variable number of shares of PPL common stock determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to July 1, 2013, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds \$28.80, then 1.7361 shares (a minimum of 39,930,300 shares);
- if the average VWAP is less than \$28.80 but greater than \$24.00, a number of shares of common stock having a value, based on the average VWAP, equal to \$50.00; and
- if the average VWAP is less than or equal to \$24.00, then 2.0833 shares (a maximum of 47,915,900 shares).

If holders elect to settle the 2010 Purchase Contract prior to July 1, 2013, they will receive 1.7361 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change.

A holder's ownership interest in the 2018 Notes is pledged to PPL to secure the holder's obligation under the related 2010 Purchase Contract. If a holder of a 2010 Purchase Contract chooses at any time to no longer be a holder of the 2018 Notes, such holder's obligation under the 2010 Purchase Contract must be secured by a U.S. Treasury security.

Each 2010 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.875% per year on the \$50.00 stated amount of the 2010 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2010 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 9.5% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2018 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2018 Notes initially bear interest at 4.625% and are not subject to redemption prior to July 2015. Beginning July 2015, PPL Capital Funding may, at its option, redeem the 2018 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2018 Notes are expected to be remarketed in 2013 in two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of \$300 million and 50% of the aggregate principal amount of the 2018 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. The 2018 Notes will be remarketed as subordinated, unsecured obligations of PPL Capital Funding, as PPL Capital Funding notified the trustee in September 2010 of its irrevocable election to maintain the subordination provisions of the notes and related guarantees in a remarketing. Upon a successful remarketing, the interest rate on the 2018 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect, with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the 2018 Notes will have the right to put their notes to PPL Capital Funding on July 1, 2013 for an amount equal to the principal amount plus accrued interest.

Prior to July 2013, PPL Capital Funding may elect at one or more times to defer interest payments on the 2018 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and July 2015. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2018 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon its liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2018 Notes by PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2018 Notes as of the date of their issuance.

In the financial statements, the proceeds from the sale of the 2010 Equity Units were allocated to the 2018 Notes and the 2010 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2018 Notes were recorded at \$1.150 billion, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of \$157 million was recorded to other liabilities, representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital for the issuance of the 2010 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2010 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that was excluded from the Statement of Cash Flows in 2010. Costs to issue the 2010 Equity Units were primarily allocated on a relative cost basis, resulting in \$29 million being recorded to "Additional paid-in capital" and \$7 million being recorded to "Other noncurrent assets" on the Balance Sheet. See Note 4 for EPS considerations related to the 2010 Purchase Contracts.

Legal Separateness (*PPL, PPL Energy Supply, PPL Electric and LKE*)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions, Capital Contributions and Related Restrictions

(PPL)

In November 2012, PPL declared its quarterly common stock dividend, payable January 2, 2013, at 36.0 cents per share (equivalent to \$1.44 per annum). In February 2013, PPL declared its quarterly common stock dividend, payable April 1, 2013, at 36.75 cents per share (equivalent to \$1.47 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067. Subject to certain exceptions, PPL may not declare or pay any dividend or distribution on its capital stock until any deferred interest payments on its 4.625% Junior Subordinated Notes due 2018 and its 4.32% Junior Subordinated Notes due 2019 have been paid and deferred contract adjustment payments on PPL's Purchase Contracts have been paid. At December 31, 2012, no payments were deferred on any series of junior subordinated notes or the Purchase Contracts.

(PPL, PPL Electric, LKE, LG&E and KU)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its dividends to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2012, net assets of \$2.3 billion (\$893 million for LG&E and \$1.4 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of \$2.3 billion (\$917 million for LG&E and \$1.4 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

(PPL and PPL Energy Supply)

The PPL Montana Colstrip lease places certain restrictions on PPL Montana's ability to declare dividends. At this time, PPL believes that these covenants will not limit PPL's or PPL Energy Supply's ability to operate as desired and will not affect their ability to meet any of their cash obligations.

(PPL)

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The following distributions and capital contributions occurred in 2012:

	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Dividends/distributions paid to parent/member	\$ 787	\$ 95	\$ 155	\$ 75	\$ 100
Capital contributions received from parent/member	563	150			

8. Acquisitions, Development and Divestitures

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See Note 9 for information on PPL Energy Supply's 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, which was presented as discontinued operations by PPL Energy Supply, and the sales of businesses in 2011 and prior years that were presented as discontinued operations by PPL, PPL Energy Supply and LKE. See Note 10 for information on PPL's and PPL Energy Supply's 2012 Ironwood Acquisition and PPL's 2011 acquisition of WPD Midlands and 2010 acquisition of LKE.

(PPL, LKE, LG&E and KU)

Acquisition

Terminated Bluegrass CTs Acquisition

In September 2011, LG&E and KU entered into an asset purchase agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of \$110 million, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC.

Development

Cane Run Unit 7 Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build Cane Run Unit 7. In May 2012, the KPSC issued an order approving the request. LG&E will own a 22% undivided interest, and KU will own a 78% undivided interest in the new generating unit. A formal request for recovery of the costs associated with the construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate proceedings. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

In conjunction with this construction and to meet new, more stringent EPA regulations with a 2015 compliance date, LG&E and KU anticipate retiring five older coal-fired electric generating units at the Cane Run and Green River plants, which have a combined summer capacity rating of 726 MW. In addition, KU retired the remaining 71 MW unit at the Tyrone plant in February 2013.

Future Capacity Needs

In addition to the construction of a combined cycle gas unit at the Cane Run station, LG&E and KU continue to assess future capacity needs. As a part of the assessment, LG&E and KU issued an RFP in September 2012 for up to 700 MW of capacity beginning as early as 2015.

(PPL and PPL Energy Supply)

Hydroelectric Expansion Projects

In 2009, in light of the availability of tax incentives and potential federal loan guarantees for renewable projects contained in the Economic Stimulus Package, PPL Energy Supply filed an application with the FERC to expand capacity at its Holtwood hydroelectric plant, which the FERC approved. The project's expected cost is \$443 million. Construction continues on the project, with commercial operations scheduled to begin in 2013. At December 31, 2012, expected remaining expenditures are \$84 million.

In 2009, PPL Montana received FERC approval for its request to redevelop the Rainbow hydroelectric facility at Great Falls, Montana. The project's expected cost is \$209 million. Commercial operations is scheduled to begin in 2013. At December 31, 2012, expected remaining expenditures were insignificant.

PPL Energy Supply believes that it is qualified for either investment tax credits or Treasury grants for the projects at the Holtwood and Rainbow facilities. PPL Energy Supply has recognized investment tax credits and continues to evaluate whether to seek Treasury grants in lieu of the credits. During 2012, 2011 and 2010, PPL Energy Supply recorded deferred investment tax credits of \$40 million, \$52 million and \$52 million. PPL Energy Supply anticipates recognizing an additional \$23 million in investment tax credits for tax year 2013. These credits reduce PPL Energy Supply's tax liability and will be amortized over the life of the related assets.

Bell Bend COLA

In 2008, a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) submitted a COLA to the NRC for the proposed Bell Bend nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. Also in 2008, the COLA was formally docketed and accepted for review by the NRC. PPL Bell Bend continues to respond to questions from the NRC regarding technical and site specific information provided in the initial COLA and subsequent amendments. PPL Bell Bend does not expect to complete the COLA review process with the NRC prior to 2015.

In 2008, PPL Bell Bend submitted Parts I and II of an application for a federal loan guarantee for Bell Bend to the DOE. The DOE is expected in the first half of 2013 to finalize the first nuclear loan guarantee for a project in Georgia. Eight of the ten applicants that submitted Part II applications remain active in the DOE program; however, the DOE has stated that the \$18.5 billion currently appropriated to support new nuclear projects would not likely be enough for more than three projects. PPL Bell Bend submits quarterly application updates for Bell Bend to the DOE to remain active in the loan guarantee application process.

PPL Bell Bend has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized to spend up to \$205 million through 2015 on the COLA and other permitting costs necessary for construction, which is expected to be sufficient to fund the project through receipt of the license. At December 31, 2012 and 2011, \$154 million and \$131 million of costs, which includes capitalized interest, associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL Bell Bend believes that the estimated fair value of the COLA currently exceeds the costs expected to be capitalized for the licensing application.

Regional Transmission Line Expansion Plan (PPL and PPL Electric)

Susquehanna-Roseland

In 2007, PJM directed the construction of a new 150-mile, 500-kilovolt transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line was needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM directed PPL Electric to construct the portion of

the Susquehanna-Roseland line in Pennsylvania and Public Service Electric & Gas Company to construct the portion of the line in New Jersey.

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas Company as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the United States District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation, and on December 6, 2012, the groups filed a petition for injunctive relief seeking to prohibit all construction activities until the court issues a final decision on the complaint. PPL Electric has intervened in the lawsuit. The chosen route had previously been approved by the PUC and the New Jersey Board of Public Utilities.

On December 13, 2012, PPL Electric received federal construction and right of way permits to build on National Park Service lands.

Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be completed before the peak summer demand period of 2015. At December 31, 2012, PPL Electric's estimated share of the project cost was \$560 million.

PPL and PPL Electric cannot predict the ultimate outcome or timing of any legal challenges to the project or what additional actions, if any, PJM might take in the event of a further delay to the scheduled in-service date for the new line.

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line, three new substations and upgrades to adjacent facilities). The incentives were specifically tailored to address the risks and challenges PPL Electric will face in building the project. The FERC granted the incentive for inclusion of all prudently incurred construction work in progress (CWIP) costs in rate base and denied the request for a 100 basis point adder to the return on equity incentive. The order required a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project, which PPL Electric will submit with the FERC in March 2013. PPL Electric expects the project to be completed in 2017. At December 31, 2012, PPL Electric estimates the total project costs to be approximately \$200 million with approximately \$190 million qualifying for the CWIP incentive.

9. Discontinued Operations

(PPL and PPL Energy Supply)

Sale of Certain Non-core Generation Facilities

In 2011, PPL Energy Supply subsidiaries completed the sale of their ownership interests in certain non-core generation facilities, which were included in the Supply segment, for \$381 million. The transaction included the natural gas-fired facilities in Wallingford, Connecticut and University Park, Illinois and an equity interest in Safe Harbor Water Power Corporation, which owns a hydroelectric facility in Conestoga, Pennsylvania.

These non-core generation facilities met the held for sale criteria in the third quarter of 2010. As a result, a pre-tax impairment charge of \$96 million (\$58 million after tax) was recorded and \$5 million (\$4 million after tax) of allocated goodwill was written off. These charges are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2010 Statements of Income.

Following are the components of Discontinued Operations in the Statements of Income.

	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 19	\$ 113
Operating expenses (a)	11	156
Operating income (loss)	8	(43)
Other income (expense) - net		2
Interest expense (b)	3	11
Income (loss) before income taxes	5	(52)
Income tax expense (benefit)	3	(18)
Income (Loss) from Discontinued Operations	<u>\$ 2</u>	<u>\$ (34)</u>

- (a) 2010 includes the impairments to the carrying value of the non-core generation facilities and the write-off of allocated goodwill.
- (b) Represents allocated interest expense based upon debt attributable to the generation facilities sold.

Sale of Long Island Generation Business

In 2010, PPL Energy Supply subsidiaries completed the sale of the Long Island generation business, which was included in the Supply segment. Proceeds from the sale approximated \$124 million. There was no significant impact on earnings in 2010 from the operation of this business or as a result of the sale.

Sale of Maine Hydroelectric Generation Business

In 2010, a PPL Energy Supply subsidiary completed the sale of its Maine hydroelectric generation business, which was included in the Supply segment. The business included eight hydroelectric facilities as well as a 50% equity interest in another hydroelectric facility. The majority of the business was sold in 2009. The remaining three hydroelectric facilities were sold in 2010 for \$24 million, and also resulted in the receipt of an additional \$14 million in contingent consideration in connection with the 2009 sale. As a result of the consideration received in 2010, PPL Energy Supply recorded a gain of \$25 million (\$15 million after tax), reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2010 Statement of Income.

Distribution of Membership Interest in PPL Global to Parent (PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its entire membership interest in PPL Global, which represented the entire U.K. Regulated segment, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011, and no gains or losses were recognized on the distribution. The purpose of the distribution was to better align PPL's organizational structure with the manner in which it manages these businesses, separating the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. Following the distribution, PPL Energy Supply operates in a single reportable segment, and through its subsidiaries is primarily engaged in the generation and marketing of power, primarily in the northeastern and northwestern U.S.

Following are the components of Discontinued Operations in the Statement of Income.

	<u>2010</u>
Operating revenues	\$ 761
Operating expenses	368
Operating income	393
Other income (expense) - net	4
Interest expense (a)	135
Income before income taxes	262
Income tax expense	1
Income (Loss) from Discontinued Operations	<u>\$ 261</u>

- (a) No interest was allocated, as PPL Global was sufficiently capitalized.

The amount of cash and cash equivalents of PPL Global at the time of the distribution was reflected as a financing activity in the 2011 Statement of Cash Flows.

WKE

(PPL and LKE)

WKE had a 25-year lease for and operated generating facilities of BREC, and a coal-fired generating facility owned by the City of Henderson, Kentucky. WKE terminated the lease in 2009 prior to PPL acquiring LKE. See Note 15 for additional information related to the termination of the lease. In 2012, an adjustment was made to the liability for certain WKE indemnifications, which is reflected in Discontinued Operations. See "Guarantees and Other Assurances" in Note 15 for additional information on the adjustment and related indemnification. The results of operations for the 2012, 2011 and 2010 periods were not significant.

10. Business Acquisitions

Ironwood Acquisition (PPL and PPL Energy Supply)

On April 13, 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition of all of the equity interests of two subsidiaries of The AES Corporation, AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, the Ironwood Facility. The Ironwood Facility began operation in 2001 and, since 2008, PPL EnergyPlus has supplied natural gas for the facility and received the facility's full electricity output and capacity value pursuant to a tolling agreement that expires in 2021. The acquisition provides PPL Energy Supply, through its subsidiaries, operational control of additional combined-cycle gas generation in PJM.

The fair value of the consideration paid for this acquisition was as follows.

Aggregate enterprise consideration	\$	326
Less: Fair value of long-term debt outstanding assumed through consolidation (a)		258
Plus: Restricted cash debt service reserves		17
Cash consideration paid for equity interests (including working capital adjustments)	\$	<u>85</u>

- (a) The long-term debt assumed through consolidation consisted of \$226 million aggregate principal amount of 8.857% senior secured bonds to be fully repaid by 2025, plus \$8 million of debt service reserve loans, and a \$24 million fair value adjustment.

Purchase Price Allocation

The following table summarizes the allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed through consolidation, and the effective settlement of the tolling agreement through consolidation.

PP&E	\$	505
Long-term debt (current and noncurrent) (a)		(258)
Tolling agreement (b)		(170)
Other net assets (a)		8
Net identifiable assets acquired	\$	<u>85</u>

- (a) Represents non-cash activity excluded from the 2012 Statement of Cash Flows.
(b) Prior to the acquisition, PPL EnergyPlus had recorded primarily an intangible asset, which represented its rights to and the related accounting for the tolling agreement with PPL Ironwood, LLC. On the acquisition date, PPL Ironwood, LLC recorded a liability, recognized at fair value, for its obligation to PPL EnergyPlus. The tolling agreement assets of PPL EnergyPlus and the tolling agreement liability of PPL Ironwood, LLC eliminate in consolidation for PPL and PPL Energy Supply as a result of the acquisition, and therefore the agreement is considered effectively settled. The difference between the tolling agreement assets and liability resulted in an insignificant loss on the effective settlement of the agreement.

During the fourth quarter of 2012, the purchase price allocation was finalized with no material adjustments made to the preliminary valuation.

Acquisition of WPD Midlands (PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash of \$5.8 billion, including the repayment of \$1.7 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and approximately \$800 million of long-term debt assumed through consolidation. WPD Midlands operates two regulated distribution networks that serve five million end-users in the Midlands area of England. The acquisition increased the regulated portion of PPL's business and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability. Further, since the service territories of WPD (South Wales), WPD (South West) and WPD Midlands are contiguous, cost savings, efficiencies and other benefits are achieved from the combined operations of these entities.

The fair value of the consideration paid for this acquisition was as follows (in billions).

Aggregate enterprise consideration	\$ 6.6
Less: Fair value of long-term debt outstanding assumed through consolidation	0.8
Total cash consideration paid	5.8
Less: Funds used to repay pre-acquisition affiliate indebtedness	1.7
Cash consideration paid for Central Networks' outstanding ordinary share capital	<u>\$ 4.1</u>

The total cash consideration paid was primarily funded by borrowings under the 2011 Bridge Facility on the date of acquisition. Subsequently, PPL repaid those borrowings in 2011 using proceeds from the permanent financing, including issuances of common stock and 2011 Equity Units, as well as proceeds from the issuance of debt by PPL WEM, WPD (East Midlands) and WPD (West Midlands). See Note 7 for additional information.

Purchase Price Allocation

The following table summarizes (in billions) the allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	\$ 0.2
PP&E	4.9
Intangible assets	0.1
Other noncurrent assets	0.1
Current liabilities (b)	(0.4)
PPL WEM affiliate indebtedness	(1.7)
Long-term debt (current and noncurrent) (b)	(0.8)
Other noncurrent liabilities (b)	(0.7)
Net identifiable assets acquired	<u>1.7</u>
Goodwill	2.4
Net assets acquired	<u>\$ 4.1</u>

(a) Includes gross contractual amount of the accounts receivable acquired of \$122 million, which approximates fair value.

(b) Represents non-cash activity excluded from the 2011 Statement of Cash Flows.

The purchase price allocation resulted in goodwill of \$2.4 billion that was assigned to the U.K. Regulated segment. The goodwill is attributable to the expected continued growth of a rate-regulated business with a defined service area operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from a contiguous service area with WPD (South West) and WPD (South Wales), as well as the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance in capital cost efficiency, system reliability and customer service. The goodwill is not deductible for U.K. income tax purposes.

Separation Benefits - U.K. Regulated Segment

In connection with the 2011 acquisition, PPL completed a reorganization designed to transition WPD Midlands from a functional operating structure to a regional operating structure requiring a smaller combined support structure, reducing duplication and implementing more efficient procedures. As a result of the reorganization, 729 employees of WPD Midlands have been terminated.

The separation benefits, before income taxes, associated with the reorganization are as follows.

Severance compensation	\$ 61
Early retirement deficiency costs (ERDC) under applicable pension plans	46
Outplacement services	1
Total separation benefits	<u>\$ 108</u>

In connection with the reorganization, WPD Midlands recorded \$93 million of the total expected separation benefits in 2011, of which \$48 million related to severance compensation and \$45 million related to ERDC. WPD Midlands recorded an additional \$15 million of total separation benefits in 2012, of which \$13 million related to severance compensation and \$2 million related to ERDC. The accrued severance compensation is reflected in "Other current liabilities" and the ERDC reduced "Other noncurrent assets" on the Balance Sheets. All separation benefits are included in "Other operation and maintenance" on the Statements of Income.

The changes in the carrying amounts of accrued severance were as follows.

	2012	2011
Accrued severance at beginning of period	\$ 21	
Severance compensation	13	\$ 48
Severance paid	(34)	(27)
Accrued severance at end of period	<u>\$ 21</u>	<u>\$ 21</u>

In addition to the reorganization costs noted above, an additional \$9 million was recorded in 2011 for ERDC payable under applicable pension plans and severance compensation for certain employees who separated from the WPD Midlands companies, but were not part of the reorganization. These separation benefits are also included in "Other operation and maintenance" on the Statement of Income.

Other

WPD Midlands 2011 financial results included in PPL's Statement of Income and included in the U.K. Regulated segment were as follows.

Operating Revenues	\$ 790
Net Income Attributable to PPL Shareowners	137

Pro forma Information

The pro forma financial information, which includes LKE, discussed below, as if the acquisition had occurred January 1, 2009 and WPD Midlands as if the acquisition had occurred January 1, 2010, is as follows.

	2011	2010
Operating Revenues - PPL consolidated pro forma (unaudited)	\$ 13,140	\$ 11,850
Net Income Attributable to PPL Shareowners - PPL consolidated pro forma (unaudited)	1,800	1,462

The pro forma financial information presented above has been derived from the historical consolidated financial statements of PPL and LKE, which was acquired on November 1, 2010, and from the historical combined financial statements of WPD Midlands, which was acquired on April 1, 2011. Income (loss) from discontinued operations (net of income taxes), which was not significant for 2011 and was \$(18) million for 2010, were excluded from the pro forma amounts above.

The pro forma financial information presented above includes adjustments to depreciation, net periodic pension costs, interest expense and the related income tax effects to reflect the impact of the acquisition. The pre-tax nonrecurring credits (expenses) presented in the following table were directly attributable to the WPD Midlands and LKE acquisitions and adjustments were included in the calculation of pro forma operating revenue and net income to remove the effect of these nonrecurring items and the related income tax effects.

	Income Statement Line Item	2011	2010
WPD Midlands acquisition			
2011 Bridge Facility costs (a)	Interest Expense	\$ (44)	
Foreign currency loss on 2011 Bridge Facility (b)	Other Income (Expense) - net	(57)	
Net hedge gains associated with the 2011 Bridge Facility (c)	Other Income (Expense) - net	55	
Hedge ineffectiveness (d)	Interest Expense	(12)	
U.K. stamp duty tax (e)	Other Income (Expense) - net	(21)	
Separation benefits (f)	Other operation and maintenance	(102)	
Other acquisition-related adjustments	(g)	(77)	
LKE acquisition			
2010 Bridge Facility costs (h)	Interest Expense		\$ (80)
Other acquisition-related adjustments (i)	Other Income (Expense) - net		(31)

- (a) The 2011 Bridge Facility costs, primarily commitment and structuring fees, were incurred to establish a bridge facility for purposes of funding the WPD Midlands acquisition purchase price.
- (b) The 2011 Bridge Facility was denominated in GBP. The amount includes a \$42 million foreign currency loss on PPL Capital Funding's repayment of its 2011 Bridge Facility borrowing and a \$15 million foreign currency loss associated with proceeds received on the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011 that were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility.
- (c) The repayment of borrowings on the 2011 Bridge Facility was economically hedged to mitigate the effects of changes in foreign currency exchange rates with forward contracts to purchase GBP, which resulted in net hedge gains.

- (d) The hedge ineffectiveness includes a combination of ineffectiveness associated with closed out interest rate swaps and a charge recorded as a result of certain interest rate swaps failing hedge effectiveness testing, both associated with the acquisition financing.
- (e) The U.K. stamp duty tax represents a tax on the transfer of ownership of property in the U.K. incurred in connection with the acquisition.
- (f) See "Separation Benefits - U.K. Regulated Segment" above.
- (g) Primarily includes acquisition-related advisory, accounting and legal fees recorded in "Other Income (Expense) - net" and contract termination costs, rebranding costs and relocation costs recorded in "Other operation and maintenance."
- (h) Primarily commitment and structuring fees, incurred to establish a bridge facility for purposes of funding the acquisition purchase price.
- (i) Primarily includes acquisition-related advisory, accounting and legal fees.

Acquisition of LKE

(PPL)

On November 1, 2010, PPL completed the acquisition of all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC (LKE). LKE is a holding company with regulated utility operations conducted through its subsidiaries, LG&E and KU. The acquisition reapportions the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business, strengthens PPL's credit profile and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability.

The fair value of the consideration paid for this acquisition was as follows (in billions).

Aggregate enterprise consideration	\$ 7.6
Less: Fair value of assumed long-term debt outstanding, net	0.8
Total cash consideration paid	<u>6.8</u>
Less: Funds used to repay pre-acquisition affiliate indebtedness	4.3
Cash consideration paid for E.ON U.S. LLC equity interests	<u>\$ 2.5</u>

The total cash consideration paid, including repayment of affiliate indebtedness, was funded by PPL's June 2010 issuance of \$3.6 billion of common stock and 2010 Equity Units that provided proceeds totaling \$3.5 billion, net of underwriting discounts, \$3.2 billion of borrowings under an existing credit facility in October 2010, \$249 million of proceeds from the monetization of certain full-requirement sales contracts in July 2010 and cash on hand. See Note 7 for additional information on the issuance of common stock and 2010 Equity Units and the October 2010 borrowing under PPL Energy Supply's syndicated credit facility that provided interim financing to partially fund the acquisition. See Note 19 for additional information on the monetization of certain full-requirement sales contracts.

Purchase Price Allocation

The following table summarizes (in billions) the allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	\$ 0.9
PP&E	7.5
Other intangibles (current and noncurrent)	0.4
Regulatory and other noncurrent assets	0.7
Current liabilities, excluding current portion of long-term debt (b)	(0.5)
PPL affiliate indebtedness (c)	(4.3)
Long-term debt (current and noncurrent) (b)	(0.9)
Other noncurrent liabilities (b)	<u>(2.3)</u>
Net identifiable assets acquired	1.5
Goodwill	<u>1.0</u>
Net assets acquired	<u>\$ 2.5</u>

- (a) Includes gross contractual amount of the accounts receivable acquired of \$186 million. PPL expected \$11 million to be uncollectible; however, credit risk is mitigated since uncollectible accounts are a component of customer rates.
- (b) Represents non-cash activity excluded from the 2010 Statement of Cash Flows.
- (c) Includes \$1.6 billion designated as a capital contribution to LKE.

For purposes of goodwill impairment testing, the \$996 million of goodwill was assigned to the PPL reportable segments expected to benefit from the acquisition. Both the Kentucky Regulated and the Supply segments are expected to benefit and the assignment of goodwill was \$662 million to the Kentucky Regulated segment and \$334 million to the Supply segment. The goodwill at the Kentucky Regulated segment reflects the value paid for the expected continued growth of a rate-regulated business located in a defined service area with a constructive regulatory environment, the ability of LKE to leverage its assembled workforce to take advantage of those growth opportunities and the attractiveness of stable, growing cash flows. Although no other assets or liabilities from the acquisition were assigned to the Supply segment, the Supply

segment obtained a synergistic benefit attributed to the overall de-risking of the PPL portfolio, which enhanced PPL Energy Supply's credit profile, thereby increasing the value of the Supply segment. This increase in value resulted in the assignment of goodwill to the Supply segment. The goodwill is not deductible for income tax purposes. As such, no deferred taxes were recorded related to goodwill.

See Note 9 and the "Guarantees and Other Assurances" section of Note 15 for additional information on certain indemnifications provided by LKE, the most significant of which relates to the discontinued operations of WKE.

The 2010 LKE financial results included in PPL's Statement of Income and included in the Kentucky Regulated segment were as follows.

	<u>Operating Revenues</u>	<u>Net Income (Loss) Attributable to PPL Shareowners</u>
From November 1, 2010 - December 31, 2010	\$ 493	\$ 47

(PPL, PPL Energy Supply, LKE, LG&E and KU)

In November 2010, LKE, LG&E and KU issued debt totaling \$2.9 billion, of which LKE used \$100 million to return capital to PPL. The majority of these proceeds, together with a borrowing by LG&E under its available credit facilities, were used to repay borrowings from a PPL Energy Supply subsidiary. Such borrowings were incurred to permit LKE to repay certain indebtedness owed to affiliates of E.ON AG upon the closing of the acquisition. In November 2010, PPL Energy Supply used the above-referenced amounts received from LKE, together with other cash on hand, to repay approximately \$3.0 billion of its October 2010 borrowing under existing credit facilities.

(PPL and PPL Energy Supply)

To ensure adequate funds were available for the acquisition, in July 2010, PPL Energy Supply monetized certain full-requirement sales contracts that resulted in cash proceeds of \$249 million. See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 19 for additional information. Additionally, PPL Energy Supply received proceeds in 2011 from the sale of certain non-core generation facilities, which were used to repay the short-term borrowings drawn on existing credit facilities. See "Sale of Certain Non-core Generation Facilities" in Note 9 for additional information.

As a result of the monetization of these full-requirement sales contracts, coupled with the expected net proceeds from the then-anticipated sale of these non-core generation facilities, debt that had been planned to be issued by PPL Energy Supply in late 2010 was no longer needed. Therefore, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued. Net gains (losses) of \$(29) million, or \$(19) million after tax, were reclassified from AOCI to "Other Income (Expense) - net" on PPL's 2010 Statement of Income.

(LKE, LG&E and KU)

On November 1, 2010, PPL completed its acquisition of LKE and its subsidiaries. The push-down basis of accounting was used to record the fair value adjustments of assets and liabilities on LKE at the acquisition date. PPL paid cash consideration for the equity interests in LKE and its subsidiaries of \$2,493 million and provided a capital contribution on November 1, 2010, of \$1,565 million; included within this was the consideration paid of \$1,702 million for LG&E and \$2,656 million for KU. The allocation of the purchase price was based on the fair value of assets acquired and liabilities assumed.

The push-down accounting for the fair value of assets acquired and liabilities assumed was as follows (in millions).

	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Current assets	\$ 969	\$ 503	\$ 341
Investments	31	1	30
PP&E	7,469	2,935	4,531
Other intangibles (current and noncurrent)	427	226	201
Regulatory and other noncurrent assets	689	416	274
Current liabilities, excluding current portion of long-term debt	(516)	(420)	(367)
PPL affiliate indebtedness	(4,349)	(485)	(1,331)
Long-term debt (current and noncurrent)	(934)	(580)	(352)
Other noncurrent liabilities	(2,289)	(1,283)	(1,278)
Net identifiable assets acquired	1,497	1,313	2,049
Goodwill	996	389	607
Net assets acquired	2,493	1,702	2,656
Capital Contribution on November 1, 2010, to replace affiliate indebtedness	1,565		
Beginning equity balance on November 1, 2010	<u>\$ 4,058</u>	<u>\$ 1,702</u>	<u>\$ 2,656</u>

Goodwill represents value paid for the rate regulated businesses of LG&E and KU, which are located in a defined service area with a constructive regulatory environment, which provides for future investment, earnings and cash flow growth, as well as the talented and experienced workforce. LG&E's and KU's franchise values are being attributed to the going concern value of the business, and thus were recorded as goodwill rather than a separately identifiable intangible asset. None of the goodwill recognized is deductible for income tax purposes or included in customer rates.

Adjustments to LKE's, LG&E's and KU's assets and liabilities that contributed to goodwill are as follows:

The fair value adjustment on the EEI investment was calculated using the discounted cash flow valuation method. The result was an increase in KU's value of the investment in EEI; the fair value of EEI was calculated to be \$30 million and a fair value adjustment of \$18 million was recorded on KU. The fair value adjustment to EEI was being amortized over the expected remaining useful life of plant and equipment at EEI, which was estimated to be over 20 years. During the fourth quarter of 2012, KU recorded an impairment in EEI. See Notes 1 and 18 for additional information.

The pollution control bonds, excluding the reacquired bonds, had a fair value adjustment of \$7 million for LG&E and \$1 million for KU. All variable bonds were valued at par while the fixed rate bonds were valued with a yield curve based on average credit spreads for similar bonds.

As a result of the purchase accounting associated with the acquisition, the following items had a fair value adjustment but no effect on goodwill as the offset was either a regulatory asset or liability. The regulatory asset or liability has been recorded to eliminate any ratemaking impact of the fair value adjustments:

- The value of OVEC was determined to be \$126 million based upon an announced transaction by another owner. LG&E and KU's combined investment in OVEC was not significant and the power purchase agreement was valued at \$87 million for LG&E and \$39 million for KU. An intangible asset was recorded with the offset to regulatory liability and is amortized using the units of production method until March 2026, the expiration date of the agreement at the date of the acquisition.
- LG&E and KU each recorded an emission allowance intangible asset and a regulatory liability as the result of adjusting the fair value of the emission allowances at LG&E and KU. The emission allowance intangible of \$8 million at LG&E and \$9 million at KU represents allocated and purchased sulfur dioxide and nitrogen oxide emission allowances that were unused as of the valuation date or allocated for use in future years. LG&E and KU had previously recorded emission allowances as other materials and supplies. To conform to PPL's accounting policy all emission allowances are now recorded as intangible assets. The emission allowance intangible asset is amortized as the emission allowances are consumed, which is expected to occur through 2040.
- Coal contract intangible assets were recorded at LG&E for \$124 million and at KU for \$145 million as well as a non-current liability of \$11 million for LG&E and \$22 million for KU on the Balance Sheets. An offsetting regulatory asset was recorded for those contracts with unfavorable terms relative to market. An offsetting regulatory liability was recorded for those contracts that had favorable terms relative to market. All coal contracts held by LG&E and KU, wherein it had entered into arrangements to buy amounts of coal at fixed prices from counterparties at a future date, were fair valued. The intangible assets and other liabilities, as well as the regulatory assets and liabilities, are being amortized over the same terms as the related contracts, which expire through 2016.

- Adjustments on November 1, 2010 were made to record LKE pension assets at fair value, remeasure its pension and postretirement benefit obligations at current discount rates and eliminate accumulated other comprehensive income (loss). An increase of \$4 million in the liability balances of LG&E and KU was recorded, due to the lowering of the discount rate; this was credited to their respective pension and postretirement liability balances with offsetting adjustments made to the related regulatory assets and liabilities.

The fair value of intangible assets and liabilities (e.g. contracts that have favorable or unfavorable terms relative to market), including coal contracts and power purchase agreements, as well as emission allowances, have been reflected on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, LG&E and KU recovered the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the acquisition. As a result, management believes the regulatory assets and liabilities created to offset the fair value adjustments meet the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair value adjustments. LG&E's and KU's customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

LG&E and KU also considered whether a separate fair value should be assigned to LG&E's and KU's rights to operate within its various electric and natural gas distribution service areas but concluded that these rights only provided the opportunity to earn a regulated return and barriers to market entry, which in management's judgment is not considered a separately identifiable intangible asset under applicable accounting guidance; rather, it is considered going-concern value, or goodwill.

Kentucky Acquisition Commitments

(PPL, LKE, LG&E and KU)

In connection with the September 2010 approval of PPL's acquisition of LKE, LG&E and KU agreed to implement the Acquisition Savings Sharing Deferral (ASSD) methodology whereby LG&E's and KU's adjusted jurisdictional revenues, expenses, and net operating income are calculated each year. If LG&E's or KU's actual earned rate of return on common equity exceeds 10.75%, half of the excess amount will be deferred as a regulatory liability and ultimately returned to customers. The first ASSD filing with the KPSC was made on March 30, 2012 based on the 2011 calendar year. On July 2, 2012, the KPSC issued an order approving the calculations contained in the 2011 ASSD filing and determined that such calculations produced no deferral amounts for the purpose of establishing regulatory liabilities and are proper and in accordance with the settlement agreement. The ASSD methodology for each of LG&E's and KU's utility operations terminated on January 1, 2013, when new rates went into effect. Therefore, no further ASSD filings will be made.

11. Leases

Lessee Transactions

(PPL, LKE, LG&E and KU)

E.W. Brown Combustion Turbines

LG&E and KU are participants in a sale-leaseback transaction involving two combustion turbines at the E.W. Brown generating plant. In December 1999, after selling their interests in the combustion turbines, LG&E and KU entered into an 18-year lease of the turbines. LG&E and KU provided funds to fully defease the lease including the repurchase price and have the right to exercise an early purchase option contained in the lease after 15.5 years, which will occur in 2015. The financial statement treatment of this transaction is the same as if LG&E and KU had retained their ownership interest. Since the lease was defeased, there are no remaining minimum lease payments and all related PP&E is reflected on the Balance Sheets. See Note 14 for the balances included on the Balance Sheets related to this transaction. Depreciation expense was insignificant for all periods presented.

Upon a default under the lease, LG&E and KU are obligated to pay to the lessor their share of certain amounts. Primary events of default include loss or destruction of the combustion turbines, failure to insure or maintain the combustion turbines and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the combustion turbines reverts to LG&E and KU. The maximum aggregate amount at December 31, 2012 that could be required to be paid by LKE is \$5 million, by LG&E is \$2 million and by KU is \$3 million. LKE has guaranteed the payment of these potential default payments of LG&E and KU.

(PPL and PPL Energy Supply)

Colstrip Generating Plant

In July 2000, PPL Montana sold its interest in the Colstrip generating plants to owner lessors who lease back to PPL Montana, under four 36-year non-cancelable leases, a 50% interest in Colstrip Units 1 and 2 and a 30% interest in Unit 3. This transaction is accounted for as a sale-leaseback and classified as an operating lease. PPL Montana is responsible for its share of the operating expenses associated with its leasehold interests. See Note 14 for information on the sharing agreement for Colstrip Units 3 and 4. PPL Montana currently amortizes material leasehold improvements over no more than the remaining life of the original leases; however, the leases provide two renewal options based on the economic useful life of the generation assets. The leases place certain restrictions on PPL Montana's ability to incur additional debt, sell assets and declare dividends and require PPL Montana to maintain certain financial ratios related to cash flow and net worth. There are no residual value guarantees in these leases. However, upon an event of default or an event of loss, PPL Montana could be required to pay a termination value of amounts sufficient to allow the lessor to repay amounts owing on the lessor notes and make the lessor whole for its equity investment and anticipated return on investment. The events of default include payment defaults, breaches of representations or covenants, acceleration of other indebtedness of PPL Montana, change in control of PPL Montana and certain bankruptcy events. The termination value was estimated to be \$301 million at December 31, 2012.

Kerr Dam

Under the Kerr Hydroelectric Project No. 5 joint operating license issued by the FERC, PPL Montana is responsible to make payments to the Confederated Salish and Kootenai Tribes of the Flathead Nation for the use of certain of their tribal lands in connection with the operation of Kerr Dam. This payment arrangement, subject to escalation based upon inflation, extends until the end of the license term in 2035. Between 2015 and 2025, the tribes have the option to purchase, hold and operate the project, at a conveyance price to be determined in accordance with the provisions in the FERC license. Exercise of the option by the tribes would result in the termination of this payment arrangement obligation for PPL Montana. The payment arrangement has been treated as an operating lease for accounting purposes. In February 2013, the parties to the license submitted the issue of the appropriate amount of the conveyance price to arbitration.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Other Leases

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land gas storage and other equipment.

Rent - Operating Leases

Rent expense for operating leases was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PPL	\$ 116	\$ 109	\$ 90
PPL Energy Supply	62	84	87

	<u>Successor</u>			<u>Predecessor</u>
	<u>Year Ended December 31, 2012</u>	<u>Year Ended December 31, 2011</u>	<u>Two Months Ended December 31, 2010</u>	<u>Ten Months Ended October 31, 2010</u>
LKE	\$ 18	\$ 18	\$ 3	\$ 14
LG&E	7	7	1	5
KU	10	10	2	8

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	PPL Energy Supply	LKE	LG&E	KU
2013	\$ 109	\$ 76	\$ 15	\$ 5	\$ 9
2014	106	78	15	6	8
2015	85	65	12	5	7
2016	37	26	8	3	5
2017	21	13	6	2	4
Thereafter	149	104	34	14	18
Total	\$ 507	\$ 362	\$ 90	\$ 35	\$ 51

12. Stock-Based Compensation

(PPL, PPL Energy Supply, PPL Electric and LKE)

In 2012, shareowners approved the PPL SIP. This new equity plan replaces the PPL ICP and incorporates the following changes:

- Eliminates the potential to pay dividend equivalents on stock options.
- Eliminates the automatic lapse of restrictions on all equity awards in the event of a "potential" change in control and requires that a termination of employment occur in the event of a change in control before restrictions lapse.
- Changes the treatment of outstanding stock options upon retirement to limit the exercise period to the earlier of the end of the term (ten years from grant) or five years after retirement.

To further align the executives' interests with those of PPL shareowners, this plan provides that each restricted stock unit entitles the executive to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units would be deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards prior to 2013 are currently paid in cash when dividends are declared by PPL.

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Energy Supply, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the plans.

Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards	
				For awards denominated in shares (Shares)	For awards denominated in cash (in dollars)
ICP(a)	15,769,431	2%	3,000,000		
SIP	10,000,000		2,000,000	750,000	\$ 15,000,000
ICPKE	14,199,796	2%	3,000,000		

(a) Applicable to outstanding awards granted from January 27, 2006 to January 26, 2012. During 2012, the total plan award limit was reached and the ICP was replaced by the SIP.

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights of the participant terminate, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

Restricted Stock and Restricted Stock Units

Restricted shares of PPL common stock are outstanding shares with full voting and dividend rights. Restricted stock awards are granted as a retention award for select key executives and vest when the recipient reaches a certain age or meets service or other criteria set forth in the executive's restricted stock award agreement. The shares are subject to forfeiture or accelerated payout under plan provisions for termination, retirement, disability and death of employees. Restricted shares vest fully, in certain situations, as defined by each of the Plans.

The Plans allow for the grant of restricted stock units. Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a vesting period, generally three years.

The fair value of restricted stock and restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock and restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock and restricted stock units may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock and restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restricted stock and restricted stock units vest fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock and restricted stock units granted was:

	2012	2011	2010
PPL	\$ 28.35	\$ 25.25	\$ 28.93
PPL Energy Supply	28.29	25.14	29.49
PPL Electric	28.51	25.09	29.40
LKE	28.34		26.31

Restricted stock and restricted stock unit activity for 2012 was:

	Restricted Shares/Units	Weighted- Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	2,040,035	\$ 27.03
Granted	1,487,556	28.35
Vested	(1,002,229)	27.23
Forfeited	(21,592)	27.69
Nonvested, end of period	2,503,770	27.73
PPL Energy Supply		
Nonvested, beginning of period	665,180	\$ 27.30
Transferred	62,320	28.66
Granted	564,020	28.29
Vested	(219,124)	27.04
Forfeited	(11,710)	27.97
Nonvested, end of period	1,060,686	27.95
PPL Electric		
Nonvested, beginning of period	251,595	\$ 27.10
Transferred	(54,460)	28.93
Granted	133,530	28.51
Vested	(61,995)	27.63
Forfeited	(7,442)	27.46
Nonvested, end of period	261,228	27.30
LKE		
Nonvested, beginning of period	145,210	\$ 26.31
Granted	144,340	28.34
Vested	(149,910)	26.38
Nonvested, end of period	139,640	28.34

Substantially all restricted stock and restricted stock unit awards are expected to vest.

The total fair value of restricted stock and restricted stock units vesting for the years ended December 31 was:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PPL	\$ 27	\$ 19	\$ 15
PPL Energy Supply	6	6	7
PPL Electric	2	2	2
LKE	4	1	

Performance Units

Performance units are intended to encourage and award future performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on total shareowner return during a 3-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the total shareowner return of the companies included in an index group, in the case of the 2010 and 2011 awards, the S&P 500 Electric Utilities Index, and in the case of the 2012 awards, the Philadelphia Electric Utilities Index. Awards granted in 2010 are payable on a graduated basis within the following ranges: if PPL's performance is at or above the 85th percentile of the index group, the award is paid at 200% of the Target Award; at the 50th percentile of the index group, the award is paid at 100% of the Target Award; at the 40th percentile of the index group, the award is paid at 50% of the Target Award; and below the 40th percentile, no award is payable. Awards granted in 2011 and 2012 are payable on a graduated basis similar to 2010, except that the 2011 awards provide for a minimum payment at 25% of the Target Award if performance falls below the 40th percentile of the index group, and in 2012 the minimum payment was eliminated, with no award payable if performance falls below the 25th percentile. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee, in which case the total performance units remain outstanding and are eligible for vesting through the conclusion of the performance period. The fair value of performance units granted is recognized as compensation expense on a straight-line basis over the 3-year performance period. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL had used historical volatility to value its performance units in 2010. Beginning in 2011, PPL began using a mix of historic and implied volatility in response to the significant changes in its business model, moving from a primarily unregulated to a primarily regulated business model, as a result of the acquisitions of LKE and WPD Midlands.

The weighted-average assumptions used in the model were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Risk-free interest rate	0.30%	1.00%	1.41%
Expected stock volatility	19.30%	23.40%	34.70%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of performance units granted was:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PPL	\$ 31.41	\$ 29.67	\$ 34.06
PPL Energy Supply	31.40	29.68	34.16
PPL Electric	31.37	29.57	33.54
LKE	31.30	29.20	

Performance unit activity for 2012 was:

	Performance Units	Weighted- Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	398,609	\$ 33.31
Granted	322,771	31.41
Forfeited	(127,177)	38.61
Nonvested, end of period	594,203	31.14
PPL Energy Supply		
Nonvested, beginning of period	75,067	\$ 33.00
Transferred	12,719	34.15
Granted	71,572	31.40
Forfeited	(35,169)	38.90
Nonvested, end of period	124,189	31.26
PPL Electric		
Nonvested, beginning of period	32,808	\$ 33.11
Transferred	(12,719)	34.15
Granted	16,234	31.37
Forfeited	(10,240)	34.17
Nonvested, end of period	26,083	31.10
LKE		
Nonvested, beginning of period	26,893	\$ 29.20
Granted	55,857	31.30
Nonvested, end of period	82,750	30.62

Stock Options

Under the Plans, stock options may be granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2012, become exercisable in equal installments over a three-year service period beginning one year after the date of grant, assuming the individual is still employed by PPL or a subsidiary. The CGNC and CLC have discretion to accelerate the exercisability of the options, except that the exercisability of an option issued under the ICP may not be accelerated unless the individual remains employed by PPL or a subsidiary for one year from the date of grant. All options expire no later than ten years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans. The fair value of options granted is recognized as compensation expense on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of options granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant.

The fair value of each option granted is estimated using a Black-Scholes option-pricing model. PPL uses a risk-free interest rate, expected option life, expected volatility and dividend yield to value its stock options. The risk-free interest rate reflects the yield for a U.S. Treasury Strip available on the date of grant with constant rate maturity approximating the option's expected life. Expected life is calculated based on historical exercise behavior. Volatility over the expected term of the options is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL's volatility in those prior periods. Management's expectations for future volatility, considering potential changes to PPL's business model and other economic conditions, are also reviewed in addition to the historical data to determine the final volatility assumption. PPL had used historical volatility to value its stock options granted in 2010. Beginning in 2011, PPL began using a mix of historic and implied volatility in response to the significant changes in its business model, moving from a primarily unregulated to a primarily regulated business model, as a result of the acquisitions of LKE and WPD Midlands. The dividend yield is based on several factors, including PPL's most recent dividend payment, as of the grant date and the forecasted stock price through 2013. The assumptions used in the model were:

	2012	2011	2010
Risk-free interest rate	1.13%	2.34%	2.52%
Expected option life	6.17 years	5.71 years	5.43 years
Expected stock volatility	20.60%	21.60%	28.57%
Dividend yield	5.00%	5.93%	5.61%

The weighted-average grant date fair value of options granted was:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PPL	\$ 2.48	\$ 2.47	\$ 4.70
PPL Energy Supply	2.51	2.47	4.73
PPL Electric	2.50	2.47	4.62
LKE	2.51	2.47	

Stock option activity for 2012 was:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Total Intrinsic Value</u>
PPL				
Outstanding at beginning of period	7,530,198	\$ 30.65		
Granted	1,948,550	28.19		
Exercised	(263,094)	23.22		
Forfeited	(81,109)	28.43		
Outstanding at end of period	9,134,545	30.36	6.3	\$ 9
Options exercisable at end of period	6,134,265	31.70	5.7	6
PPL Energy Supply				
Outstanding at beginning of period	1,690,153	\$ 30.79		
Transferred	176,070	31.90		
Granted	483,740	28.19		
Exercised	(36,358)	24.35		
Forfeited	(48,482)	29.34		
Outstanding at end of period	2,265,123	30.45	6.1	\$ 2
Options exercisable at end of period	1,529,711	31.80	4.9	1
PPL Electric				
Outstanding at beginning of period	460,510	\$ 31.05		
Transferred	(176,070)	31.90		
Granted	100,590	28.22		
Exercised	(11,873)	25.67		
Forfeited	(32,627)	27.07		
Outstanding at end of period	340,530	30.35	7.0	
Options exercisable at end of period	193,355	32.43	5.8	
LKE				
Outstanding at beginning of period	329,600	\$ 25.77		
Granted	354,490	28.17		
Exercised	(49,243)	25.74		
Outstanding at end of period	634,847	27.11	8.6	\$ 1
Options exercisable at end of period	144,260	26.62	8.4	

PPL received \$6 million in cash from stock options exercised in 2012. The related tax savings were not significant for 2012. Substantially all stock option awards are expected to vest.

The total intrinsic value of stock options exercised for the years ended December 31, 2012, 2011 and 2010 was not significant.

Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PPL	\$ 49	\$ 36	\$ 26
PPL Energy Supply	23	16	20
PPL Electric	11	8	6
LKE	8	5	

The income tax benefit related to above compensation expense was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PPL	\$ 20	\$ 15	\$ 11
PPL Energy Supply	10	6	8
PPL Electric	4	3	3
LKE	4	2	

The income tax benefit PPL realized from stock-based awards vested or exercised for 2012 was not significant.

At December 31, 2012, unrecognized compensation expense related to nonvested restricted stock, restricted stock units, performance units and stock option awards was:

	<u>Unrecognized Compensation Expense</u>	<u>Weighted- Average Period for Recognition</u>
PPL	\$ 27	2.1 years
PPL Energy Supply	11	2.4 years
PPL Electric	2	2.2 years
LKE	2	1.8 years

13. Re retirement and Postemployment Benefits

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Defined Benefits

Until January 1, 2012, the majority of PPL's subsidiaries domestic employees were eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's domestic qualified pension plans were closed to newly hired salaried employees. Newly hired bargaining unit employees will continue to be eligible under the plans based on their collective bargaining agreements. Salaried employees hired on or after January 1, 2012 are eligible to participate in the new PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer matching. PPL does not expect a significant near-term cost impact as a result of the change.

Until January 1, 2012, employees of PPL Montana were eligible for pension benefits under a cash balance pension plan. Effective January 1, 2012, that plan also was closed to newly hired salaried employees. Newly hired bargaining unit employees will continue to be eligible under the plan based on their collective bargaining agreements. Salaried employees hired on or after January 1, 2012 are eligible to participate in the new PPL Retirement Savings Plan. PPL Montana does not expect a significant near-term cost impact as a result of the change.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Employees of certain of PPL Energy Supply's mechanical contracting companies are eligible for benefits under multiemployer plans sponsored by various unions.

Effective April 1, 2010, PPL WW's principal defined benefit pension plan was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands was acquired by PPL WEM on April 1, 2011. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plan are offered benefits under a defined contribution plan.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL's domestic subsidiaries will become eligible for certain health care and life insurance benefits upon retirement through contributory plans. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. Postretirement benefits under the PPL Montana Retiree Health Plan are paid from company assets. WPD does not sponsor any postretirement benefit plans other than pensions.

(PPL)

The following disclosures distinguish between the domestic (U.S.) and WPD (U.K.) pension plans.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2012	2011	2010
	2012	2011	2010	2012	2011	2010			
PPL									
Net periodic defined benefit costs (credits):									
Service cost	\$ 103	\$ 95	\$ 64	\$ 54	\$ 44	\$ 17	\$ 12	\$ 12	\$ 8
Interest cost	220	217	159	340	282	151	31	33	28
Expected return on plan assets	(259)	(245)	(184)	(458)	(338)	(202)	(23)	(23)	(20)
Amortization of:									
Transition (asset) obligation							2	2	5
Prior service cost	24	24	21	4	4	4	1		4
Actuarial (gain) loss	42	30	8	79	57	48	4	6	6
Net periodic defined benefit costs (credits) prior to settlement charges and termination benefits	130	121	68	19	49	18	27	30	31
Settlement charges	11								
Termination benefits (a)				2	50				
Net periodic defined benefit costs (credits)	\$ 141	\$ 121	\$ 68	\$ 21	\$ 99	\$ 18	\$ 27	\$ 30	\$ 31
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Settlements	\$ (11)								
Net (gain) loss	372	117	142	1,073	152	17	13	(9)	20
Prior service cost (credit)		8					(1)	10	(71)
Amortization of:									
Transition asset							(2)	(2)	(5)
Prior service cost	(24)	(24)	(21)	(4)	(4)	(4)	(1)		(4)
Actuarial gain (loss)	(42)	(30)	(7)	(79)	(57)	(48)	(4)	(6)	(6)
Acquisition of regulatory assets/liabilities:									
Transition obligation									4
Prior service cost			31						6
Actuarial (gain) loss			303						(2)
Total recognized in OCI and regulatory assets/liabilities (b)	295	71	448	990	91	(35)	5	(7)	(58)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (b)	\$ 436	\$ 192	\$ 516	\$ 1,011	\$ 190	\$ (17)	\$ 32	\$ 23	\$ (27)

(a) Related to the WPD Midlands separations in the U.K.

(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
OCI	\$ 181	\$ 47	\$ 84	\$ 12	\$ (6)	\$ (40)
Regulatory assets/liabilities	114	24	364	(7)	(1)	(18)
Total recognized in OCI and regulatory assets/liabilities	\$ 295	\$ 71	\$ 448	\$ 5	\$ (7)	\$ (58)

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs in 2013 are as follows:

	Pension Benefits		Other
	U.S.	U.K.	Postretirement Benefits
Prior service cost	\$ 22		
Actuarial loss	78	\$ 154	\$ 6
Total	<u>\$ 100</u>	<u>\$ 154</u>	<u>\$ 6</u>
Amortization from Balance Sheet:			
AOCI	\$ 43	\$ 154	\$ 3
Regulatory assets/liabilities	57		3
Total	<u>\$ 100</u>	<u>\$ 154</u>	<u>\$ 6</u>

(PPL Energy Supply)

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K. (a)					
	2012	2011	2010	2012	2011	2010	2012	2011	2010
PPL Energy Supply									
Net periodic defined benefit costs (credits):									
Service cost	\$ 6	\$ 5	\$ 4			\$ 17	\$ 1	\$ 1	\$ 1
Interest cost	7	7	7			151	1	1	1
Expected return on plan assets	(9)	(9)	(7)			(202)			
Amortization of:									
Prior service cost						4			
Actuarial (gain) loss	2	2	2			48			
Net periodic defined benefit costs (credits) prior to settlement charges	6	5	6			18	2	2	2
Net periodic defined benefit costs (credits)	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 6</u>			<u>\$ 18</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 2</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI:									
Current year net (gain) loss	\$ 16	\$ 7	\$ 4			\$ 17		\$ (2)	
Current year prior service credit							\$ (1)		
Amortization of:									
Prior service cost						(4)			
Actuarial gain (loss)	(2)	(2)	(2)			(48)			
Total recognized in OCI	14	5	2			(35)	(1)	(2)	
Total recognized in net periodic defined benefit costs and OCI	<u>\$ 20</u>	<u>\$ 10</u>	<u>\$ 8</u>			<u>\$ (17)</u>	<u>\$ 1</u>	<u>\$</u>	<u>\$ 2</u>

(a) In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent. See Note 9 for additional information.

Actuarial loss of \$3 million related to PPL Energy Supply's U.S. pension plan is expected to be amortized from AOCI into net periodic defined benefit costs in 2013.

(LKE)

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31, 2012, and 2011, and November 1, 2010 through December 31, 2010, for the Successor and January 1, 2010 through October 31, 2010, for the Predecessor.

	Pension Benefits			Other Postretirement Benefits				
	Successor			Predecessor	Successor			Predecessor
	2012	2011	2010	2010	2012	2011	2010	2010
LKE								
Net periodic defined benefit costs (credits):								
Service cost	\$ 22	\$ 24	\$ 4	\$ 17	\$ 4	\$ 4	\$ 1	\$ 3
Interest cost	64	67	11	54	9	10	1	9
Expected return on plan assets	(70)	(64)	(9)	(45)	(4)	(3)		(2)
Amortization of:								
Transition obligation					2	2		1
Prior service cost	5	5	1	7	3	2		2
Actuarial (gain) loss	22	24	5	16	(1)			
Net periodic defined benefit costs	<u>\$ 43</u>	<u>\$ 56</u>	<u>\$ 12</u>	<u>\$ 49</u>	<u>\$ 13</u>	<u>\$ 15</u>	<u>\$ 2</u>	<u>\$ 13</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:								
Current year net (gain) loss	\$ 96	\$ 29	\$ (22)	\$ 96	\$ (11)	\$ (3)	\$ (2)	\$ 3
Current year prior service cost		8				11		
Amortization of:								
Transition obligation					(2)	(2)		(2)
Prior service cost	(5)	(5)	(1)	(7)	(3)	(2)		(1)
Actuarial gain (loss)	(22)	(24)	(5)	(16)	1			
Total recognized in OCI and regulatory assets/liabilities	<u>69</u>	<u>8</u>	<u>(28)</u>	<u>73</u>	<u>(15)</u>	<u>4</u>	<u>(2)</u>	
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	<u>\$ 112</u>	<u>\$ 64</u>	<u>\$ (16)</u>	<u>\$ 122</u>	<u>\$ (2)</u>	<u>\$ 19</u>	<u>\$</u>	<u>\$ 13</u>

For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities are as follows at December 31, 2012, 2011 and 2010 for the Successor, and at October 31, 2010 for the Predecessor.

	Pension Benefits			Other Postretirement Benefits				
	Successor			Predecessor	Successor			Predecessor
	2012	2011	2010	2010	2012	2011	2010	2010
OCI	\$ 34	\$ 1	\$ (8)	\$ 32	\$ (1)	\$ 2	\$ (1)	\$ (1)
Regulatory assets/liabilities	35	7	(20)	41	(14)	2	(1)	1
Total recognized in OCI and regulatory assets/liabilities	<u>\$ 69</u>	<u>\$ 8</u>	<u>\$ (28)</u>	<u>\$ 73</u>	<u>\$ (15)</u>	<u>\$ 4</u>	<u>\$ (2)</u>	<u>\$</u>

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs for LKE in 2013 are as follows.

	Pension Benefits	Other Postretirement Benefits
Prior service cost	\$ 5	\$ 3
Actuarial loss	31	(1)
Total	<u>\$ 36</u>	<u>\$ 2</u>
Amortization from Balance Sheet:		
Regulatory assets/liabilities	\$ 36	\$ 2
Total	<u>\$ 36</u>	<u>\$ 2</u>

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31, 2012 and 2011, and November 1, 2010 through December 31, 2010, for the Successor and January 1, 2010 through October 31, 2010, for the Predecessor.

	Pension Benefits			Predecessor 2010
	Successor			
	2012	2011	2010	
LG&E				
Net periodic defined benefit costs (credits):				
Service cost	\$ 2	\$ 2		\$ 1
Interest cost	14	14	\$ 2	12
Expected return on plan assets	(19)	(18)	(3)	(13)
Amortization of:				
Prior service cost	3	2	1	2
Actuarial loss	11	11	2	6
Net periodic defined benefit costs	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ 2</u>	<u>\$ 8</u>
Other Changes in Plan Assets and Benefit Obligations				
Recognized in Regulatory Assets - Gross:				
Current year net (gain) loss	\$ 18	\$ 15	\$ (5)	\$ 18
Current year prior service cost		9		
Amortization of:				
Prior service cost	(2)	(2)		(2)
Actuarial (loss)	(11)	(11)	(2)	(6)
Total recognized in regulatory assets	<u>5</u>	<u>11</u>	<u>(7)</u>	<u>10</u>
Total recognized in net periodic defined benefit costs and regulatory assets	<u>\$ 16</u>	<u>\$ 22</u>	<u>\$ (5)</u>	<u>\$ 18</u>

The estimated amounts to be amortized from regulatory assets into net periodic defined benefit costs for LG&E in 2013 are as follows.

	Pension Benefits
Prior service cost	\$ 2
Actuarial loss	13
Total	<u>\$ 15</u>

(PPL, PPL Energy Supply and PPL Electric)

Net periodic defined benefit costs (credits) charged to operating expense, excluding amounts charged to construction and other non-expense accounts were:

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2012	2011	2010
	2012	2011	2010	2012	2011	2010(a)			
PPL	\$ 119	\$ 98	\$ 59	\$ 25	\$ 82	\$ 16	\$ 22	\$ 24	\$ 27
PPL Energy Supply	37	27	24			16	6	7	12
PPL Electric (b)	19	14	12				3	4	8

- (a) As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, these amounts are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on PPL Energy Supply's Statements of Income. See Note 9 for additional information.
- (b) PPL Electric does not directly sponsor any defined benefit plans. PPL Electric was allocated these costs of defined benefit plans sponsored by PPL Services, based on its participation in those plans, which management believes are reasonable.

In the table above, for PPL Energy Supply, amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by PPL Services, based on PPL Energy Supply's participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
	PPL Energy Supply	\$ 31	\$ 23	\$ 19	\$ 5	\$ 6

(LKE, LG&E and KU)

The following table provides net periodic defined benefit costs charged to operating expense for the years ended December 31, 2012, and 2011, and November 1, 2010 through December 31, 2010, for the Successor and January 1, 2010 through October 31, 2010, for the Predecessor.

	Pension Benefits						Other Postretirement Benefits			
	Successor			Predecessor 2010	Successor			Predecessor 2010		
	2012	2011	2010		2012	2011	2010			
LKE	\$ 31	\$ 40	\$ 9	\$ 37	\$ 9	\$ 11	\$ 2	\$ 9		
LG&E	13	16	3	12	5	5	1	4		
KU (a)	8	10	2	8	3	4	1	3		

(a) KU does not directly sponsor any defined benefit plans. KU was allocated these costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable.

In the table above, for LG&E, amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable.

	Pension Benefits						Other Postretirement Benefits			
	Successor			Predecessor 2010	Successor			Predecessor 2010		
	2012	2011	2010		2012	2011	2010			
LG&E	\$ 5	\$ 7	\$ 1	\$ 6	\$ 2	\$ 5	\$ 1	\$ 4		

(PPL and PPL Energy Supply)

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31.

	Pension Benefits						Other Postretirement Benefits	
	U.S.			U.K.			2012	2011
	2012	2011	2010	2012	2011	2010		
PPL								
Discount rate	4.22%	5.06%		4.27%	5.24%	4.00%	4.80%	
Rate of compensation increase	3.98%	4.02%		4.00%	4.00%	3.97%	4.00%	
PPL Energy Supply								
Discount rate	4.25%	5.12%				3.77%	4.60%	
Rate of compensation increase	3.95%	4.00%				3.95%	4.00%	

(LKE and LG&E)

The following table provides the weighted-average assumptions used in the valuation of the benefit obligations at December 31.

	Pension Benefits				Other Postretirement Benefits	
	2012		2011		2012	2011
	U.S.	U.K.	U.S.	U.K.		
LKE						
Discount rate			4.24%	5.08%	3.99%	4.78%
Rate of compensation increase			4.00%	4.00%	4.00%	4.00%
LG&E						
Discount rate			4.20%	5.00%		
Rate of compensation increase			N/A	N/A		

(PPL and PPL Energy Supply)

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the year ended December 31.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2012	2011	2010
	2012	2011	2010	2012	2011	2010			
PPL									
Discount rate	5.06%	5.42%	5.96%	5.24%	5.59%	5.59%	4.80%	5.14%	5.47%
Rate of compensation increase	4.02%	4.88%	4.79%	4.00%	3.75%	4.00%	4.00%	4.90%	4.78%
Expected return on plan assets (a)	7.07%	7.25%	7.96%	7.17%	7.04%	7.91%	5.99%	6.57%	6.90%
PPL Energy Supply									
Discount rate	5.12%	5.47%	6.00%			5.59%	4.60%	4.95%	5.55%
Rate of compensation increase	4.00%	4.75%	4.75%			4.00%	4.00%	4.75%	4.75%
Expected return on plan assets (a)	7.00%	7.25%	8.00%			7.91%	N/A	N/A	N/A

(LKE and LG&E)

The following table provides the weighted-average assumptions used to determine the net periodic defined benefit costs for the years ended December 31, 2012, and 2011, and November 1, 2010 through December 31, 2010, for the Successor and January 1, 2010 through October 31, 2010, for the Predecessor.

	Pension Benefits			Predecessor 2010	Other Postretirement Benefits			Predecessor 2010
	Successor		2010		Successor		2010	
	2012	2011			2012	2011		
LKE								
Discount rate	5.09%	5.49%	5.40%	6.11%	4.78%	5.12%	4.94%	5.82%
Rate of compensation increase	4.00%	5.25%	5.25%	5.25%	4.00%	5.25%	5.25%	5.25%
Expected return on plan assets (a)	7.25%	7.25%	7.25%	7.75%	7.02%	7.16%	7.04%	7.20%
LG&E								
Discount rate	5.00%	5.39%	5.28%	6.08%				
Rate of compensation increase	N/A	N/A	N/A	N/A				
Expected return on plan assets (a)	7.25%	7.25%	7.25%	7.75%				

(PPL, PPL Energy Supply, LKE and LG&E)

(a) The expected long-term rates of return for PPL's, PPL Energy Supply's, LKE's and LG&E's U.S. pension and other postretirement benefits have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption.

The expected long-term rates of return for PPL's U.K. pension plans have been developed by PPL management with assistance from an independent actuary using a best estimate of expected returns, volatilities and correlations for each asset class. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes.

(PPL and PPL Energy Supply)

The following table provides the assumed health care cost trend rates for the year ended December 31:

	2012	2011	2010
PPL and PPL Energy Supply			
Health care cost trend rate assumed for next year			
- obligations	8.0%	8.5%	9.0%
- cost	8.5%	9.0%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
- obligations	5.5%	5.5%	5.5%
- cost	5.5%	5.5%	5.5%
Year that the rate reaches the ultimate trend rate			
- obligations	2019	2019	2019
- cost	2019	2019	2016

(LKE)

The following table provides the assumed health care cost trend rates for the years ended December 31, 2012, 2011 and November 1, 2010 through December 31, 2010, for the Successor and January 1, 2010 through October 31, 2010, for the Predecessor.

	Successor			Predecessor
	2012	2011	2010	2010
LKE				
Health care cost trend rate assumed for next year				
- obligations	8.0%	8.5%	9.0%	7.8%
- cost	8.5%	9.0%	9.0%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)				
- obligations	5.5%	5.5%	5.5%	4.5%
- cost	5.5%	5.5%	5.5%	4.5%
Year that the rate reaches the ultimate trend rate				
- obligations	2019	2019	2019	2029
- cost	2019	2019	2019	2029

(PPL and LKE)

A one percentage point change in the assumed health care costs trend rate assumption would have had the following effects on the other postretirement benefit plans in 2012:

	One Percentage Point	
	Increase	Decrease
Effect on accumulated postretirement benefit obligation		
PPL	\$ 7	\$ (6)
LKE	5	(4)

(PPL Energy Supply)

The effects on PPL Energy Supply's other postretirement benefit plan would not have been significant.

(PPL)

The funded status of the PPL plans was as follows:

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2012	2011
	2012	2011	2012	2011		
Change in Benefit Obligation						
Benefit Obligation, beginning of period	\$ 4,381	\$ 4,007	\$ 6,638	\$ 2,841	\$ 687	\$ 667
Service cost	103	95	54	44	12	12
Interest cost	220	217	340	282	31	33
Participant contributions			15	11	6	5
Plan amendments		8			(1)	10
Actuarial loss	546	220	1,081	257	31	6
Acquisition (a)				3,501		
Settlements	(25)					
Termination benefits			2	50		
Net transfer in (out)			12			
Actual expenses paid	(3)					
Gross benefits paid	(176)	(166)	(397)	(309)	(46)	(47)
Federal subsidy					2	1
Currency conversion			143	(39)		
Benefit Obligation, end of period	<u>5,046</u>	<u>4,381</u>	<u>7,888</u>	<u>6,638</u>	<u>722</u>	<u>687</u>
Change in Plan Assets						
Plan assets at fair value, beginning of period	3,471	2,819	6,351	2,524	391	360
Actual return on plan assets	432	349	476	444	42	38
Employer contributions	239	470	341	164	27	33
Participant contributions			15	11	5	5
Acquisition (a)				3,567		
Settlements	(25)					
Actual expenses paid	(2)	(1)				
Gross benefits paid	(176)	(166)	(397)	(309)	(44)	(45)
Currency conversion			125	(50)		
Plan assets at fair value, end of period	<u>3,939</u>	<u>3,471</u>	<u>6,911</u>	<u>6,351</u>	<u>421</u>	<u>391</u>
Funded Status, end of period	<u>\$ (1,107)</u>	<u>\$ (910)</u>	<u>\$ (977)</u>	<u>\$ (287)</u>	<u>\$ (301)</u>	<u>\$ (296)</u>
Amounts recognized in the Balance Sheets consist of:						
Noncurrent asset				\$ 130		
Current liability	\$ (8)	\$ (29)			\$ (1)	\$ (1)
Noncurrent liability	(1,099)	(881)	(977)	(417)	(300)	(295)
Net amount recognized, end of period	<u>\$ (1,107)</u>	<u>\$ (910)</u>	<u>\$ (977)</u>	<u>\$ (287)</u>	<u>\$ (301)</u>	<u>\$ (296)</u>
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:						
Transition obligation						\$ 2
Prior service cost (credit)	\$ 91	\$ 115	\$ 1	\$ 3	\$ (7)	(5)
Net actuarial loss	1,241	922	2,184	1,191	106	97
Total (b)	<u>\$ 1,332</u>	<u>\$ 1,037</u>	<u>\$ 2,185</u>	<u>\$ 1,194</u>	<u>\$ 99</u>	<u>\$ 94</u>
Total accumulated benefit obligation for defined benefit pension plans	<u>\$ 4,569</u>	<u>\$ 3,949</u>	<u>\$ 7,259</u>	<u>\$ 6,144</u>		

- (a) Includes the pension plans of WPD Midlands, which was acquired in 2011. See Note 10 for additional information.
(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
AOCI	\$ 659	\$ 481	\$ 59	\$ 56
Regulatory assets/liabilities	673	556	40	38
Total	\$ 1,332	\$ 1,037	\$ 99	\$ 94

All of PPL's U.S. pension plans had projected and accumulated benefit obligations in excess of plan assets at December 31, 2012 and 2011. All of PPL's other postretirement benefit plans had accumulated postretirement benefit obligations in excess of plan assets at December 31, 2012 and 2011.

For the U.K. pension plans of PPL WEM, projected benefit obligations of \$4.3 billion were in excess of plan assets of \$4.1 billion at December 31, 2012.

For the U.K. pension plans of PPL WW, projected and accumulated benefit obligations were in excess of plan assets at December 31 as follows (in billions):

	2012	2011
Projected benefit obligation	\$ 3.6	\$ 3.0
Accumulated benefit obligation	3.3	2.8
Fair value of plan assets	2.8	2.6

(PPL Energy Supply)

The funded status of the PPL Energy Supply plans were as follows:

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2012	2011
	2012	2011	2012	2011		
Change in Benefit Obligation						
Benefit Obligation, beginning of period	\$ 143	\$ 121	\$ 2,841	\$ 17	\$ 18	
Service cost	6	5		1	1	
Interest cost	7	7		1	1	
Plan amendments				(1)		
Actuarial loss	23	13				(2)
Distribution to parent (a)			(2,841)			
Actual expenses paid						(1)
Gross benefits paid	(3)	(3)			(1)	
Benefit Obligation, end of period	176	143			17	17
Change in Plan Assets						
Plan assets at fair value, beginning of period	132	106	2,524			
Actual return on plan assets	16	14				
Employer contributions	4	15				
Distribution to parent (a)			(2,524)			
Gross benefits paid	(3)	(3)				
Plan assets at fair value, end of period	149	132				
Funded Status, end of period	\$ (27)	\$ (11)	\$	\$ (17)	\$ (17)	
Amounts recognized in the Balance Sheets consist of:						
Current liability					\$ (1)	\$ (1)
Noncurrent liability	\$ (27)	\$ (11)			(16)	(16)
Net amount recognized, end of period	\$ (27)	\$ (11)			\$ (17)	\$ (17)

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2012	2011
	2012	2011	2012	2011		
Amounts recognized in AOCI (pre-tax) consist of:						
Prior service cost (credit)		\$ 1			\$ (1)	
Net actuarial loss	\$ 52	38			2	\$ 2
Total	\$ 52	\$ 39			\$ 1	\$ 2
Total accumulated benefit obligation for defined benefit pension plans	\$ 176	\$ 143				

(a) As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, the funded status and AOCI were removed from the balance sheet in January 2011. See Note 9 for additional information.

PPL Energy Supply's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2012 and 2011. PPL Energy Supply's other postretirement benefit plan had accumulated postretirement benefit obligations in excess of plan assets at December 31, 2012 and 2011.

In addition to the plans it sponsors, PPL Energy Supply and its subsidiaries are allocated a portion of the funded status and costs of the defined benefit plans sponsored by PPL Services based on their participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Energy Supply resulted in liabilities at December 31 as follows:

	2012	2011
Funded status of the pension plans	\$ 268	\$ 204
Other postretirement benefits	60	51

(LKE)

The funded status of the LKE plans was as follows.

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Change in Benefit Obligation				
Benefit Obligation, beginning of period	\$ 1,306	\$ 1,229	\$ 214	\$ 204
Service cost	22	24	4	4
Interest cost	63	67	9	10
Plan amendments		9		10
Actuarial loss (gain)	144	25	(8)	(3)
Gross benefits paid	(48)	(48)	(11)	(12)
Federal subsidy			1	1
Benefit Obligation, end of period	<u>1,487</u>	<u>1,306</u>	<u>209</u>	<u>214</u>
Change in Plan Assets				
Plan assets at fair value, beginning of period	944	778	58	49
Actual return on plan assets	117	62	8	3
Employer contributions	57	152	13	18
Gross benefits paid	(48)	(48)	(11)	(12)
Plan assets at fair value, end of period	<u>1,070</u>	<u>944</u>	<u>68</u>	<u>58</u>
Funded Status, end of period	<u>\$ (417)</u>	<u>\$ (362)</u>	<u>\$ (141)</u>	<u>\$ (156)</u>
Amounts recognized in the Balance Sheets consist of:				
Current liability	\$ (3)	\$ (3)		
Noncurrent liability	(414)	(359)	(141)	(156)
Net amount recognized, end of period	<u>\$ (417)</u>	<u>\$ (362)</u>	<u>\$ (141)</u>	<u>\$ (156)</u>
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Transition obligation				\$ 2
Prior service cost	\$ 28	\$ 34	\$ 11	14
Net actuarial (gain) loss	355	280	(17)	(7)
Total	<u>\$ 383</u>	<u>\$ 314</u>	<u>\$ (6)</u>	<u>\$ 9</u>
Total accumulated benefit obligation for defined benefit pension plans	\$ 1,319	\$ 1,141		

At December 31, the amounts recognized in AOCI and regulatory assets/liabilities are as follows.

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
AOCI	\$ 27	\$ (7)	\$	\$ 1
Regulatory assets/liabilities	356	321	(6)	8
Total	\$ 383	\$ 314	\$ (6)	\$ 9

All of LKE's pension plans had projected and accumulated benefit obligations in excess of plan assets at December 31, 2012 and 2011. LKE's other postretirement benefit plan had accumulated postretirement benefit obligations in excess of plan assets at December 31, 2012 and 2011.

(LG&E)

The funded status of the LG&E plan was as follows.

	Pension Benefits	
	2012	2011
Change in Benefit Obligation		
Benefit Obligation, beginning of period	\$ 298	\$ 274
Service cost	1	2
Interest cost	14	14
Plan amendments		9
Actuarial loss	32	14
Gross benefits paid	(14)	(15)
Benefit Obligation, end of period	331	298
Change in Plan Assets		
Plan assets at fair value, beginning of period	256	217
Actual return on plan assets	32	16
Employer contributions	13	38
Gross benefits paid	(14)	(15)
Plan assets at fair value, end of period	287	256
Funded Status, end of period	\$ (44)	\$ (42)
Amounts recognized in the Balance Sheets consist of:		
Noncurrent liability	\$ (44)	\$ (42)
Net amount recognized, end of period	\$ (44)	\$ (42)
Amounts recognized in regulatory assets (pre-tax) consist of:		
Prior service cost	\$ 17	\$ 20
Net actuarial loss	123	115
Total	\$ 140	\$ 135
Total accumulated benefit obligation for defined benefit pension plan	\$ 328	\$ 292

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2012 and 2011.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in liabilities at December 31 as follows.

	2012	2011
Funded status of the pension plans	\$ 58	\$ 53
Other postretirement benefits	81	87

(PPL and PPL Energy Supply)

PPL Energy Supply's mechanical contracting subsidiaries make contributions to over 70 multiemployer pension plans, based on the bargaining units from which labor is procured. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers .
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If PPL Energy Supply's mechanical contracting subsidiaries choose to stop participating in some of their multiemployer plans, they may be required to pay those plans an amount based on the unfunded status of the plan, referred to as a withdrawal liability.

PPL Energy Supply identified the Steamfitters Local Union No. 420 Pension Plan, EIN/Plan Number 23-2004424/001 as the only significant plan to which contributions are made. Contributions to this plan by PPL Energy Supply's mechanical contracting companies were \$5 million for 2012, \$5 million for 2011 and \$4 million for 2010. At the date the financial statements were issued, the Form 5500 was not available for the plan year ending in 2012. Therefore, the following disclosures specific to this plan are being made based on the Form 5500s filed for the plan years ended December 31, 2011 and 2010. PPL Energy Supply's mechanical contracting subsidiaries were not identified individually as greater than 5% contributors on the Form 5500s. However, the combined contributions of the three subsidiaries contributing to the plan had exceeded 5%. The plan had a Pension Protection Act zone status of yellow and red, without utilizing an extended amortization period, as of December 31, 2011 and 2010. In addition, the plan is subject to a rehabilitation plan and surcharges have been applied to participating employer contributions. The expiration date of the collective-bargaining agreement related to those employees participating in this plan is April 30, 2014. There were no other plans deemed individually significant based on a multifaceted assessment of each plan. This assessment included review of the funded/zone status of each plan and PPL Energy Supply's potential obligations under the plan and the number of participating employers contributing to the plan.

PPL Energy Supply's mechanical contracting subsidiaries also participate in multiemployer other postretirement plans that provide for retiree life insurance and health benefits.

The table below details total contributions to all multiemployer pension and other postretirement plans, including the plan identified as significant above. The contribution amounts fluctuate each year based on the volume of work and type of projects undertaken from year to year.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Pension Plans	\$ 31	\$ 36	\$ 26
Other Postretirement Medical Plans	28	31	23
Total Contributions	<u>\$ 59</u>	<u>\$ 67</u>	<u>\$ 49</u>

PPL Energy Supply maintains a liability for the cost of health care of retired miners of former subsidiaries that had been engaged in coal mining, as required by the Coal Industry Retiree Health Benefit Act of 1992. At December 31, 2012, the liability was \$3 million. The liability is the net of \$67 million of estimated future benefit payments offset by \$35 million of assets in a retired miners VEBA trust and an additional \$29 million of excess assets available in a Black Lung Trust that can be used to fund the health care benefits of retired miners.

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows:

	<u>2012</u>	<u>2011</u>
Funded status of the pension plans	\$ 237	\$ 186
Other postretirement benefits	61	53

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in liabilities at December 31 as follows.

	<u>2012</u>	<u>2011</u>
Funded status of the pension plans	\$ 104	\$ 83
Other postretirement benefits	53	62

Plan Assets - U.S. Pension Plans

(PPL, PPL Energy Supply, LKE and LG&E)

PPL's primary legacy pension plan and the pension plan in which employees of PPL Montana participate are invested in the PPL Services Corporation Master Trust that also includes a 401(h) account that is restricted for certain other postretirement benefit obligations. Through December 31, 2011, the plans sponsored by LKE, including LG&E's plan, were invested in Pension Trusts that also included a 401(h) account that is restricted for certain other postretirement benefit obligations. Effective January 1, 2012, the assets in the LKE Pension Trusts were transferred into the PPL Services Corporation Master Trust. The investment strategy for the master trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments. The master trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the PPL Services Corporation Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: the growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities and derivative positions that will typically have long durations. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio on a plan basis based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio on a plan basis, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines on a plan basis, as well as the weighted average of such guidelines, as of the end of 2012 are presented below.

The asset allocation for the trusts and the target allocation by portfolio, at December 31, are as follows:

PPL Services Corporation Master Trust

	Percentage of trust assets		2012 Target Asset Allocation (a)		
	2012 (a)	2011	Weighted Average	PPL Plans	LKE Plans
	Growth Portfolio	58%	57%	56%	55%
Equity securities	31%	31%			
Debt securities (b)	18%	17%			
Alternative investments	9%	9%			
Immunizing Portfolio	41%	41%	42%	43%	38%
Debt securities (b)	40%	40%			
Derivatives	1%	1%			
Liquidity Portfolio	1%	2%	2%	2%	3%
Total	100%	100%	100%	100%	100%

- (a) Allocations exclude consideration of cash for the WKE Bargaining Employees' Retirement Plan and a guaranteed annuity contract held by the LG&E and KU Retirement Plan.
(b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

LG&E and KU Energy LLC Pension Trusts

	Percentage of trust assets 2011	Target Asset Allocation 2011
Growth Portfolio	54%	59%
Equity securities	33%	
Debt securities (a)	21%	
Immunizing Portfolio	34%	38%
Debt securities (a) (b)	34%	
Liquidity Portfolio (b)	12%	3%
Total	100%	100%

- (a) Includes commingled debt funds, which LKE treats as debt securities for asset allocation purposes.
(b) The asset allocation for this portfolio was not within the established target range due to the transition of assets at the end of 2011 in anticipation of transfer into the PPL Services Corporation Master Trust in January 2012.

(PPL Energy Supply)

PPL Montana, a subsidiary of PPL Energy Supply, has a pension plan whose assets are invested solely in the PPL Services Corporation Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$149 million at December 31, 2012 represents an interest of approximately 4% in the master trust.

(LKE)

LKE has pension plans, including LG&E's plan, whose assets, effective January 1, 2012, are invested solely in the PPL Services Corporation Master Trust, which is fully disclosed below. The fair value of these plans' assets of \$1.1 billion at December 31, 2012 represents an interest of approximately 26% in the master trust.

(LG&E)

LG&E has a pension plan whose assets, effective January 1, 2012, are invested solely in the PPL Services Corporation Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$287 million at December 31, 2012 represents an interest of approximately 7% in the master trust. At December 31, 2011, this plan's assets were invested solely in the LG&E and KU Energy LLC Pension Trusts, which is also fully disclosed below. The fair value of this plan's assets of \$256 million at December 31, 2011 represents an interest of approximately 26% in the pension trust.

(PPL, PPL Energy Supply, LKE and LG&E)

The fair value of net assets in the U.S. pension plan trusts by asset class and level within the fair value hierarchy was:

	December 31, 2012				December 31, 2011			
	Total	Fair Value Measurements Using			Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	\$ 84	\$ 84			\$ 78	\$ 78		
Equity securities:								
U.S.:								
Large-cap	558	206	\$ 352		371	247	\$ 124	
Small-cap	124	124			112	112		
Commingled debt	676	56	620		458		458	
International	557	184	373		299	102	197	
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	704	634	70		515	443	72	
Residential/commercial backed securities	12		11	\$ 1	9		9	
Corporate	874		847	27	446		439	\$ 7
Other	24		23	1	10		10	
International	7		7		6		6	

	December 31, 2012				December 31, 2011			
	Total	Fair Value Measurements Using			Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Alternative investments:								
Commodities	59		59					
Real estate	93		93	85		85		
Private equity	75			45			45	
Hedge funds	125		125	92		92		
Derivatives:								
Interest rate swaps and swaptions	36		36	20		20		
Other	2		2	5		5		
Insurance contracts	42			42				
Receivables	55	29	26	50	31	19		
Payables	(66)	(55)	(11)	(48)	(40)	(8)		
Total PPL Services Corporation Master Trust assets	4,041	1,262	2,633	146	2,553	973	1,528	52
401(h) account restricted for other								
postretirement benefit obligations	(102)	(32)	(66)	(4)	(26)	(10)	(16)	
Fair value - PPL Services Corporation Master								
Trust pension assets	3,939	1,230	2,567	142	2,527	963	1,512	52

(PPL, LKE and LG&E)

LG&E and KU Energy LLC Pension Trusts

Cash and cash equivalents				122	122			
Equity securities:								
U.S.:								
Large-cap				220		220		
Commingled debt				65		65		
International				106	44	62		
Debt securities:								
U.S. Treasury				97	97			
Corporate				342		342		
Derivatives:								
Total return swaps				4		4		
Insurance contracts				46				46
Total LG&E and KU Energy LLC								
Pension Trusts assets				1,002	263	693		46
401(h) account restricted for other								
postretirement benefit obligations				(58)	(13)	(45)		
Fair value - LG&E and KU Energy LLC								
Pension Trusts pension assets				944	250	648		46
Fair value - total U.S. pension plans	\$ 3,939	\$ 1,230	\$ 2,567	\$ 142	\$ 3,471	\$ 1,213	\$ 2,160	\$ 98

A reconciliation of U.S. pension trust assets classified as Level 3 at December 31, 2012 is as follows:

	Residential/ commercial backed securities	Corporate debt	Private equity	Insurance contracts	Other Debt	Total
Balance at beginning of period		\$ 7	\$ 45	\$ 46		\$ 98
Actual return on plan assets						
Relating to assets still held						
at the reporting date		1	10	3		14
Relating to assets sold during the period		2				2
Purchases, sales and settlements	\$ 1	21	20	(7)		35
Transfers from level 2 to level 3					\$ 1	1
Transfers from level 3 to level 2		(4)				(4)
Balance at end of period	\$ 1	\$ 27	\$ 75	\$ 42	\$ 1	\$ 146

A reconciliation of U.S. pension trust assets classified as Level 3 at December 31, 2011 is as follows:

	Residential/ commercial backed securities	Corporate debt	Private equity	Insurance contracts	Other	Total
Balance at beginning of period		\$ 6	\$ 10	\$ 47		\$ 63
Actual return on plan assets						
Relating to assets still held						
at the reporting date		(4)	8	3		7
Purchases, sales and settlements		5	27	(4)		28
Balance at end of period		<u>\$ 7</u>	<u>\$ 45</u>	<u>\$ 46</u>		<u>\$ 98</u>

(PPL, PPL Energy Supply, LKE and LG&E)

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. These investments are classified as Level 2, except for exchange-traded funds, which are classified as Level 1 based on quoted prices in active markets. The fair value measurements for Level 2 investments are based on firm quotes of net asset values per share, which are not considered obtained from a quoted price in an active market. For the commingled equity funds, these securities represent investments that are measured against the Russell 1000 Growth Index, the Russell 1000 Index, the Russell 3000 Index and the MSCI EAFE Index. Commingled debt funds are described in greater detail in the following discussion of debt securities.

The fair value measurements of debt securities are generally based on evaluated prices that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades; broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data. For the PPL Services Corporation Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations; and exchange traded funds as well as commingled fund investments. Investments in commingled funds include a fund that invests in a diversified portfolio of emerging market debt obligations that is measured against the JP Morgan EMBI Global Diversified Index, as well as funds that invest in investment grade long duration fixed income securities that are measured against the Barclays Long A or Better Index. During the first ten months of 2011 for the LG&E and KU Energy LLC Pension Trusts, debt securities within commingled trusts were measured against the Barclays Aggregated Bond Index and the Barclays U.S. Government/Credit Long Index. During the last two months of 2011, the debt securities for the LG&E and KU Energy LLC Pension Trusts were transitioned to debt securities similar to those within the PPL Services Corporation Master Trust. The debt securities, excluding those in commingled funds, held by the PPL Services Corporation Master Trust at December 31, 2012 have a weighted-average coupon of 3.49% and a weighted-average maturity of 21 years.

Investments in commodities represent ownership of units of a commingled fund that is invested as a long-only, unleveraged portfolio of exchange-traded futures and forward contracts in tangible commodities to obtain broad exposure to all principal groups in the global commodity markets, including energies, agriculture and metals (both precious and industrial) using proprietary commodity trading strategies. The fund has daily liquidity with a specified notification period. The fund's fair value is based upon a unit value as calculated by the fund's trustee.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The manager is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. Four of the partnerships have limited lives of ten years, while the fifth has a life of 15 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The PPL Services Corporation Master Trust has unfunded commitments of \$73 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in three hedge fund of funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under all market conditions. Major investment strategies for the hedge fund of funds include long/short equity, market neutral, distressed debt, and relative value. Generally, shares may be redeemed on 90 days prior written notice. The funds are subject to short term lockups and have limitations on the amount that may be withdrawn based on a percentage of the total net asset value of the fund, among other restrictions. All withdrawals are subject to the general partner's approval. The fair value for two of the funds has been estimated using the net asset value per share and the third fund's fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in interest rate swaps and swaptions (the option to enter into an interest rate swap) which are valued based on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Receivables/payables classified as Level 1 represent investments sold/purchased but not yet settled. Receivables/payables classified as Level 2 represent interest and dividends earned but not yet received and costs incurred but not yet paid.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

Plan Assets - U.S. Other Postretirement Benefit Plans (PPL and LKE)

PPL's and LKE's investment strategy with respect to its other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the PPL Services Corporation Master Trust in 2012 and LG&E and KU Energy LLC Pension Trusts in 2011 discussed in Plan Assets - U.S. Pension Plans above, PPL's and LKE's other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated by PPL and LKE as debt securities for asset allocation and target allocation purposes. Ownership interests in commingled money market funds that invest entirely in money market securities are classified as equity securities, but treated by PPL and LKE as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the VEBA trusts and the target allocation, by asset class, at December 31 are detailed below.

Asset Class	Percentage of plan assets		Target Asset Allocation
	2012	2011	2012
U.S. Equity securities	46%	41%	45%
Debt securities (a)	51%	53%	50%
Cash and cash equivalents (b)	3%	6%	5%
Total	100%	100%	100%

(a) Includes commingled debt funds and debt securities.

(b) Includes commingled money market fund.

The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2012				December 31, 2011			
	Fair Value Measurement Using				Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
U.S. Equity securities:								
Large-cap	\$ 145		\$ 145		\$ 126		\$ 126	
Commingled debt	119		119		121		121	
Commingled money market funds	13	\$ 13			20		20	
Municipalities	41		41		40		40	
Receivables	1		1					
Total VEBA trust assets	319	13	306		307		307	
401(h) account assets (a)	102	32	66	\$ 4	84	\$ 23	61	
Fair value - U.S. other postretirement benefit plans	\$ 421	\$ 45	\$ 372	\$ 4	\$ 391	\$ 23	\$ 368	

(a) LKE's other postretirement benefit plan was invested primarily in a 401(h) account as disclosed in the PPL Services Corporation Master trust in 2012 and the LG&E and KU Energy LLC Pension Trusts in 2011.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds that together track the performance of the S&P 500 Index. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities that are managed to track the Barclays U.S. Long Credit Index, as well as a fund that is tracked to the Barclays U.S. Long Treasury Index. Redemptions can be made weekly on these funds.

Investments in commingled money market funds represent investments in a fund that invests primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a high level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in municipalities represent investments in a diverse mix of tax-exempt municipal securities.

Receivables represent interest and dividends earned but not received as well as investments sold but not yet settled.

Plan Assets - U.K. Pension Plans (PPL)

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principles compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset type fund strategies and fund managers and therefore have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.

Asset Class	Percentage of plan assets		Target Asset Allocation
	2012	2011	2012
Cash and cash equivalents			5%
Equity securities			
U.K.	6%	14%	6%
European (excluding the U.K.)	14%	5%	4%
Asian-Pacific		5%	3%
North American		5%	5%
Emerging markets	3%	2%	5%
Currency	2%	1%	1%
Global Tactical Asset Allocation	18%		18%
Debt securities (a)	51%	56%	52%
Alternative investments	6%	7%	6%
Total	100%	100%	100%

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2012			December 31, 2011			
	Total	Fair Value Measurement Using		Total	Fair Value Measurement Using		
		Level 1	Level 2		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 14	\$ 14		\$ 313	\$ 313		
Equity securities:							
U.K. companies	440	223	\$ 217	921	\$ 921		
European companies (excluding the U.K.)	956	720	236	313		313	
Asian-Pacific companies				312		312	
North American companies				335		335	
Emerging markets companies	231		231	116		116	
Currency	127		127	31		31	
Global Tactical Asset Allocation	1,220		1,220	25		25	
Commingled debt:							
U.K. corporate bonds	593		593	699		699	
U.K. gilts	1,664		1,664	2,109		2,109	
U.K. index-linked gilts	1,243		1,243	744		744	
Alternative investments:							
Real estate	423		423	433		433	
Fair value - U.K. pension plans	\$ 6,911	\$ 957	\$ 5,954	\$ 6,351	\$ 313	\$ 6,038	

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.

Investments in U.K. equity securities represent passively managed equity index funds that are measured against the FTSE All Share Index. Investments in European equity securities represent passively managed equity index funds that are measured against the FTSE Europe ex U.K. Index. Investments in Asian-Pacific equity securities represent passively managed equity index funds that aim to outperform 50% FTSE Asia Pacific ex-Japan Index and 50% FTSE Japan Index. Investments in North American equity securities represent passively managed index funds that are measured against the FTSE North America Index. Investments in emerging market equity securities represent passively managed equity index funds that are measured against the MSCI Emerging Markets Index. Investments in currency equity securities represent investments in unitized passive and actively traded currency funds. The Global Tactical Asset Allocation strategy attempts to benefit from short-term market inefficiencies by taking positions in worldwide markets with the objective to profit from relative movements across those markets.

Debt securities include investment grade corporate bonds of companies from diversified U.K. industries.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

Expected Cash Flows - U.S. Defined Benefit Plans (PPL)

PPL's U.S. defined benefit plans have the option to utilize available prior year credit balances to meet current and future contribution requirements. However, PPL contributed \$394 million to its U.S. pension plans in January 2013.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately \$7 million of benefit payments under these plans in 2013.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute \$24 million to its other postretirement benefit plans in 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid and the following federal subsidy payments are expected to be received by the separate plan trusts.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2013	\$ 196	\$ 49	\$ 1
2014	206	53	1
2015	219	55	1
2016	232	58	1
2017	249	60	1
2018-2022	1,475	333	3

(PPL Energy Supply)

The PPL Montana pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. Therefore, no contributions are expected for 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the separate plan trusts.

	Pension	Other Postretirement
2013	\$ 4	\$ 1
2014	5	2
2015	6	2
2016	6	2
2017	7	2
2018-2022	48	12

(LKE)

LKE's defined benefit plans have the option to utilize available prior year credit balances to meet current and future contribution requirements. However, LKE contributed \$150 million to its pension plans in January 2013.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make \$3 million of benefit payments under these plans in 2013.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute \$12 million to its other postretirement benefit plan in 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid and the following federal subsidy payments are expected to be received by the separate plan trusts.

	<u>Pension</u>	<u>Other Postretirement</u>	
		<u>Benefit Payment</u>	<u>Expected Federal Subsidy</u>
2013	\$ 55	\$ 13	\$ 1
2014	55	13	
2015	58	14	1
2016	60	14	
2017	65	14	1
2018 - 2022	399	77	2

(LG&E)

LG&E's defined benefit plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. However, LG&E contributed \$11 million to its pension plan in January 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the separate plan trust.

	<u>Pension</u>
2013	\$ 15
2014	15
2015	15
2016	16
2017	16
2018 - 2022	95

Expected Cash Flows - U.K. Pension Plans (PPL)

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Future contributions for PPL WW were evaluated in accordance with the latest valuation performed as of March 31, 2010, in respect of PPL WW's principal pension plan, to determine contribution requirements for 2013 and forward. Future contributions for PPL WEM were evaluated in accordance with the latest valuation performed as of June 30, 2011, in respect of PPL WEM's principal pension plan, to determine contribution requirements for 2013 and forward. WPD expects to make contributions of approximately \$136 million in 2013. PPL WW and PPL WEM are currently permitted to recover in rates approximately 75% of their deficit funding requirements for their primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the separate plan trusts.

	<u>Pension</u>
2013	\$ 379
2014	385
2015	393
2016	400
2017	406
2018-2022	2,141

Savings Plans (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Substantially all employees of PPL's domestic subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PPL	\$ 36	\$ 31	\$ 23
PPL Energy Supply	12	11	10
PPL Electric	5	5	4

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
LKE	\$ 12	\$ 11	\$ 2	\$ 9
LG&E	6	5	1	4
KU	6	6	1	4

The increase for PPL in 2012 and 2011 is primarily the result of PPL's acquisition of LKE and the employer contributions related to the employees of that company and its subsidiaries under their existing plans.

(PPL, PPL Energy Supply and PPL Electric)

Employee Stock Ownership Plan

Certain PPL subsidiaries sponsor a non-leveraged ESOP in which domestic employees, excluding those of PPL Montana, LKE and the mechanical contractors, are enrolled on the first day of the month following eligible employee status. Dividends paid on ESOP shares are treated as ordinary dividends by PPL. Under existing income tax laws, PPL is permitted to deduct the amount of those dividends for income tax purposes and to contribute the resulting tax savings (dividend-based contribution) to the ESOP.

The dividend-based contribution is used to buy shares of PPL's common stock and is expressly conditioned upon the deductibility of the contribution for federal income tax purposes. Contributions to the ESOP are allocated to eligible participants' accounts as of the end of each year, based 75% on shares held in existing participants' accounts and 25% on the eligible participants' compensation.

Compensation expense for ESOP contributions was \$8 million in 2012, 2011 and 2010. These amounts were offset by the dividend-based contribution tax savings and had no impact on PPL's earnings.

PPL shares within the ESOP outstanding at December 31, 2012 were 7,857,222, or 1% of total common shares outstanding, and are included in all EPS calculations.

Separation Benefits

Certain PPL subsidiaries provide separation benefits to eligible employees. These benefits may be provided in the case of separations due to performance issues, loss of job related qualifications or organizational changes. Until December 1, 2012, certain employees separated were eligible for cash severance payments, outplacement services, accelerated stock award vesting, continuation of group health and welfare coverage, and enhanced pension and postretirement medical benefits. As of December 1, 2012, separation benefits for certain employees were changed to eliminate accelerated stock award vesting and enhanced pension and postretirement medical benefits. Also, the continuation of group health and welfare coverage was replaced with a single sum payment approximating the dollar amount of premium payments that would be incurred for continuation of group health and welfare coverage. Separation benefits are recorded when such amounts are probable and estimable.

Separation benefits were not significant in 2012 and 2010.

See Note 10 for separation benefits recorded in 2011 in connection with a reorganization following the acquisition of WPD Midlands.

(PPL, PPL Energy Supply, PPL Electric and LKE)

Health Care Reform

In March 2010, Health Care Reform was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time, and most will require the publication of implementing regulations and/or issuance of program guidelines.

Beginning in 2013, provisions within Health Care Reform eliminate the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, in 2010:

- PPL recorded income tax expense of \$8 million; and
- PPL Energy Supply recorded income tax expense of \$5 million.

Other provisions within Health Care Reform that apply to PPL and its subsidiaries include:

- an excise tax, beginning in 2018, imposed on high-cost plans providing health coverage that exceeds certain thresholds;
- a requirement to extend dependent coverage up to age 26; and
- broadening the eligibility requirements under the Federal Black Lung Act.

PPL and its subsidiaries have evaluated the provisions of Health Care Reform and have included the applicable provision in the valuation of those benefit plans that are impacted. The inclusion of the various provisions of Health Care Reform did not have a material impact on the financial statements. PPL and its subsidiaries will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on their benefit programs.

14. Jointly Owned Facilities

(PPL, PPL Energy Supply, LKE, LG&E and KU)

At December 31, 2012 and 2011, the Balance Sheets reflect the owned interests in the facilities listed below.

	<u>Ownership Interest</u>	<u>Electric Plant</u>	<u>Other Property</u>	<u>Accumulated Depreciation</u>	<u>Construction Work in Progress</u>
PPL					
December 31, 2012					
Generating Plants					
Susquehanna	90.00%	\$ 4,628		\$ 3,530	\$ 65
Conemaugh	16.25%	238		122	30
Keystone	12.34%	206		82	3
Trimble County Units 1 & 2	75.00%	1,279		112	43
Merrill Creek Reservoir	8.37%		\$ 22	15	
December 31, 2011					
Generating Plants					
Susquehanna	90.00%	\$ 4,608		\$ 3,496	\$ 42
Conemaugh	16.25%	233		115	14
Keystone	12.34%	198		69	3
Trimble County Units 1 & 2	75.00%	1,245		61	35
Merrill Creek Reservoir	8.37%		\$ 22	15	
PPL Energy Supply					
December 31, 2012					
Generating Plants					
Susquehanna	90.00%	\$ 4,628		\$ 3,530	\$ 65
Conemaugh	16.25%	238		122	30
Keystone	12.34%	206		82	3
Merrill Creek Reservoir	8.37%		\$ 22	15	
December 31, 2011					
Generating Plants					
Susquehanna	90.00%	\$ 4,608		\$ 3,496	\$ 42
Conemaugh	16.25%	233		115	14
Keystone	12.34%	198		69	3
Merrill Creek Reservoir	8.37%		\$ 22	15	

	Ownership Interest		Electric Plant		Other Property		Accumulated Depreciation		Construction Work in Progress
LKE									
December 31, 2012									
Generating Plants									
Trimble County Unit 1	75.00%	\$	304			\$	33	\$	10
Trimble County Unit 2	75.00%		975				79		33
December 31, 2011									
Generating Plants									
Trimble County Unit 1	75.00%	\$	297			\$	19	\$	11
Trimble County Unit 2	75.00%		948				42		24
LG&E									
December 31, 2012									
Generating Plants									
E.W. Brown Units 6-7	38.00%	\$	40			\$	5		
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%		46				3		
Trimble County Unit 1	75.00%		304				33	\$	10
Trimble County Unit 2	14.25%		198				14		13
Trimble County Units 5-6	29.00%		29				2		
Trimble County Units 7-10	37.00%		68				6		2
Cane Run Unit 7 CCGT	22.00%								16
December 31, 2011									
Generating Plants									
E.W. Brown Units 6-7	38.00%	\$	39			\$	3		
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%		44				2	\$	5
Trimble County Unit 1	75.00%		297				19		11
Trimble County Unit 2	14.25%		190				7		7
Trimble County Units 5-6	29.00%		31				1		
Trimble County Units 7-10	37.00%		64				4		1
KU									
December 31, 2012									
Generating Plants									
E.W. Brown Units 6-7	62.00%	\$	64			\$	7	\$	1
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%		42				2		
Trimble County Unit 2	60.75%		777				65		20
Trimble County Units 5-6	71.00%		70				4		
Trimble County Units 7-10	63.00%		116				10		2
Cane Run Unit 7 CCGT	78.00%								53
December 31, 2011									
Generating Plants									
E.W. Brown Units 6-7	62.00%	\$	64			\$	5		
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%		39				2	\$	4
Trimble County Unit 2	60.75%		758				35		17
Trimble County Units 5-6	71.00%		66				2		4
Trimble County Units 7-10	63.00%		109				6		5

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

In addition to the interests mentioned above, at December 31, 2012 and 2011, PPL Montana has a 50% leasehold interest in Colstrip Units 1 and 2 and a 30% leasehold interest in Colstrip Unit 3 under operating leases. See Note 11 for additional information. At December 31, 2012 and 2011, NorthWestern owned a 30% interest in Colstrip Unit 4. PPL Montana and NorthWestern have a sharing agreement that governs each party's responsibilities and rights relating to the operation of Colstrip Units 3 and 4. Under the terms of that agreement, each party is responsible for 15% of the total non-coal operating and construction costs of Colstrip Units 3 and 4, regardless of whether a particular cost is specific to Colstrip Unit 3 or 4, and is entitled to take up to the same percentage of the available generation from Units 3 and 4.

15. Commitments and Contingencies

Energy Purchases, Energy Sales and Other Commitments

Energy Purchase Commitments

(PPL and PPL Energy Supply)

PPL Energy Supply enters into long-term energy and energy related contracts which include commitments to purchase:

<u>Contract Type</u>	<u>Maximum Maturity Date</u>
Fuels (a)	2023
Limestone	2030
Natural Gas Storage	2015
Natural Gas Transportation	2032
Power, excluding wind	2017
RECs	2038
Wind Power	2027

(a) PPL Energy Supply enters into long-term purchase contracts to supply the coal requirements for its coal-fired generation facilities. As a result of lower electricity and natural gas prices, coal unit utilization has decreased. To mitigate the risk of exceeding available coal storage, PPL Energy Supply incurred pre-tax charges of \$29 million during 2012 to reduce its 2012 and 2013 contracted coal deliveries. These charges were recorded to "Fuel" on the Statement of Income.

(PPL, LKE, LG&E and KU)

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's gas supply operations. These contracts include the following commitments:

<u>Contract Type</u>	<u>Maximum Maturity Date</u>
Coal	2017
Coal Transportation and Fleeting Services	2023
Natural Gas Storage	2013
Natural Gas Transportation	2024

LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. Pursuant to the OVEC power purchase contract, LG&E and KU are responsible for their pro-rata share of certain obligations of OVEC under defined circumstances. These potential liabilities include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and other post-employment and post-retirement benefit costs other than pension. LKE's proportionate share of OVEC's outstanding debt was \$135 million at December 31, 2012, consisting of LG&E's share of \$93 million and KU's share of \$42 million. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of annual minimum debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses as follows:

	<u>LG&E</u>	<u>KU</u>	<u>Total</u>
2013	\$ 21	\$ 9	\$ 30
2014	21	9	30
2015	21	9	30
2016	22	10	32
2017	22	10	32
Thereafter	612	272	884
	<u>\$ 719</u>	<u>\$ 319</u>	<u>\$ 1,038</u>

In addition, LG&E and KU had total energy purchases under the OVEC power purchase agreement for the periods ended as follows:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
LG&E	\$ 20	\$ 22	\$ 4	\$ 17
KU	9	10	2	7
Total	\$ 29	\$ 32	\$ 6	\$ 24

(PPL and PPL Electric)

In 2009, the PUC approved PPL Electric's procurement plan for the period January 2011 through May 2013. To date, PPL Electric has conducted all of its planned competitive solicitations. The solicitations include a mix of long-term and short-term purchases, ranging from five months to ten years, to fulfill PPL Electric's obligation to provide for customer supply as a PLR. In May 2012, PPL Electric filed a plan with the PUC to purchase its electricity supply for default customers for the period June 2013 through May 2015. The PUC subsequently approved PPL Electric's plan on January 24, 2013. The approved plan proposes that PPL Electric procure this electricity through competitive solicitations conducted twice each plan year beginning in April 2013.

(PPL Electric)

See Note 16 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Energy Sales Commitments

(PPL and PPL Energy Supply)

In connection with its marketing activities or hedging strategy for its power plants, PPL Energy Supply has entered into long-term power sales contracts that extend into 2019, excluding long-term renewable energy agreements that extend into 2038.

(PPL Energy Supply)

See Note 16 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

PPL Montana Hydroelectric License Commitments *(PPL and PPL Energy Supply)*

PPL Montana owns and operates 11 hydroelectric facilities and one storage reservoir licensed by the FERC under long-term licenses pursuant to the Federal Power Act. Pursuant to Section 8(e) of the Federal Power Act, the FERC approved the transfer from Montana Power to PPL Montana of all pertinent licenses in connection with the Montana Asset Purchase Agreement.

The Kerr Dam Project license (50-year term) was issued by the FERC jointly to Montana Power and the Confederated Salish and Kootenai Tribes of the Flathead Nation in 1985, and requires PPL Montana (as successor licensee to Montana Power) to hold and operate the project for at least 30 years (to 2015). Between 2015 and 2025, the tribes have the option to purchase, hold and operate the project for the remainder of the license term, which expires in 2035. While the tribes have indicated their intent to exercise the option at the earliest possible date, PPL Montana cannot predict if and when this option will be exercised. The license also requires PPL Montana to continue to implement a plan to mitigate the impact of the Kerr Dam on fish, wildlife and their habitats. Under this arrangement, PPL Montana has a remaining commitment to spend \$6 million between 2013 and 2015, in addition to the annual rent it pays to the tribes.

PPL Montana entered into two Memoranda of Understanding (MOUs) with state, federal and private entities related to the issuance in 2000 of the FERC renewal license for the nine dams comprising the Missouri-Madison project. The MOUs are periodically updated and renewed and require PPL Montana to implement plans to mitigate the impact of its projects on fish, wildlife and their habitats, and to increase recreational opportunities. The MOUs were created to maximize collaboration between the parties and enhance the possibility to receive matching funds from relevant federal agencies. Under these arrangements, PPL Montana has a remaining commitment to spend \$30 million between 2013 and 2040.

Legal Matters

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification *(PPL and LKE)*

See footnote (l) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(PPL and PPL Energy Supply)

Montana Hydroelectric Litigation

In November 2004, PPL Montana, Avista Corporation (Avista) and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydroelectric facilities' use and occupancy of certain riverbeds in Montana can be collected by the State of Montana. This lawsuit followed dismissal on jurisdictional grounds of an earlier federal lawsuit seeking such compensation in the U.S. District Court of Montana. The federal lawsuit alleged that the beds of Montana's navigable rivers became state-owned trust property upon Montana's admission to statehood, and that the use of them should, under a 1931 regulatory scheme enacted after all but one of the hydroelectric facilities in question were constructed, trigger lease payments for use of land beneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it was not seeking compensation for the period prior to PPL Montana's December 1999 acquisition of the hydroelectric facilities.

Following a number of adverse trial court rulings, in 2007 PacifiCorp and Avista each entered into settlement agreements with the State of Montana providing, in pertinent part, that each company would make prospective lease payments for use of the State's navigable riverbeds (subject to certain future adjustments), resolving the State's claims for past and future compensation.

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately \$35 million for the 2000-2006 period and approximately \$6 million for 2007 compensation. Those unpaid amounts accrue interest at 10% per year. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods.

In March 2010, the Montana Supreme Court substantially affirmed the June 2008 Montana District Court decision. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of \$56 million (\$34 million after tax), representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. Rental compensation was estimated for periods subsequent to 2007. The portion of the pre-tax charge that related to prior years totaled \$54 million (\$32 million after tax). The pre-tax charge recorded on the Statement of Income was \$49 million in "Other operation and maintenance" and \$7 million in "Interest Expense."

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition, and in February 2012 issued a decision overturning the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, in the fourth quarter of 2011 PPL Montana reversed its total loss accrual of \$89 million (\$53 million after-tax) which had been recorded prior to the U.S. Supreme Court decision. The amount reversed was recorded on the Statement of Income as a \$75 million credit to "Other operation and maintenance" and a \$14 million credit to "Interest Expense." PPL Montana believes the U.S. Supreme Court decision resolves certain questions of liability in this case in favor of PPL Montana and leaves open for reconsideration by Montana courts, consistent with the findings of the U.S. Supreme Court, certain other questions. In April 2012, the case was returned by the Montana Supreme Court to the Montana First Judicial District Court. Further proceedings have not yet been scheduled by the District Court. PPL Montana has concluded it is no longer probable, but it remains reasonably possible, that a loss has been incurred. While unable to estimate a range of loss, PPL Montana believes that any such amount would not be material.

Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Montana. At the time of the bankruptcy filing, SMGT was PPL EnergyPlus' largest unsecured credit exposure. This contract was accounted for as NPNS by PPL EnergyPlus.

The SMGT Contract provided for fixed volume purchases on a monthly basis at established prices. Pursuant to a court order and subsequent stipulations entered into between the SMGT bankruptcy trustee and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract and made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In March 2012, the U.S. Bankruptcy Court for the District of Montana issued an order approving the request of the SMGT trustee and PPL EnergyPlus to terminate the SMGT Contract. As a result, the SMGT Contract was terminated effective April 1, 2012, allowing PPL EnergyPlus to resell to other customers the electricity previously contracted to SMGT.

PPL EnergyPlus' receivable under the SMGT Contract, representing non-performance by SMGT prior to termination of the SMGT Contract, totaled approximately \$21 million at December 31, 2012, which has been fully reserved.

In July 2012, PPL EnergyPlus filed its proof of claim in the SMGT bankruptcy proceeding. The total claim, including the above receivable, is approximately \$375 million, predominantly an unsecured claim representing the value for energy sales that will not occur as a result of the termination of the SMGT Contract. No assurance can be given as to the collectability of the claim, thus no amounts have been recorded in the 2012 financial statements.

PPL Energy Supply cannot predict any amount that it may recover in connection with the SMGT bankruptcy or the prices and other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of the SMGT Contract.

Notices of Intent to Sue Colstrip Owners

In July 2012, PPL Montana received a Notice of Intent to Sue for violations of the Clean Air Act at Colstrip Steam Electric Station (Notice) from counsel on behalf of the Sierra Club and the MEIC. An Amended Notice was received on September 4, 2012, and a Second Amended Notice was received in October 2012. A Supplemental Notice was received in December 2012. The Notice, Amended Notice, Second Amended Notice, and Supplemental Notice (the Notices) were all addressed to the Owner or Managing Agent of Colstrip, and to the other Colstrip co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, NorthWestern Energy and PacifiCorp. The Notice alleges certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements. The Amended Notice alleges additional opacity violations at Colstrip, and the Second Amended Notice alleges additional Title V violations. The Supplemental Notice includes additional New Source Review Claims. All four notices state that Sierra Club and MEIC will request a United States District Court to impose injunctive relief and civil penalties, require a beneficial environmental project in the areas affected by the alleged air pollution and require reimbursement of Sierra Club's and MEIC's costs of litigation and attorney's fees. Under the Clean Air Act, lawsuits cannot be filed until 60 days after the applicable notice date. PPL is evaluating the allegations set forth in the Notices and cannot at this time predict the outcome of this matter.

Regulatory Issues

(PPL, PPL Electric, LKE, LG&E and KU)

See Note 6 for information on regulatory matters related to utility rate regulation.

Enactment of Financial Reform Legislation *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The Dodd-Frank Act became effective in July 2010 and includes provisions that impose derivative transaction reporting requirements and require most over-the-counter derivative transactions to be executed through an exchange and to be centrally cleared. The Dodd-Frank Act also provides that the U.S. Commodity Futures Trading Commission (CFTC) may impose collateral and margin requirements for over-the-counter derivative transactions, as well as capital requirements for certain entity classifications. Final rules on major provisions in the Dodd-Frank Act are being established through rulemakings. The rulemakings are scheduled to become effective at different times beginning with the October 12, 2012 effective date of the definitional rule for the term "swap". In particular, the CFTC's Final Rule (Final Rule), defining key terms such as "swap dealer" and "major swap participant", took effect with the effectiveness of the swap definitional rule.

The heightened thresholds and requirements for these entity classifications set forth in the Final Rule resulted in the Registrants currently being designated neither swap dealers nor major swap participants. The Dodd-Frank Act and its implementing regulations, however, will impose on the Registrants significant additional and costly recordkeeping and reporting requirements. Also, the Registrants could face significantly higher operating costs or may be required to post additional collateral if they or their counterparties are subject to capital or margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. The Registrants will continue to evaluate the provisions of the Dodd-Frank Act and its implementing regulations. At this time, the Registrants cannot predict the impact that the law or its implementing regulations will have on their businesses or operations, or the markets in which they transact business, but could incur significant costs related to compliance with the Dodd-Frank Act.

(PPL, PPL Energy Supply and PPL Electric)

New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as the generation that may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. Several parties have filed appeals of the FERC's order. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL, and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution. In this action, the plaintiffs request declaratory and injunctive relief barring implementation of the Act by the Commissioners of the BPU. In October 2011, the court denied the BPU's motion to dismiss the proceeding. In September 2012, the U.S. District Court denied all summary judgment motions, and the litigation is continuing. Trial is scheduled to begin in March 2013. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electric generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution. In this action, the plaintiffs request declaratory and injunctive relief barring implementation of the order by the Commissioners of the MD PSC. In August 2012, the court denied the MD PSC and CPV Maryland, LLC motions to dismiss the proceeding and the litigation is continuing. Trial is scheduled to begin in March 2013. PPL, PPL Energy Supply, and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Pacific Northwest Markets (PPL and PPL Energy Supply)

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence. At June 30, 2012, there were two remaining claims against PPL Energy Supply totaling \$73 million. In July 2012, PPL Montana and the City of Tacoma, one of the parties claiming refunds at FERC, reached a settlement whereby PPL Montana would pay \$75 thousand to resolve the City of Tacoma's \$23 million claim, \$9 million of which represents interest. The settlement does not resolve the remaining claim outstanding at December 31, 2012 of approximately \$50 million.

Although PPL and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

FERC Market-Based Rate Authority

In 1998, the FERC authorized LG&E, KU and PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In those orders, the FERC directed LG&E, KU and PPL EnergyPlus, respectively, to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by LG&E, KU, PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In June 2011, FERC approved PPL's market-based rate update for the Eastern and Western regions. Also, in June 2011, PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. In June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the BREC balancing area and removing restrictions on their market-based rate authority in such region.

Currently, a seller granted FERC market-based rate authority may enter into power contracts during an authorized time period. If the FERC determines that the market is not workably competitive or that the seller possesses market power or is not charging "just and reasonable" rates, it may institute prospective action, but any contracts entered into pursuant to the FERC's market-based rate authority remain in effect and are generally subject to a high standard of review before the FERC can order changes. Recent court decisions by the U.S. Court of Appeals for the Ninth Circuit have raised issues that may make it more difficult for the FERC to continue its program of promoting wholesale electricity competition through market-based rate authority. These court decisions permit retroactive refunds and a lower standard of review by the FERC for changing power contracts, and could have the effect of requiring the FERC in advance to review most, if not all, power contracts. In June 2008, the U.S. Supreme Court reversed one of the decisions of the U.S. Court of Appeals for the Ninth Circuit, thereby upholding the higher standard of review for modifying contracts. At this time, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the impact of these court decisions on the FERC's future market-based rate authority program or on their businesses.

Electric Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In October 2012, the FERC issued a Notice of Proposed Rulemaking (NOPR) concerning Reliability Standards for Geomagnetic Disturbances. The FERC proposes to direct NERC to submit for approval Reliability Standards that address the impact of geomagnetic disturbances on the reliable operation of the bulk-power system, including one or more measures to protect against damage to the bulk-power system, such as the installation of equipment that blocks geomagnetically induced currents on implicated transformers. If the NOPR is adopted by the FERC, it is expected to require the Registrants either or both to make significant expenditures in new equipment or modifications to their facilities. The Registrants are unable to predict whether the NOPR will be adopted as proposed by the FERC or the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for geomagnetic disturbances.

Settled Litigation (*PPL and PPL Energy Supply*)

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits totaling \$56 million to "Fuel" on the Statement of Income in 2011 to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. The amounts recorded through September 2011 cover costs incurred from 1998 through December 2010. PPL Susquehanna is eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred through December 31, 2013. In exchange, PPL Susquehanna has waived any claims against the United States government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013.

Environmental Matters - Domestic

(*PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU*)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operating certain facilities or operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act as amended and those federal, state, or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal in accordance with their approved compliance plans. Costs not covered by the ECR for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before their respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to environmental compliance costs is reduced. As PPL Energy Supply is not a rate regulated entity, it does not have any mechanism for seeking rate recovery of environmental compliance costs. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

(*PPL, PPL Energy Supply, LKE, LG&E and KU*)

Air

CSAPR (formerly Clean Air Transport Rule) and CAIR

In July 2011, the EPA adopted the CSAPR, which was intended to finalize and rename the Clean Air Transport Rule (Transport Rule) proposed in August 2010. The CSAPR replaced the EPA's previous CAIR which was invalidated by the U.S. Court of Appeals for the District of Columbia Circuit (the Court) in July 2008. CAIR subsequently was effectively reinstated by the Court in December 2008, pending finalization of the Transport Rule. Like CAIR, CSAPR only applied to PPL's fossil-fueled generating plants located in Kentucky and Pennsylvania.

In December 2011, the Court stayed implementation of the CSAPR and left CAIR in effect pending a final decision on the validity of the rule. In August 2012, the Court issued a ruling invalidating CSAPR, remanding the rule to the EPA for further action, and leaving CAIR in place during the interim. A further revised rule is not expected from the EPA for at least two years.

The CSAPR was meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides emissions. The CSAPR established new sulfur dioxide and nitrogen oxide emission allowance cap and trade programs that were more restrictive than previously under CAIR. The CSAPR provided for two-phased programs of sulfur dioxide and nitrogen oxide emissions reductions, with initial reductions in 2012 and more stringent reductions in 2014.

The Kentucky fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements by utilizing sulfur dioxide allowances (including banked allowances). To meet nitrogen oxide standards, under the CAIR, the Kentucky companies will need to buy allowances and/or make operational changes. LG&E and KU do not currently anticipate that the costs of meeting these reinstated CAIR requirements or standards will be significant.

PPL Energy Supply's Pennsylvania fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet nitrogen oxide standards, under the CAIR, PPL Energy Supply will need to buy allowances and/or make operational changes, the costs of which are not anticipated to be significant.

National Ambient Air Quality Standards

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the CAIR for its Pennsylvania and Kentucky plants, PPL's fossil-fueled generating plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates.

In 2010, the EPA finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. For non-attainment areas, states are required to develop plans by 2014 to achieve attainment by 2017. For areas that are in attainment or that are unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment. In December 2012, the EPA issued final rules that strengthen the particulate standards. Under the final rule, states and the EPA have until the end of 2014 to identify initial non-attainment areas, and states have until 2020 to achieve attainment status for those areas. States can request an extension to 2025 to comply with the rule. Until particulate matter and sulfur dioxide maintenance and compliance plans are developed, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict which of their facilities may be located in a non-attainment area and what measures would be required to achieve attainment status.

PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR, the MATS, or the Regional Haze requirements, such as upgraded or new sulfur dioxide scrubbers at some of their plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant.

Mercury and Other Hazardous Air Pollutants

In May 2011, the EPA published a proposed regulation providing for stringent reductions of mercury and other hazardous air pollutants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 16, 2012. The rule is being challenged by industry groups and states. The EPA issued a proposed rule in November 2012 reconsidering limited aspects of its MATS and New Source Performance Standards (NSPS) to which PPL responded with comments.

The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. Based on their assessment of the need to install pollution control equipment to meet the provisions of the proposed rule, LG&E and KU filed requests with the KPSC for environmental cost recovery to facilitate moving forward with plans to install environmental controls including chemical additive and fabric-filter baghouses to remove certain hazardous air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. See Note 6 for information on LG&E's and KU's anticipated retirement of certain coal-fired electric generating units in response to this and other environmental regulations. With the publication of the final MATS rule, LG&E and KU are currently assessing whether any revisions of their approved compliance plans will be necessary.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that certain coal-fired plants may require installation of chemical additive systems, the cost of which is not expected to be significant. With respect to PPL Energy Supply's Montana plants, modifications to the current air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. For the Corette plant, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant asset group's carrying amount at December 31, 2012 was approximately \$68 million. Although the Corette plant asset group was not determined to be impaired at December 31, 2012, it is reasonably possible that an impairment could occur in future periods as higher priced sales contracts settle, adversely impacting projected cash flows. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below.

Regional Haze and Visibility

In January 2012, the EPA proposed limited approval of the Pennsylvania regional haze State Implementation Plan (PA SIP). That proposal would essentially approve PPL's analysis that further particulate controls at PPL Energy Supply's Pennsylvania plants are not warranted. The limited approval does not address deficiencies of the state plan arising from the remand of the CAIR. Previously, the EPA had determined that implementation of the CAIR requirements would meet regional haze requirements.

In 2012, the EPA finalized a rule providing that implementation of the CSAPR would also meet the Best Available Retrofit Technology (BART) requirements for sulfur dioxide and nitrogen oxides. This rule also addresses the PA SIP deficiency arising from the CAIR remand. However, in August 2012, the U.S. Court of Appeals for the District of Columbia Circuit (Court) vacated and remanded the CSAPR back to the EPA for further rulemaking (as discussed above). In September 2012, several environmental groups filed a petition for review with the Court challenging the EPA's approval of the PA SIP. At this time, it is not known whether the EPA will reinstate its previous determination that CAIR satisfies the BART requirement or will require states to conduct source-specific BART studies.

In Montana, the EPA Region 8 developed the regional haze plan as the Montana Department of Environmental Quality declined to develop a BART state implementation plan at this time. PPL submitted to the EPA its analyses of the visibility impacts of sulfur dioxide, nitrogen oxides and particulate emissions for Colstrip Units 1 and 2 and Corette. PPL's analyses concluded that further reductions are not warranted, except that the EPA concurred with the installation of Separated Overfire Air (SOFA) and lime injection for Units 1 and 2. PPL has also submitted data and analyses of various air emission control options under the rules to reduce air emissions related to the non-BART-affected emission sources of Colstrip Units 3 and 4. The analyses show that any incremental reductions would not be cost-effective and that further analysis is not warranted.

In September 2012, the EPA issued its final Federal Implementation Plans (FIP) for the Montana regional haze rule. The final FIP indicated that no additional controls were required for Corette or Colstrip Units 3 and 4 but proposed tighter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply expects to meet these tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015. See "Mercury and Other Hazardous Air Pollutants" discussion above. Under the final FIP, Colstrip Units 1 and 2 will require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxide and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. In November 2012, PPL filed a petition for review of the Montana Regional Haze FIP with the U.S. Court of Appeals for the Ninth Circuit. Environmental groups have also filed a petition for review. The two matters have been consolidated, and the parties have agreed to a briefing schedule.

LG&E and KU also submitted analyses of the visibility impacts of their Kentucky BART-eligible sources to the Kentucky Division for Air Quality (KDAQ). Only LG&E's Mill Creek plant was determined to have a significant regional haze impact. The KDAQ has submitted a regional haze SIP to the EPA which requires the Mill Creek plant to reduce its sulfuric acid mist emissions from Units 3 and 4, the costs of which are not expected to be significant. After approval of the Kentucky SIP by the EPA and revision of the Mill Creek plant's air permit under Title V, LG&E intends to install sorbent injection controls at the plant to reduce sulfuric acid mist emissions.

New Source Review (NSR)

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. The requests are similar to those that PPL received in the early 2000s for its Colstrip, Corette and Martins Creek plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL and other

companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during the Spring 2012 maintenance outage at Colstrip Unit 1. In September 2012, PPL Montana received an information request from the Montana Department of Environmental Quality regarding the Unit 1 and other projects. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In addition, in August 2007, LG&E received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received a notice alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent plant without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request on this matter. In September 2012, the parties reached a tentative settlement addressing the Ghent NSR matter and a September 2007 notice of violation alleging opacity violations at the plant. A consent decree was lodged in the U.S. District Court for the Eastern District of Kentucky in December 2012. PPL, LKE and KU cannot predict the outcome of this matter until the consent decree is entered by the Court, but currently do not expect such outcome to result in costs in excess of amounts already accrued, which amounts are not material.

If PPL subsidiaries are found to have violated NSR regulations, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

States and environmental groups also have provided notice of their intention to initiate enforcement actions and litigation alleging violations of the NSR regulations by coal-fired generating plants. See "Legal Matters" above for information on a notice of intent to sue received in July 2012 (and amended multiple times thereafter) by PPL Montana and other owners of Colstrip. PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict whether such actions will be brought against any of their other plants.

Colstrip and Corette Air Permits (PPL and PPL Energy Supply)

In January 2013, Earthjustice, on behalf of the Sierra Club and the MEIC filed an administrative appeal with the Board of Environmental Review, setting forth challenges to certain components of the Title V permits for Colstrip and Corette. These challenges include: 1) the regional haze requirements should have been included in the Title V permits for Corette and Colstrip; 2) the MATS requirements should have been included in the Title V permits for Corette and Colstrip; 3) the particulate monitoring methodology is inadequate at Corette and Colstrip; and 4) sulfur dioxide monitoring is inadequate at Corette. PPL Montana intends to participate in this proceeding and cannot predict its outcome.

On January 31, 2013, the Sierra Club and the MEIC alleged identical claims in their joint petition to the EPA, requesting that the EPA object to the MDEQ's issuance of Colstrip's and Corette's Title V permits. PPL Montana cannot predict the outcome of this parallel matter pending before the EPA.

TC2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which were incorporated into a final revised permit issued by the KDAQ in January 2010. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the capital costs of this project, if any.

Global Climate Change

There is concern nationally and internationally about global climate change and the possible contribution of GHG emissions including, most significantly, carbon dioxide, from the combustion of fossil fuels. This has resulted in increased demands for carbon dioxide emission reductions from investors, environmental organizations, government agencies and the international community. These demands and concerns have led to federal legislative proposals, actions at regional, state and local levels, litigation relating to GHG emissions and the EPA regulations on GHGs.

Greenhouse Gas Legislation

While climate change legislation was actively considered in 2009-2010, such legislation has not significantly progressed. Since that time, although the U.S. House of Representatives passed legislation attempting to bar the EPA from regulating GHG emissions under the existing authority of the Clean Air Act, the Senate never took up the legislation. The timing and elements of future federal legislation addressing GHG emission reductions are uncertain at this time.

Greenhouse Gas Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that apply beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. As a result, any new sources or major modifications to existing GHG sources causing a net significant emissions increase requires the BACT permit limits for GHGs. The rules were challenged, and in June 2012, the U.S. Court of Appeals for the District of Columbia Circuit upheld the EPA's regulations. In December 2012, the Court denied petitions for rehearing pertaining to the Court's June 2012 opinion.

In addition, in April 2012, the EPA proposed NSPS for carbon dioxide emissions from new coal-fired generating units, combined-cycle natural gas units, and integrated gasification combined-cycle units. The proposal would require new coal plants to achieve the same stringent limitations on carbon dioxide emissions as the best performing new gas plants. There presently is no commercially available technology to allow new coal plants to achieve these limitations and, as a result, the EPA's proposal would effectively preclude future construction of new coal-fired generation. In December 2012, the U.S. Court of Appeals for the District of Columbia Circuit dismissed consolidated challenges to the NSPS holding that the proposed rule is not a final agency action. The EPA is expected to finalize the NSPS for new sources in early 2013.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction, by 2019, in carbon dioxide emissions from base levels.

Pennsylvania has not stated an intention to join the RGGI, but enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report and identified specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced that would, if enacted, accelerate solar supply requirements and restrict eligible solar projects to those located in Pennsylvania. PPL and PPL Energy Supply cannot predict at this time whether this legislation will be enacted.

Eleven western states and certain Canadian provinces established the Western Climate Initiative (WCI) in 2003. The WCI established a goal of reducing carbon dioxide emissions by 15% below 2005 levels by 2020 and developed GHG emission allocations, offsets, and reporting recommendations. Montana was once a partner in the WCI, but by 2011 withdrew, along with several other western states.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. To date, the state has not issued a final plan. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants, and the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the lower court and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in *Comer v. Murphy Oil* (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal court granted defendants' motions to dismiss the state common law claims because plaintiffs had previously raised the same claims, plaintiffs lacked standing, plaintiffs' claims were displaced by the Clean Air Act, and other grounds. In April 2012, plaintiffs filed a notice of appeal in the Fifth Circuit. Additional litigation in federal and state courts over these issues is continuing. PPL, LKE and KU cannot predict the outcome of this litigation or estimate a range of reasonably possible losses, if any.

In 2012, PPL's power plants emitted approximately 70 million tons of carbon dioxide compared with 74 million tons in 2011. The totals reflect 35 million tons from PPL Generation and 35 million tons from LG&E's and KU's generating fleet. All tons are U.S. short tons (2,000 pounds/ton).

Renewable Energy Legislation (PPL, PPL Energy Supply, LKE, LG&E and KU)

There has been interest in renewable energy legislation at both the state and federal levels. Federal legislation on renewable energy is not expected to be introduced this year. In Pennsylvania, bills were recently introduced in both the Senate and House amending the existing AEPS to accelerate the current solar generation obligation, but no action was taken before the end of the 2011-2012 legislative session. Future bills are expected calling for an increase in AEPS Tier 1 (renewable resources, such as wind and solar) obligations and to create a \$25 million permanent funding program for solar. Bills have also been introduced in Montana to add hydropower as a qualified source to the renewable portfolio standard.

PPL, PPL Energy Supply, LKE, LG&E and KU believe there are financial, regulatory and logistical uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their merchant plants' future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The first approach would regulate CCRs as a hazardous waste under Subtitle C of the RCRA. This approach would materially increase costs and result in early retirements of many coal-fired plants, as it would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through generation, transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The second approach would regulate CCRs as a solid (non-hazardous) waste under Subtitle D of the RCRA. This approach would mainly affect disposal and most significantly affect any wet

disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the requirements of Subtitle D of the RCRA, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) that requests comments on selected documents that the EPA received during the comment period for the proposed regulations. In addition, the U.S. House of Representatives in September 2012 approved a bill that was revised in the Senate to modify Subtitle D of the RCRA to provide for the proper management and disposal of CCRs and to preclude the EPA from regulating CCRs under Subtitle C of the RCRA. This revised bill is being considered in the Senate and the prospect for passage is uncertain.

In January 2012, a coalition of environmental groups filed a 60-day notice of intent to sue the EPA for failure to perform nondiscretionary duties under RCRA, which could require a deadline for the EPA to issue strict CCR regulations. In February 2012, two CCR recycling companies also issued a 60-day notice of intent to sue the EPA over its timeliness in issuing CCR regulations, but they requested that the EPA take a Subtitle D approach that would allow for continued recycling of CCRs. The coalition filed its lawsuit in April 2012 and litigation is continuing.

A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by the outcome of the above litigation, which could require the EPA to issue its regulations sooner.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the financial impact could be material if regulated as a hazardous waste under Subtitle C and significant if regulated under Subtitle D.

Martins Creek Fly Ash Release (PPL and PPL Energy Supply)

In 2005, approximately 100 million gallons of water containing fly ash was released from a disposal basin at the Martins Creek plant used in connection with the operation of the plant's two 150 MW coal-fired generating units. This resulted in ash being deposited onto adjacent roadways and fields, and into a nearby creek and the Delaware River. PPL determined that the release was caused by a failure in the disposal basin's discharge structure. PPL conducted extensive clean-up and completed studies, in conjunction with a group of natural resource trustees and the Delaware River Basin Commission, evaluating the effects of the release on the river's sediment, water quality and ecosystem.

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the PADEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies. Subsequently, in August 2011 the PADEP submitted its National Resource Damage Assessment report to the court and to the interveners. In December 2011, the interveners commented on the PADEP report and in February 2012 the PADEP and PPL filed separate responses with the court. In March 2012, the court dismissed the interveners' case, but the interveners have appealed the dismissal to the Pennsylvania Supreme Court and a decision by the court is still pending.

Through December 31, 2012, PPL Energy Supply has spent \$28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the nature of any other regulatory or legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in significant losses above the amounts currently recorded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to implement abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage due to seepage from plant wastewater ponds. A settlement agreement was reached in July 2010 which would have resulted in a payment by PPL Montana, but certain of the plaintiffs later argued the settlement was not final. The Colstrip plant owners filed a motion to enforce the settlement and in October 2011 the court granted the motion and ordered the settlement to be completed in 60 days. The plaintiffs appealed the October 2011 order to the Montana Supreme Court, which affirmed the district court's order enforcing the settlement on December 31, 2012 and denied plaintiff's motion for rehearing on February 5, 2013. The parties have 60 days after the February 5, 2013 decision to complete the settlement. PPL Montana's share of the settlement is not expected to be significant.

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years, PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER), on behalf of the Sierra Club, the MEIC, and the National Wildlife Federation (NWF). In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County.

In late October 2012, Earthjustice filed a second complaint against the MDEQ and PPL Montana in state district court in Lewis and Clark County on behalf of the Sierra Club, the MEIC and the NWF. This complaint alleges that the defendants have failed to take action under the MFSA and the Montana Water Quality Act to effectively monitor and correct issues of coal ash disposal and wastewater ponds at the Colstrip plant. The complaint seeks a declaration that the operations of the impoundments violate the statutes addressed above, requests a writ of mandamus directing the MDEQ to enforce the same, and seeks recovery of attorneys' fees and costs. PPL is vigorously defending these allegations, and PPL and PPL Energy Supply cannot predict the outcome of this matter.

Clean Water Act 316(b) (PPL, PPL Energy Supply, LKE, LG&E and KU)

The EPA finalized requirements in 2004 for new or modified cooling water intake structures. These requirements affect where generating plants are built, establish intake design standards and could lead to requirements for cooling towers at new and modified power plants. In 2009, however, the U.S. Supreme Court ruled that the EPA has discretion to use cost-benefit analysis in determining the best technology available for minimizing adverse environmental impact to aquatic organisms. The EPA published the proposed rule on new or modified cooling water intake structures in April 2011. The industry and PPL reviewed the proposed rule and submitted comments. The EPA has been evaluating comments and meeting with industry groups to discuss options. Two NODAs have been issued on the rule that indicate the EPA may be willing to amend the rule based on certain industry group comments, and the EPA's comment period on the NODAs has ended. The final rule is expected to be issued in 2013. The proposed rule contains two requirements to reduce impact to aquatic organisms. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens regardless of the levels of mortality actually occurring or the cost of achieving the requirements. The second requirement is to determine and install the best technology available to reduce mortality of aquatic organisms that are pulled through the plant's cooling water system. A form of cost-benefit analysis is allowed for this second requirement. This process involves a site-specific evaluation based on nine factors, including impacts to energy delivery reliability and the remaining useful life of the plant. PPL, PPL Energy Supply, LKE, LG&E and KU cannot reasonably estimate a range of reasonably possible costs, if any, until a final rule is issued, the required studies have been completed, and each state in which they operate has decided how to implement the rule.

Effluent Limitations Guidelines and Standards (PPL, PPL Energy Supply, LKE, LG&E and KU)

In October 2009, the EPA released its Final Detailed Study of the Steam Electric Power Generating effluent limitations guidelines and standards. The EPA is expected to issue the final regulations in 2014. PPL, PPL Energy Supply, LKE, LG&E and KU expect the revised guidelines and standards to be more stringent than the current standards especially for sulfur dioxide scrubber wastewater. The guidelines are also expected to require dry ash handling, which could result in additional costs for technology retrofits for closure of wet basins. In the interim, states may impose more stringent limits on a case-by-case basis under existing authority as permits are renewed. Under the Clean Water Act, permits are subject to renewal every five years. PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

Other Issues (PPL, PPL Energy Supply, LKE, LG&E and KU)

In 2006, the EPA significantly decreased to 10 parts per billion (ppb) the drinking water standards for arsenic. In Pennsylvania, Montana and Kentucky, this arsenic standard has been incorporated into the states' water quality standards and could result in more stringent limits in NPDES permits for PPL's Pennsylvania, Montana and Kentucky plants. Subsequently, the EPA developed a draft risk assessment for arsenic that increases the cancer risk exposure by more than 20, which would lower the current standard from 10 ppb to 0.1 ppb. If the lower standard becomes effective, costly treatment would be required to attempt to meet the standard and, at this time, there is no assurance that it could be achieved. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the outcome of the draft risk assessment and what impact, if any, it would have on their plants, but the costs could be significant.

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxics Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. The EPA is planning to propose the revised regulations in late 2013. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

A PPL Energy Supply subsidiary signed a Consent Order and Agreement (COA) with the PADEP in July 2008 under which it agreed, under certain conditions, to take further actions to minimize the possibility of fish kills at its Brunner Island plant. Fish are attracted to warm water in the power plant discharge channel, especially during cold weather. Debris at intake pumps can result in a unit trip or reduction in load, causing a sudden change in water temperature and fish mortality. A barrier has been constructed to prevent debris from entering the river water intake area at a cost that was not significant.

PPL Energy Supply's subsidiary has also investigated alternatives to exclude fish from the discharge channel, but the subsidiary and the PADEP have concluded that a barrier method to exclude fish is not workable. In June 2012, a new COA was signed that allows the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. Should this approach fail, the new COA requires a retrofit of impingement control technology at the intakes to the cooling towers, the cost of which could be significant.

In May 2010, the subsidiary received a draft NPDES permit (renewed) for the Brunner Island plant from the PADEP. This permit includes new water quality-based limits for the scrubber wastewater plant. Some of these limits may not be achievable with the existing treatment system. Several agencies and environmental groups commented on the draft permit, raising issues that must be resolved to obtain a final permit for the plant. PPL Energy Supply cannot predict the outcome of the final resolution of the permit issues at this time, or what impact, if any, they would have on this facility, but the costs could be significant.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

The EPA and the Army Corps of Engineers are working on a guidance document that will expand the federal government's interpretation of what constitutes "waters of the United States" subject to regulation under the Clean Water Act. This change has the potential to affect generation and delivery operations, with the most significant effect being the potential elimination of the existing regulatory exemption for plant waste water treatment systems. The costs that may be imposed on the

Registrants as a result of any eventual expansion of this interpretation cannot reliably be estimated at this time but could be significant.

Superfund and Other Remediation (*PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU*)

PPL Electric is potentially responsible for costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase substantially more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional steps to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary is pumping mine water at two mine sites and treating water at one of these sites. Another PPL Generation subsidiary has installed a passive wetlands treatment system at a third site. At December 31, 2012, PPL Energy Supply had accrued a discounted liability of \$26 million to cover the costs of pumping and treating groundwater at the two mine sites for 50 years and for operating and maintaining passive wetlands treatment at the third site. PPL Energy Supply discounted this liability based on risk-free rates at the time of the mine closures. The weighted-average rate used was 8.19%. Expected undiscounted payments are estimated at \$3 million for 2013, \$1 million for each of the years from 2014 through 2017, and \$139 million for work after 2017.

From time to time, PPL Energy Supply, PPL Electric, LG&E and KU undertake remedial action in response to spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on their operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for the Registrants.

Environmental Matters - WPD (*PPL*)

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

The U.K. Government has requested that utilities undertake projects to alleviate the impact of flooding on the U.K. utility infrastructure, including major electricity substations. WPD has agreed with the Ofgem to spend \$45 million on flood prevention, which will be recovered through rates during the ten-year period commencing April 2010. WPD is currently liaising on site-specific proposals with local offices of a U.K. Government agency.

There are no other material legal or administrative proceedings pending against or related to WPD with respect to environmental matters.

Other

Nuclear Insurance (PPL and PPL Energy Supply)

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Facilities at the Susquehanna plant are insured against property damage losses up to \$2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At December 31, 2012, this maximum assessment was \$48 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to \$12.6 billion under provisions of The Price-Anderson Act as amended. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act as amended, PPL Susquehanna could be assessed up to \$235 million per incident, payable at \$35 million per year.

Guarantees and Other Assurances

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The table below details guarantees provided as of December 31, 2012. The total recorded liability at December 31, 2012 and 2011 was \$24 million and \$14 million for PPL and \$20 million and \$11 million for LKE. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<u>Exposure at December 31, 2012 (a)</u>	<u>Expiration Date</u>
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(b)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 11 (c)	2015
WPD guarantee of pension and other obligations of unconsolidated entities	91 (d)	2015
<u>PPL Energy Supply</u>		
Letters of credit issued on behalf of affiliates	23 (e)	2013 - 2014
Retrospective premiums under nuclear insurance programs	48 (f)	
Nuclear claims assessment under The Price-Anderson Act Amendments under The Energy Policy Act of 2005	235 (g)	
Indemnifications for sales of assets	250 (h)	2025
Indemnification to operators of jointly owned facilities	6 (i)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (j)	2018

	Exposure at December 31, 2012 (a)	Expiration Date
PPL Electric		
Guarantee of inventory value	21 (k)	2016
LKE		
Indemnification of lease termination and other divestitures	301 (l)	2021 - 2023
LG&E and KU		
LG&E and KU guarantee of shortfall related to OVEC	(m)	

- (a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.
- (b) Prior to PPL's acquisition, WPD Midlands Holdings Limited had agreed to indemnify certain former directors of a Turkish entity in which WPD Midlands Holdings Limited previously owned an interest, for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (c) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (d) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At December 31, 2012, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.
- (e) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.
- (f) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance" above for additional information.
- (g) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance" above for additional information.
- (h) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitation. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits. The indemnification provisions described below are in each case subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions for most representations and warranties expired in the third quarter of 2011.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification provisions for most representations and warranties expired in the fourth quarter of 2012.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions for most representations and warranties expired in the first quarter of 2012.

- (i) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating plants. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating plants, based upon their ownership percentages. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The exposure shown reflects the PPL Energy Supply subsidiary's share of the maximum obligation. The agreements do not have an expiration date.

- (j) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser, secured by a lien on the purchaser's stock of Safe Harbor, in the event PPL Energy Supply is required to make a payment under the guarantee. The exposure noted reflects principal only. See Note 9 for additional information on the sale of this interest.
- (k) PPL Electric entered into a contract with a third party logistics firm that provides inventory procurement and fulfillment services. Under the contract, the logistics firm has title to the inventory purchased for PPL Electric's use. Upon termination of the contract, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold by the logistics firm at the weighted-average cost at which the logistics firm purchased the inventory, thus protecting the logistics firm from reductions in the fair value of the inventory.
- (l) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. See Note 9 for additional information. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing a December 2012 order of the Henderson Circuit Court confirming the arbitration award. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including the potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. In the second quarter of 2012, LKE adjusted its estimated liability for certain of these indemnifications by \$9 million (\$5 million after-tax), which is reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income. The adjustment was recorded in the Kentucky Regulated segment for PPL. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.
- (m) As described in the "Energy Purchase Commitments" above, pursuant to the OVEC power purchase contract, expiring in June 2040, LG&E and KU are obligated to pay a demand charge which includes, among other charges, debt service and amortization toward principal retirement, decommissioning costs, post-retirement and post-employment benefits costs (other than pensions), and reimbursement of plant operating, maintenance and other expenses. The demand charge is expected to cover LG&E's and KU's shares of the cost of the listed items over the term of the contract. However, in the event there is a shortfall in covering these costs, LG&E and KU are obligated to pay their share of the excess debt service, post-retirement and decommissioning costs. The maximum exposure and the expiration date of these potential obligations are not presently determinable.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a maximum \$4 million deductible per occurrence and provides maximum aggregate coverage of \$200 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

16. Related Party Transactions

(PPL Energy Supply and PPL Electric)

PLR Contracts/Purchase of Accounts Receivable

PPL Electric holds competitive solicitations for PLR generating supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. See Note 15 for additional information on the solicitations. The sales and purchases between PPL EnergyPlus and PPL Electric are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, PPL EnergyPlus' credit limit was \$35 million at December 31, 2012. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 1 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At December 31, 2012, PPL Energy Supply had a net credit exposure of \$27 million to PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Wholesale Sales and Purchases (LG&E and KU)

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Allocations of PPL Services Costs (PPL Energy Supply, PPL Electric and LKE)

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of such services when they can be specifically identified. The cost of the services that is not directly charged to PPL subsidiaries is allocated to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services charged the following amounts for the years ended December 31, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

	2012	2011	2010
PPL Energy Supply	\$ 212	\$ 189	\$ 232
PPL Electric	157	145	134
LKE	15	16	3 (a)

(a) Represents costs allocated during the two months ended December 31, 2010 as LKE was acquired November 1, 2010.

Intercompany Billings by LKS (LG&E and KU)

LKS provides LG&E and KU with a variety of centralized administrative, management and support services. The cost of these services is directly charged to the company or, for general costs that cannot be directly attributed, charged based on predetermined allocation factors, including the following measures: number of customers, total assets, revenues, number of employees and/or other statistical information. LKS charged the amounts in the table below, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense.

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
LG&E	\$ 186	\$ 190	\$ 32	\$ 200
KU	161	204	34	222

In addition, LG&E and KU provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Energy Supply)

A PPL Energy Supply subsidiary periodically holds revolving lines of credit and demand notes from certain affiliates that are reflected in "Note receivable from affiliates" on the Balance Sheet. At December 31, 2012, there were no outstanding balances. At December 31, 2011, a note with PPL Energy Funding had an outstanding balance of \$198 million with an interest rate of 3.77%. Interest earned on these revolving facilities is included in "Interest Income from Affiliates" on the Statements of Income. For 2012, interest earned on borrowings was insignificant. For 2011, interest earned on borrowings,

which was substantially attributable to borrowings by PPL Energy Funding as discussed above, was \$8 million. For 2010, interest earned on borrowings, excluding the term notes discussed below, was \$5 million with interest rates equal to one-month LIBOR plus a spread.

(PPL Energy Supply, LKE, LG&E and KU)

In November 2010, a PPL Energy Supply subsidiary held term notes with LG&E and KU. These notes were subsequently repaid and therefore no balances were outstanding at December 31, 2010. Interest on these notes was included in "Interest Income from Affiliates" for PPL Energy Supply and "Interest Expense with Affiliate" for LKE, LG&E and KU. When balances were outstanding, interest on these notes was insignificant for 2010.

(LKE)

LKE maintains a \$300 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At December 31, 2012, \$25 million was outstanding and was reflected in "Notes payable with affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at December 31, 2012 was 1.71%. The line of credit was held by another PPL subsidiary in 2011. No balance was outstanding at December 31, 2011. Interest on the revolving line of credit was not significant for 2012 or 2011.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. At December 31, 2012, there was no outstanding balance. At December 31, 2011, \$15 million was outstanding and was reflected in "Notes receivable from affiliates" on the Balance Sheet. The interest rates on loans are based on the PPL affiliate's credit rating and are currently equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at December 31, 2011 was 2.27%. Interest income on this note was not significant in 2012 or 2011.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2012 and 2011, there was no balance outstanding. Interest expense incurred and interest income earned on the money pool agreement with LKE and/or KU was not significant for 2012, 2011 or 2010.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2012 and 2011, there was no balance outstanding. Interest expense incurred and interest income earned on the money pool agreement with LKE and/or LG&E was not significant for 2012, 2011 or 2010.

Intercompany Derivatives *(LKE, LG&E and KU)*

In November 2012, LG&E and KU entered into forward-starting interest rate swaps with PPL for notional amounts of \$150 million each. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 19 for additional information on intercompany derivatives.

(PPL Energy Supply)

Trademark Royalties

A PPL subsidiary owns PPL trademarks and billed certain affiliates for their use under a licensing agreement. This agreement was terminated in December 2011. PPL Energy Supply was charged \$40 million of license fees in 2011 and 2010. These charges are primarily included in "Other operation and maintenance" on the Statements of Income.

Distribution of Interest in PPL Global to Parent

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 for additional information.

Intercompany Insurance (PPL Electric)

PPL Power Insurance Ltd. (PPL Power Insurance) is a subsidiary of PPL that provides insurance coverage to PPL and its subsidiaries for property damage, general/public liability and workers' compensation.

Due to damages resulting from several PUC-reportable storms that occurred in 2012 and 2011, PPL Electric exceeded its deductible for both policy years. Probable recoveries on insurance claims with PPL Power Insurance of \$18.25 million for 2012 and \$26.5 million for 2011 were recorded in those years, of which \$14 million and \$16 million were included in "Other operation and maintenance" on the Statements of Income. In both years, the remainder was recorded in PP&E on the Balance Sheets. In September 2012, PPL Electric received \$26.5 million from the settlement of its 2011 claims.

Effective January 1, 2013, PPL Electric no longer has storm insurance with PPL Power Insurance.

Other (PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

See Note 1 for discussions regarding the intercompany tax sharing agreement and Note 7 for a discussion regarding capital transactions by PPL Energy Supply, PPL Electric, LKE, LG&E and KU. For PPL Energy Supply, PPL Electric and LKE, refer to Note 1 for discussions regarding intercompany allocations of stock-based compensation expense. For PPL Energy Supply, PPL Electric, LG&E and KU, see Note 13 for discussions regarding intercompany allocations associated with defined benefits.

17. Other Income (Expense) - net

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The breakdown of "Other Income (Expense) - net" for the years ended December 31 was:

	PPL		
	2012	2011	2010
Other Income			
Earnings on securities in NDT funds	\$ 22	\$ 24	\$ 20
Interest income	5	7	8
AFUDC - equity component	10	7	5
Net hedge gains associated with the 2011 Bridge Facility (a)		55	
Earnings (losses) from equity method investments	(8)	1	2
Gain on redemption of debt (b)		22	
Miscellaneous - Domestic	11	10	3
Miscellaneous - U.K.	2	1	1
Total Other Income	42	127	39
Other Expense			
Economic foreign currency exchange contracts (Note 19)	52	(10)	(3)
Charitable contributions	10	9	4
Cash flow hedges (c)			29
LKE acquisition-related costs (Note 10)			31
WPD Midlands acquisition-related costs (Note 10)		34	
Foreign currency loss on 2011 Bridge Facility (d)		57	
U.K. stamp duty tax (Note 10)		21	
Miscellaneous - Domestic	16	9	7
Miscellaneous - U.K.	3	3	2
Total Other Expense	81	123	70
Other Income (Expense) - net	\$ (39)	\$ 4	\$ (31)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
LKE				
Other Income				
Net derivative gains (losses)				\$ 19
Interest income		\$ 1		
Earnings (losses) from equity method investments	\$ (8)	1		3
Life insurance	1			2
Miscellaneous	3	2		1
Total Other Income	(4)	4		25
Other Expense				
Charitable contributions	4	4	\$ 1	5
Joint-use-asset depreciation				3
Miscellaneous	7	1	1	3
Total Other Expense	11	5	2	11
Other Income (Expense) - net	\$ (15)	\$ (1)	\$ (2)	\$ 14
LG&E				
Other Income				
Net derivative gains (losses)				\$ 19
Miscellaneous	\$ 1			1
Total Other Income	1			20
Other Expense				
Charitable contributions	2	\$ 1		2
Miscellaneous	2	1	\$ 3	1
Total Other Expense	4	2	3	3
Other Income (Expense) - net	\$ (3)	\$ (2)	\$ (3)	\$ 17
KU				
Other Income				
Earnings (losses) from equity method investments	\$ (8)	\$ 1		\$ 3
Life insurance	1			2
Miscellaneous	1			1
Total Other Income	(6)	1		6
Other Expense				
Charitable contributions	1	1		1
Joint-use-asset depreciation				3
Miscellaneous	1	1		1
Total Other Expense	2	2		5
Other Income (Expense) - net	\$ (8)	\$ (1)		\$ 1

- (a) Represents a gain on foreign currency contracts that hedged the repayment of the 2011 Bridge Facility borrowing.
- (b) In July 2011, as a result of PPL Electric's redemption of 7.125% Senior Secured Bonds due 2013, PPL recorded a gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges.
- (c) Represents losses reclassified from AOCI into earnings associated with discontinued hedges at PPL for debt that had been planned to be issued by PPL Energy Supply. As a result of the expected net proceeds from the sale of certain non-core generation facilities, coupled with the monetization of full-requirement sales contracts, the debt issuance was no longer needed.
- (d) Represents a foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing.

"Other Income (Expense) - net" for the years ended December 31, 2012, 2011 and 2010 is primarily earnings on securities in NDT funds for PPL Energy Supply and the equity component of AFUDC for PPL Electric.

18. Fair Value Measurements and Credit Concentration

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During 2012, there were no transfers between Level 1 and Level 2.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 901	\$ 901			\$ 1,202	\$ 1,202		
Restricted cash and cash equivalents (a)	135	135			209	209		
Price risk management assets:								
Energy commodities	2,068	2	\$ 2,037	\$ 29	3,423	3	\$ 3,390	\$ 30
Interest rate swaps	15		15		3		3	
Foreign currency contracts					18		18	
Cross-currency swaps	14		13	1	24		20	4
Total price risk management assets	2,097	2	2,065	30	3,468	3	3,431	34
NDT funds:								
Cash and cash equivalents	11	11			12	12		
Equity securities								
U.S. large-cap	412	308	104		357	267	90	
U.S. mid/small-cap	60	25	35		52	22	30	
Debt securities								
U.S. Treasury	95	95			86	86		
U.S. government sponsored agency	9		9		10		10	
Municipality	82		82		83		83	
Investment-grade corporate	40		40		38		38	
Other	3		3		2		2	
Receivables (payables), net		(2)	2			(3)	3	
Total NDT funds	712	437	275		640	384	256	
Auction rate securities (b)	19		3	16	24			24
Total assets	\$ 3,864	\$ 1,475	\$ 2,343	\$ 46	\$ 5,543	\$ 1,798	\$ 3,687	\$ 58
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,566	\$ 2	\$ 1,557	\$ 7	\$ 2,345	1	\$ 2,327	\$ 17
Interest rate swaps	80		80		63		63	
Foreign currency contracts	44		44					
Cross-currency swaps	4		4		2		2	
Total price risk management liabilities	\$ 1,694	\$ 2	\$ 1,685	\$ 7	\$ 2,410	1	\$ 2,392	\$ 17
PPL Energy Supply								
Assets								
Cash and cash equivalents	\$ 413	\$ 413			\$ 379	\$ 379		
Restricted cash and cash equivalents (a)	63	63			145	145		
Price risk management assets:								
Energy commodities	2,068	2	\$ 2,037	\$ 29	3,423	3	\$ 3,390	\$ 30
Total price risk management assets	2,068	2	2,037	29	3,423	3	3,390	30
NDT funds:								
Cash and cash equivalents	11	11			12	12		
Equity securities								
U.S. large-cap	412	308	104		357	267	90	
U.S. mid/small-cap	60	25	35		52	22	30	
Debt securities								
U.S. Treasury	95	95			86	86		
U.S. government sponsored agency	9		9		10		10	
Municipality	82		82		83		83	
Investment-grade corporate	40		40		38		38	
Other	3		3		2		2	
Receivables (payables), net		(2)	2			(3)	3	
Total NDT funds	712	437	275		640	384	256	
Auction rate securities (b)	16		3	13	19			19
Total assets	\$ 3,272	\$ 915	\$ 2,315	\$ 42	\$ 4,606	\$ 911	\$ 3,646	\$ 49
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,566	\$ 2	\$ 1,557	\$ 7	\$ 2,345	\$ 1	\$ 2,327	\$ 17
Total price risk management liabilities	\$ 1,566	\$ 2	\$ 1,557	\$ 7	\$ 2,345	\$ 1	\$ 2,327	\$ 17

	December 31, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Electric								
Assets								
Cash and cash equivalents	\$ 140	\$ 140			\$ 320	\$ 320		
Restricted cash and cash equivalents (c)	13	13			13	13		
Total assets	\$ 153	\$ 153			\$ 333	\$ 333		

LKE								
Assets								
Cash and cash equivalents	\$ 43	\$ 43			\$ 59	\$ 59		
Restricted cash and cash equivalents (d)	32	32			29	29		
Price risk management assets:								
Interest rate swaps	14		\$ 14					
Total price risk management assets	14		14					
Total assets	\$ 89	\$ 75	\$ 14		\$ 88	\$ 88		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (e)	\$ 58		\$ 58		\$ 60		\$ 60	
Total price risk management liabilities	\$ 58		\$ 58		\$ 60		\$ 60	

LG&E								
Assets								
Cash and cash equivalents	\$ 22	\$ 22			\$ 25	\$ 25		
Restricted cash and cash equivalents (d)	32	32			29	29		
Price risk management assets:								
Interest rate swaps	7		\$ 7					
Total price risk management assets	7		7					
Total assets	\$ 61	\$ 54	\$ 7		\$ 54	\$ 54		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (e)	\$ 58		\$ 58		\$ 60		\$ 60	
Total price risk management liabilities	\$ 58		\$ 58		\$ 60		\$ 60	

KU								
Assets								
Cash and cash equivalents	\$ 21	\$ 21			\$ 31	\$ 31		
Price risk management assets:								
Interest rate swaps	7		\$ 7					
Total price risk management assets	7		7					
Total assets	\$ 28	\$ 21	\$ 7		\$ 31	\$ 31		

- (a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
- (b) Included in "Other investments" on the Balance Sheets.
- (c) Current portion is included in "Other current assets" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
- (d) Included in "Other noncurrent assets" on the Balance Sheets.
- (e) Current portion is included in "Other current liabilities" on the Balance Sheets. The long-term portion is included in "Price risk management liabilities" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the years ended is as follows:

	PPL			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
December 31, 2012				
Balance at beginning of period	\$ 13	\$ 24	\$ 4	\$ 41
Total realized/unrealized gains (losses)				
Included in earnings	2		(1)	1
Included in OCI (a)	1		1	2
Sales			(5)	(5)
Settlements	(13)			(13)
Transfers into Level 3	8			8
Transfers out of Level 3	11	(3)	(3)	5
Balance at end of period	\$ 22	\$ 16	\$ 1	\$ 39

	PPL			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
December 31, 2011				
Balance at beginning of period	\$ (3)	\$ 25		\$ 22
Total realized/unrealized gains (losses)				
Included in earnings	(65)			(65)
Included in OCI (a)	(1)	(1)	\$ (10)	(12)
Purchases	1			1
Sales	(3)			(3)
Settlements	20			20
Transfers into Level 3	(10)		14	4
Transfers out of Level 3	74			74
Balance at end of period	<u>\$ 13</u>	<u>\$ 24</u>	<u>\$ 4</u>	<u>\$ 41</u>

(a) "Energy Commodities" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

A reconciliation of net assets and liabilities classified as Level 3 for the years ended is as follows:

	PPL Energy Supply			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net	Auction Rate Securities	Total	
December 31, 2012				
Balance at beginning of period	\$ 13	\$ 19		\$ 32
Total realized/unrealized gains (losses)				
Included in earnings	2			2
Included in OCI (a)	1			1
Sales		(3)		(3)
Settlements	(13)			(13)
Transfers into Level 3	8			8
Transfers out of Level 3	11	(3)		8
Balance at end of period	<u>\$ 22</u>	<u>\$ 13</u>		<u>\$ 35</u>
December 31, 2011				
Balance at beginning of period	\$ (3)	\$ 20		\$ 17
Total realized/unrealized gains (losses)				
Included in earnings	(65)			(65)
Included in OCI (a)	(1)	(1)		(2)
Purchases	1			1
Sales	(3)			(3)
Settlements	20			20
Transfers into Level 3	(10)			(10)
Transfers out of Level 3	74			74
Balance at end of period	<u>\$ 13</u>	<u>\$ 19</u>		<u>\$ 32</u>

(a) "Energy Commodities" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in the fair value measurement of assets and liabilities classified as Level 3 at December 31, 2012 are as follows:

Quantitative Information about Level 3 Fair Value Measurements

	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL Energy commodities				
Retail natural gas sales contracts (b)	24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)
FTR purchase contracts (d)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (e)	16	Discounted cash flow	Modeled from SIFMA Index	54% - 74% (64%)
Cross-currency swaps (f)	1	Discounted cash flow	Credit valuation adjustment	22% (22%)

PPL Energy Supply

Energy commodities

Retail natural gas sales contracts (b)	24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)
FTR purchase contracts (d)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (e)	13	Discounted cash flow	Modeled from SIFMA Index	57% - 74% (65%)

- (a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs. For cross-currency swaps, the range and weighted average represent the percentage decrease in fair value due to the unobservable inputs used in the model to calculate the credit valuation adjustment.
- (b) Retail natural gas sales contracts extend into 2017. \$11 million of the fair value is scheduled to deliver within the next 12 months. As the forward price of natural gas increases/(decreases), the fair value of the contracts (decreases)/increases.
- (c) Power sales contracts extend into 2014. \$(4) million of the fair value is scheduled to deliver within the next 12 months. As the forward price of basis increases/(decreases), the fair value of the contracts (decreases)/increases.
- (d) FTR purchase contracts extend into 2015. \$2 million of the fair value is scheduled to deliver within the next 12 months. As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).
- (e) Auction rate securities have a weighted average contractual maturity of 23 years. The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).
- (f) Cross-currency swaps extend into 2017. The credit valuation adjustment incorporates projected probabilities of default and estimated recovery rates. As the credit valuation adjustment increases/(decreases), the fair value of the swaps (decreases)/increases.

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the years ended December 31 were reported in the Statements of Income as follows:

	Energy Commodities, net								Cross-Currency Swaps	
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases		Interest Expense	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
PPL										
Total gains (losses) included in earnings	\$ 26	\$ 32	\$ (7)		\$ (12)	\$ (1)	\$ (5)	\$ (96)	\$ (1)	
Change in unrealized gains (losses) relating to positions still held at the reporting date	29	23	(4)	\$ 5	1	1	1	(2)		
PPL Energy Supply										
Total gains (losses) included in earnings	26	32	(7)		(12)	(1)	(5)	(96)		
Change in unrealized gains (losses) relating to positions still held at the reporting date	29	23	(4)	5	1	1	1	(2)		

Price Risk Management Assets/Liabilities - Energy Commodities (PPL and PPL Energy Supply)

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative gas and oil contracts, which are valued using the market approach and are classified as Level 1. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. These contracts include

forwards, swaps, options and structured transactions for electricity, gas, oil and/or emission allowances and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and standard industry models. For example, the fair value of a full-requirement sales contract that delivers power to an illiquid delivery point may be measured by valuing the nearest liquid trading point plus the value of the basis between the two points. The basis input may be from market quotes or historical prices.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. The fair value of contracts classified as Level 3 has been calculated using PPL proprietary models which include significant unobservable inputs such as delivery at a location where pricing is unobservable, assumptions for customer migration or delivery dates that are beyond the dates for which independent quotes are available. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2012 and 2011 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Exchange Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options, and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. The primary reason for the transfers during 2012 and 2011 was the change in the significance of the credit valuation adjustment. Cross-currency swaps classified as Level 3 are valued by PPL's Corporate Finance department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

(PPL and PPL Energy Supply)

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets and are comprised of securities that are representative of the Wilshire 5000 Total Market Index.
- Investments in commingled equity funds are classified as Level 2 and represent securities that track the S&P 500 Index, Dow Jones U.S. Total Stock Market Index and the Dow Jones U.S. Completion Total Stock Market Index. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data.

The debt securities held by the NDT funds at December 31, 2012 have a weighted-average coupon of 4.11% and a weighted-average maturity of 8.26 years.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The exposure to realize losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3. The primary reason for the transfer out of Level 3 in 2012 was the change in the significance of the present value of future interest payments as maturity dates approach.

Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

Nonrecurring Fair Value Measurements (PPL, PPL Energy Supply, LKE and KU)

The following nonrecurring fair value measurements occurred during the reporting periods, resulting in asset impairments.

	Carrying Amount (a)	Fair Value Measurements Using		Loss (b)
		Level 2	Level 3	
PPL, LKE and KU				
Equity investment in EEI:				
December 31, 2012	\$ 25			\$ 25
PPL and PPL Energy Supply				
Sulfur dioxide emission allowances (c):				
December 31, 2010	2		\$ 1	1
September 30, 2010	6		2	4
June 30, 2010	11		3	8
March 31, 2010	13		10	3
RECs (c):				
September 30, 2011	1			1
June 30, 2011	2	\$ 1		1
March 31, 2011	3			3
Certain non-core generation facilities:				
September 30, 2010	473	381		96

(a) Represents carrying value before fair value measurement.

(b) The loss on the EEI investment was recorded in the Kentucky Regulated segment and included in "Other-Than-Temporary Impairments" on the Statement of Income. Losses on sulfur dioxide emission allowances and RECs were recorded in the Supply segment and included in "Other operation and maintenance" on the Statements of Income. Losses on certain non-core generation facilities were recorded in the Supply segment and included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income.

(c) Current and long-term sulfur dioxide emission allowances and RECs are included in "Other current assets" and "Other intangibles" in their respective areas on the Balance Sheets.

The significant unobservable inputs used in the nonrecurring fair value measurement of assets and liabilities classified as Level 3 at December 31, 2012 are as follows:

	Quantitative Information about Level 3 Fair Value Measurements			Range (Weighted Average)
	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	
PPL, LKE, and KU				
Equity investment in EEI	\$	Discounted cash flow	Long-term forward price curves and capital expenditure projections	100% (100%)

Equity Investment in EEI (PPL, LKE and KU)

During the fourth quarter 2012, KU recorded an other-than-temporary decline in the value of its equity investment in EEI. KU performed an internal analysis using an income approach based on discounted cash flows to assess the current fair value of its investment based on several factors. KU considered the following factors: long-dated forward power and fuel price curves, the cost of compliance with environmental standards, and the majority owner and operator's announcement in the fourth quarter 2012 to exit from the merchant generation business. Assumptions used in the fair value assessment were forward energy price curves, expectations for capacity (demand) for energy in EEI's market, and expected capital expenditures used in the calculation that were comparable to assumptions used by KU for internal budgeting and forecasting purposes. Through this analysis, KU determined the fair value to be zero.

(PPL and PPL Energy Supply)

Sulfur Dioxide Emission Allowances

Due to declines in market prices, PPL Energy Supply assessed the recoverability of sulfur dioxide emission allowances not expected to be consumed. When available, observable market prices were used to value the sulfur dioxide emission allowances. When observable market prices were not available, fair value was modeled using prices from observable transactions and appropriate discount rates. The modeled values were significant to the overall fair value measurement, resulting in the Level 3 classification.

RECs

Due to declines in forecasted full-requirement obligations in certain markets as well as declines in market prices, PPL Energy Supply assessed the recoverability of certain RECs not expected to be used. Observable market prices (Level 2) were used to value the RECs.

Certain Non-Core Generation Facilities

Certain non-core generation facilities met the held for sale criteria at September 30, 2010. As a result, net assets held for sale were written down to their estimated fair value less cost to sell. The fair value in the table above excludes \$4 million of estimated costs to sell and was based on the negotiated sales price (achieved through an active auction process). See Note 9 for additional information on the completed sale.

Financial Instruments Not Recorded at Fair Value *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The carrying amounts of contract adjustment payments related to the Purchase Contract component of the Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>PPL</u>				
Contract adjustment payments (a)	\$ 105	\$ 106	\$ 198	\$ 198
Long-term debt	19,476	21,671	17,993	19,392
<u>PPL Energy Supply</u>				
Long-term debt	3,272	3,556	3,024	3,397
<u>PPL Electric</u>				
Long-term debt	1,967	2,333	1,718	2,012
<u>LKE</u>				
Long-term debt	4,075	4,423	4,073	4,306
<u>LG&E</u>				
Long-term debt	1,112	1,178	1,112	1,164
<u>KU</u>				
Long-term debt	1,842	2,056	1,842	2,000

(a) Included in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, represents or approximates fair value due to the variable interest rates associated with the financial instruments and is classified as Level 2. The carrying value of held-to-maturity, short-term investments at December 31, 2011 approximated fair value due to the liquid nature and short-term duration of these instruments.

Credit Concentration Associated with Financial Instruments

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Contracts are entered into with many entities for the purchase and sale of energy. Many of these contracts qualify for NPNS and, as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 19 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

(PPL)

At December 31, 2012, PPL had credit exposure of \$1.8 billion from energy trading partners, excluding the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, PPL's credit exposure was reduced to \$688 million. The top ten counterparties accounted for \$367 million, or 53%, of the net exposure and all had investment grade credit ratings from S&P or Moody's.

(PPL Energy Supply)

At December 31, 2012, PPL Energy Supply had credit exposure of \$1.8 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, this credit exposure was reduced to \$688 million. The top ten counterparties accounted for \$367 million, or 53%, of the net exposure and all had investment grade credit ratings from S&P or Moody's. See Note 16 for information regarding the related party credit exposure.

(PPL Electric)

At December 31, 2012, PPL Electric had no credit exposure under energy supply contracts (including its supply contracts with PPL EnergyPlus).

(LKE, LG&E and KU)

At December 31, 2012, LKE's, LG&E's and KU's credit exposure was not significant.

19. Derivative Instruments and Hedging Activities

Risk Management Objectives

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL has a risk management policy approved by the Board of Directors to manage market risk (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value and other risk management metrics.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions, such as tolling agreements, are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

The table below summarizes the market risks that affect PPL and its subsidiaries.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Commodity price risk (including basis and volumetric risk)	X	X	M	M	M	M
Interest rate risk:						
Debt issuances	X	X	M	M	M	M
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Equity securities price risk:						
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Future stock transactions	X					
Foreign currency risk - WPD investment	X					

X = PPL and PPL Energy Supply actively mitigate market risks through their risk management programs described above.

M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

Commodity price and volumetric risks

- PPL Energy Supply is exposed to commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities (including full-requirement sales contracts) and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities;
- PPL Electric is exposed to commodity price and volumetric risks from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to market risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers; and
- LG&E's and KU's rates include certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. WPD holds over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from foreign currency exchange rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt and LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with equity securities held by defined benefit plans. Additionally, PPL Energy Supply is exposed to equity securities price risk in the NDT funds.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in U.K. affiliates.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance, including defaults on payments and energy commodity deliveries.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL Energy Supply is exposed to credit risk from "in-the-money" commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers and financial institutions.

LKE, LG&E and KU are exposed to credit risk from "in-the-money" interest rate derivatives with financial institutions.

The majority of credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates, thus mitigating the risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade or their exposures exceed an established credit limit. See Note 18 for credit concentration associated with energy trading partners.

Master Netting Arrangements

Net derivative positions are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was \$112 million and \$147 million at December 31, 2012 and December 31, 2011.

PPL Electric, LKE, and LG&E had no obligation to return cash collateral under master netting arrangements at December 31, 2012 and December 31, 2011.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of \$32 million at December 31, 2012 and \$29 million at December 31, 2011.

PPL Energy Supply and PPL Electric had not posted any cash collateral under master netting arrangements at December 31, 2012 and December 31, 2011.

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

Commodity price risk, including basis and volumetric risk, is among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its wholesale and retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 7,275 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,316 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-

requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts qualify for NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their non-trading activities into two categories: cash flow hedges and economic activity. In addition, the monetization of certain full-requirement sales contracts in 2010 impacted both the cash flow hedge and economic activity, as discussed below.

Monetization of Certain Full-Requirement Sales Contracts

In July 2010, in order to raise additional cash for the LKE acquisition, PPL Energy Supply monetized certain full-requirement sales contracts that resulted in cash proceeds of \$249 million and triggered certain accounting:

- A portion of these sales contracts had previously been accounted for as NPNS and received accrual accounting treatment. PPL Energy Supply could no longer assert that it was probable that any contracts with these counterparties would result in physical delivery. Therefore, the fair value of the NPNS contracts of \$160 million was recorded on the Balance Sheet in "Price risk management assets," with a corresponding gain of \$144 million recorded to "Wholesale energy marketing - Realized" on the Statement of Income, and \$16 million recorded to "Wholesale energy marketing - Unrealized economic activity," related to full-requirement sales contracts that had not been monetized.
- The related purchases to supply these sales contracts were accounted for as cash flow hedges, with the effective portion of the change in fair value being recorded in AOCI and the ineffective portion recorded in "Energy purchases - Unrealized economic activity." The corresponding cash flow hedges were de-designated and all amounts previously recorded in AOCI were reclassified to earnings. This resulted in a pre-tax reclassification of \$(173) million of losses from AOCI into "Energy purchases - Unrealized economic activity" on the Statement of Income. An additional charge of \$(39) million was also recorded in "Wholesale energy marketing - Unrealized economic activity" on the Statement of Income to reflect the fair value of the sales contracts previously accounted for as economic activity.
- The net result of these transactions, excluding the full-requirement sales contracts that have not been monetized, was a loss of \$(68) million, or \$(40) million, after tax.

The proceeds of \$249 million from these monetizations are reflected in the Statement of Cash Flows as a component of "Net cash provided by operating activities."

Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. The cash flow hedges that existed at December 31, 2012 range in maturity through 2016. At December 31, 2012, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$124 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For 2012 and 2011 such reclassifications were insignificant. For 2010, such reclassifications were after-tax gains (losses) of \$(89) million. The amounts recorded in 2010 were primarily due to the monetization of certain full-requirement sales contracts, for which the associated hedges are no longer required, as discussed above.

Hedge ineffectiveness associated with energy derivatives was insignificant in 2012. For 2011 and 2010, after-tax gains (losses) from hedge ineffectiveness were \$(22) million and \$(30) million.

Prior to the adoption of new accounting guidance, in 2010, after-tax gains of \$82 million, which had been recognized in a previous period due to ineffectiveness on cash flow hedges, were reversed from earnings based on prospective regression analysis demonstrating that these hedges were expected to be highly effective over their term.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or for which hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at December 31, 2012 range in maturity through 2019.

Examples of economic activity include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying unregulated full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally limited to the cost of the generating unit and does not expose PPL Energy Supply to uncovered market price risk.

Unrealized activity associated with monetizing certain full-requirement sales contracts was also included in economic activity during 2012, 2011 and 2010.

The net fair value of economic positions at December 31, 2012 and December 31, 2011 was a net asset (liability) of \$346 million and \$(63) million for PPL and PPL Energy Supply. The unrealized gains (losses) for economic activity were as follows.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Unregulated retail electric and gas	\$ (17)	\$ 31	\$ 1
Wholesale energy marketing	(311)	1,407	(805)
Operating Expenses			
Fuel	(14)	6	29
Energy purchases	442	(1,123)	286

The net gains (losses) recorded in "Wholesale energy marketing" resulted primarily from hedges of baseload generation, from certain full-requirement sales contracts, from hedge ineffectiveness, as discussed in "Cash Flow Hedges" above, and from the monetization of certain full-requirement sales contracts in 2010, also discussed above. The net gains (losses) recorded in "Energy purchases" resulted primarily from certain purchase contracts to supply the full-requirement sales contracts noted above, from hedge ineffectiveness, and from purchase contracts that no longer hedge the full-requirement sales contracts that were monetized in 2010.

(PPL and PPL Energy Supply)

Commodity Price Risk (Trading)

PPL Energy Supply also has a proprietary trading strategy which is utilized to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. The proprietary trading portfolio is not a significant part of PPL Energy Supply's business and is shown in "Net energy trading margins" on the Statements of Income.

Commodity Volumetric Activity

As of December 31, 2012, the net notional volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

<u>Commodity</u>	<u>Unit of Measure</u>	<u>Volume</u>			
		<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Thereafter</u>
Power	MWh	(38,791,951)	(16,720,361)	1,636,197	3,871,199
Capacity	MW-Month	(8,248,465)	(135,110)	(37,208)	525
Gas	MMBtu	18,419,599	(21,663,269)	(10,386,745)	(5,027,288)
Coal	Tons	(240,000)			
FTRs	MW-Month	28,690	6,389	1,465	
Oil	Barrels	(4,022,000)	240,000	300,000	180,000

Interest Rate Risk

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the subsidiaries' debt portfolio due to changes in benchmark interest rates.

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. Outstanding interest rate swap contracts ranged in maturity through 2024 for WPD and through 2043 for PPL's domestic interest rate swaps. These swaps had an aggregate notional value of \$1.2 billion at December 31, 2012, of which £290 million (approximately \$465 million based on spot rates) was related to WPD. Included in this total are forward-starting interest rate swaps entered into by PPL on behalf of LG&E and KU. LG&E and KU believe that realized gains and losses from the swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives have been reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt when the hedged transaction occurs.

PPL holds a notional position in cross-currency interest rate swaps totaling \$1.3 billion that mature through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For 2012, hedge ineffectiveness associated with interest rate derivatives was insignificant. For 2011, hedge ineffectiveness associated with these derivatives resulted in a net after-tax gain (loss) of \$(9) million, which included a gain (loss) of \$(4) million attributable to certain interest rate swaps that failed hedge effectiveness testing during the second quarter of 2011. For 2010, hedge ineffectiveness associated with these derivatives resulted in a net after-tax gain (loss) of \$(9) million.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL had no such reclassifications for 2012 and 2011. As a result of the expected net proceeds from the anticipated sale of certain non-core generation facilities, coupled with the monetization of certain full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply in 2010 was no longer needed. As a result, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued. PPL reclassified into earnings a net after-tax gain (loss) of \$(19) million in 2010.

At December 31, 2012, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were \$(13) million. Amounts are reclassified as the hedged interest payments are made.

(LKE, LG&E and KU)

In November 2012, LG&E and KU entered into forward-starting interest rate swaps with PPL that hedge the interest payments on new debt that is expected to be issued in 2013. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. LG&E and KU believe that realized gains and losses from the swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives have been reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt when the hedged transaction occurs. At December 31, 2012, LG&E and KU each held contracts with aggregate notional amounts of \$150 million that range in maturity through 2043.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to interest rate risk associated with investments in U.K. affiliates. For 2010, hedge ineffectiveness associated with these derivatives was insignificant for

interest rate cross-currency swaps contracts. For 2010, PPL Energy Supply had no reclassifications for cash flows hedges that were discontinued when it was no longer probable that the original forecasted transaction would occur by the end of the originally specified period.

Fair Value Hedges

(PPL)

PPL is exposed to changes in the fair value of its debt portfolio. To manage this risk, financial contracts may be entered into to hedge fluctuations in the fair value of existing debt issuances due to changes in benchmark interest rates. In July 2012, contracts held by PPL that ranged in maturity through 2047 and had a notional value of \$99 million were canceled without penalties by the counterparties. PPL did not hold any such contracts at December 31, 2012. PPL did not recognize gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness or from hedges of debt issuances that no longer qualified as fair value hedges for 2012, 2011 and 2010.

In 2011, PPL Electric redeemed \$400 million of 7.125% Senior Secured Bonds due 2013. As a result of this redemption, PPL recorded a gain (loss) of \$22 million, or \$14 million after tax, for 2011 in "Other Income (Expense) - net" on the Statement of Income as a result of accelerated amortization of the fair value adjustments to the debt in connection with previously settled fair value hedges.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to interest rate risk associated with investments in U.K. affiliates. PPL Energy Supply did not recognize gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness or resulting from hedges of debt issuances that no longer qualified as fair value hedges for 2010.

Economic Activity *(PPL, LKE and LG&E)*

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the hedged transaction occurs. At December 31, 2012, LG&E held contracts with aggregate notional amounts of \$179 million that range in maturity through 2033. The fair value of these contracts were recorded as liabilities of \$58 million and \$60 million at December 31, 2012 and 2011, with equal offsetting amounts recorded as regulatory assets.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at December 31, 2012 had an aggregate notional amount of £162 million (approximately \$261 million based on contracted rates). The settlement dates of these contracts range from May 2013 through December 2013. At December 31, 2012 and 2011, the fair value of these positions was a net asset (liability) of \$(2) million and \$7 million.

Additionally, in 2012, a PPL Global subsidiary that has a U.S. dollar functional currency entered into a GBP intercompany loan payable with a PPL WEM subsidiary that has a GBP functional currency. The loan qualifies as a net investment hedge for the PPL Global subsidiary. As such, the foreign currency gains and losses on the intercompany loan for the PPL Global subsidiary are recorded to the foreign currency translation adjustment component of AOCI. At December 31, 2012, the intercompany loan outstanding was £47 million (approximately \$76 million based on spot rates).

For 2012, PPL recognized after-tax net investment hedge gains (losses) of \$(5) million in the foreign currency translation adjustment component of AOCI. For 2011 and 2010, PPL recognized after-tax net investment hedge gains (losses) of \$4 million in the foreign currency translation adjustment component of AOCI. At December 31, 2012 and 2011, PPL had \$14 million and \$19 million of accumulated net investment hedge after-tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to foreign currency exchange risk associated with investments in U.K. affiliates. For 2010, PPL Energy Supply recognized insignificant amounts in the foreign currency translation adjustment component of AOCI.

Cash Flow Hedges

(PPL)

PPL may enter into foreign currency derivatives associated with foreign currency-denominated debt and the exchange rate associated with firm commitments (including those for the purchase of equipment) denominated in foreign currencies; however, at December 31, 2012, there were no existing contracts of this nature. Amounts previously settled and recorded in AOCI are reclassified as the hedged interest payments are made and as the related equipment is depreciated. Insignificant amounts are expected to be reclassified into earnings during the next 12 months.

During 2012, 2011 and 2010, no cash flow hedges were discontinued because it was probable that the original forecasted transaction would not occur by the end of the originally specified time periods.

Fair Value Hedges

PPL enters into foreign currency forward contracts to hedge the exchange rate risk associated with firm commitments denominated in foreign currencies; however, at December 31, 2012, there were no existing contracts of this nature and no gains or losses recorded for 2012, 2011 and 2010 related to hedge ineffectiveness, or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness, or from hedges of firm commitments that no longer qualified as fair value hedges.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At December 31, 2012, the total exposure hedged by PPL was approximately £1.3 billion (approximately \$2.0 billion based on contracted rates) and the net fair value of these positions was an asset (liability) of \$(42) million. These contracts had termination dates ranging from January 2013 through February 2015. Realized and unrealized gains (losses) on these contracts are included in "Other Income (Expense) - net" on the Statements of Income and were \$(52) million for 2012. At December 31, 2011, the total exposure hedged by PPL was £288 million and the net fair value of these positions was an asset (liability) of \$11 million. Realized and unrealized gains (losses) were \$10 million for 2011 and insignificant for 2010.

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. When these trades were settled in April 2011, PPL recorded \$55 million of pre-tax, net gains (losses) in "Other Income (Expense) - net" on the Statements of Income.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to earnings denominated in British pounds sterling. PPL Energy Supply recorded gains (losses) on these contracts, both realized and unrealized, in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. For 2010, PPL Energy Supply recorded insignificant gains (losses).

Accounting and Reporting

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless they qualify for NPNS. NPNS contracts for PPL and PPL Energy Supply include full-requirement sales contracts, other physical purchases and sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized currently in earnings unless specific hedge accounting criteria are met, except for the changes in fair value of LG&E's and KU's interest rate swaps, which beginning in the third quarter of 2010, are recognized as regulatory assets or liabilities. See Note 6 for amounts recorded in regulatory assets at December 31, 2012 and 2011.

See Note 1 for additional information on accounting policies related to derivative instruments.

(PPL)

The following tables present the fair value and location of derivative instruments recorded on the Balance Sheets.

	December 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps	\$ 14	\$ 22	\$ 5	\$ 3	\$ 3	\$ 3	\$ 5	
Cross-currency swaps		3				2		
Foreign currency contracts		2		23	7		11	
Commodity contracts	59		1,452	1,010	872	3	1,655	1,557
Total current	73	27	1,452	1,038	882	8	1,666	1,562
Noncurrent:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps	1			53				55
Cross-currency swaps	14	1			24			
Foreign currency contracts				19				
Commodity contracts	27		530	556	42	2	854	783
Total noncurrent	42	1	530	628	66	2	854	838
Total derivatives	\$ 115	\$ 28	\$ 1,982	\$ 1,666	\$ 948	\$ 10	\$ 2,520	\$ 2,400

(a) \$300 million and \$237 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at December 31, 2012 and 2011.

(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$132 million, \$527 million and \$695 million at December 31, 2012, 2011 and 2010.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Related Item
2012				
Interest rate swaps	Fixed rate debt	Interest Expense	\$	3
2011				
Interest rate swaps	Fixed rate debt	Interest Expense	\$	25
		Other Income	2	
		(Expense) - net		22
2010				
Interest rate swaps	Fixed rate debt	Interest Expense	\$	(6)

<u>Derivative Relationships</u>	<u>Derivative Gain (Loss) Recognized in OCI (Effective Portion)</u>	<u>Location of Gain (Loss) Recognized in Income</u>	<u>Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</u>	<u>Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)</u>
2012				
Cash Flow Hedges:				
Interest rate swaps	\$ (28)	Interest Expense	\$ (18)	
		Other Income (Expense) - net	1	
Cross-currency swaps	(15)	Interest Expense	(2)	
		Other Income (Expense) - net	(23)	
Commodity contracts	114	Wholesale energy marketing	891	\$ (1)
		Depreciation	2	
		Energy purchases	(139)	(2)
Total	<u>\$ 71</u>		<u>\$ 712</u>	<u>\$ (3)</u>
Net Investment Hedges:				
Foreign currency contracts	\$ (7)			

2011				
Cash Flow Hedges:				
Interest rate swaps	\$ (55)	Interest Expense	\$ (13)	\$ (13)
Cross-currency swaps	(35)	Interest Expense	5	
		Other Income (Expense) - net	29	
Commodity contracts	431	Wholesale energy marketing	835	(39)
		Fuel	1	
		Depreciation	2	
		Energy purchases	(243)	1
Total	<u>\$ 341</u>		<u>\$ 616</u>	<u>\$ (51)</u>
Net Investment Hedges:				
Foreign currency contracts	\$ 6			

2010				
Cash Flow Hedges:				
Interest rate swaps	\$ (145)	Interest Expense	\$ (4)	\$ (17)
		Other Income (Expense) - net	(30)	
Cross-currency swaps	25	Interest Expense	2	
		Other Income (Expense) - net	16	
Commodity contracts	487	Wholesale energy marketing	680	(201)
		Fuel	2	
		Depreciation	2	
		Energy purchases	(458)	3
Total	<u>\$ 367</u>		<u>\$ 210</u>	<u>\$ (215)</u>
Net Investment Hedges:				
Foreign currency contracts	\$ 5			

<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Location of Gain (Loss) Recognized in Income on Derivatives</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Foreign currency contracts	Other Income (Expense) - net	\$ (52)	\$ 65	\$ 3
Interest rate swaps	Interest Expense	(8)	(8)	
Commodity contracts	Utility		(1)	(2)
	Unregulated retail electric and gas	30	39	11
	Wholesale energy marketing	1,191	1,606	(70)
	Net energy trading margins (a)	8	(6)	1
	Fuel		(1)	12
	Energy purchases	(965)	(1,493)	(405)
Total		<u>\$ 204</u>	<u>\$ 201</u>	<u>\$ (450)</u>

<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets</u>	<u>2012</u>	<u>2011</u>
Interest rate swaps	Regulatory assets - noncurrent	\$ 1	\$ (26)

<u>Derivatives Designated as Cash Flow Hedges</u>	<u>Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets</u>	<u>2012</u>	<u>2011</u>
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 14	

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

(PPL Energy Supply)

The following tables present the fair value and location of derivative instruments recorded on the Balance Sheets.

	December 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (b):								
Commodity contracts	\$ 59		\$ 1,452	\$ 1,010	\$ 872	\$ 3	\$ 1,655	\$ 1,557
Total current	59		1,452	1,010	872	3	1,655	1,557
Noncurrent:								
Price Risk Management								
Assets/Liabilities (b):								
Commodity contracts	27		530	556	42	2	854	783
Total noncurrent	27		530	556	42	2	854	783
Total derivatives	\$ 86		\$ 1,982	\$ 1,566	\$ 914	\$ 5	\$ 2,509	\$ 2,340

(a) \$300 million and \$237 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at December 31, 2012 and 2011.

(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$210 million, \$605 million and \$733 million at December 31, 2012, 2011 and 2010. The December 31, 2011 AOCI balance reflects the effect of PPL Energy Supply's distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 for additional information.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI. There were no gains (losses) on interest rate swaps for 2012.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Related Item
2011				
Interest rate swaps	Fixed rate debt	Interest Expense	\$	2

2010				
Interest rate swaps	Fixed rate debt	Interest Expense	\$	2

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2012				
Cash Flow Hedges:				
Commodity contracts	\$ 114	Wholesale energy marketing	\$ 891	\$ (1)
		Depreciation	2	
		Energy purchases	(139)	(2)
Total	\$ 114		\$ 754	\$ (3)

2011				
Cash Flow Hedges:				
Commodity contracts	\$ 431	Wholesale energy marketing	\$ 835	\$ (39)
		Fuel	1	
		Depreciation	2	
		Energy purchases	(243)	1
Total	\$ 431		\$ 595	\$ (38)

2010				
Cash Flow Hedges:				
Interest rate swaps		Discontinued Operations (net of income taxes)	\$	(3)
Cross-currency swaps	\$ 25	Discontinued Operations (net of income taxes)	\$ 18	
Commodity contracts	487	Wholesale energy marketing	680	(201)
		Fuel	2	
		Depreciation	2	
		Energy purchases	(458)	3
Total	\$ 512		\$ 244	\$ (201)
Net Investment Hedges:				
Foreign currency contracts	\$ 5			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	2012			2011			2010		
Foreign currency contracts	Discontinued Operations (net of income taxes)									\$ 3
Commodity contracts	Unregulated retail electric and gas	\$	30	\$	39					11
	Wholesale energy marketing		1,191		1,606					(70)
	Net energy trading margins (a)		8		(6)					1
	Fuel				(1)					12
	Energy purchases		(965)		(1,493)					(405)
	Total	\$	264	\$	145	\$		\$		(448)

(a) Differs from the Statement of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

(LKE)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets:

	December 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Other Current								
Assets/Liabilities (a):								
Interest rate swaps	\$ 14		\$ 5					\$ 5
Total current	14		5					5
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps				53				55
Total noncurrent				53				55
Total derivatives	\$ 14		\$ 58					\$ 60

(a) Represents the location on the Balance Sheet.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets and regulatory liabilities for the periods ended December 31, 2012, 2011 and 2010, for the Successor and Predecessor.

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Successor			Predecessor
		December 31, 2012	December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Interest rate swaps	Interest Expense	\$ (8)	\$ (8)	\$ (1)	\$ (7)
Commodity contracts	Operating Revenues		(1)	(2)	3
	Total	\$ (8)	\$ (9)	\$ (3)	\$ (4)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	December 31, 2012		December 31, 2011	
Interest rate swaps	Regulatory assets - noncurrent	\$	1	\$	(26)

Derivatives Designated as Cash Flow Hedges	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	December 31, 2012		December 31, 2011	
Interest rate swaps	Regulatory liabilities - noncurrent	\$	14		

(LG&E)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets:

	December 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Other Current								
Assets/Liabilities (a):								
Interest rate swaps	\$ 7			\$ 5				\$ 5
Total current	7			5				5
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps				53				55
Total noncurrent				53				55
Total derivatives	\$ 7			\$ 58				\$ 60

(a) Represents the location on the balance sheet.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets and regulatory liabilities for the periods ended December 31, 2012, 2011 and 2010, for the Successor and Predecessor.

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Successor			Predecessor
		Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Interest rate swaps	Interest Expense	\$ (8)	\$ (8)	\$ (1)	\$ (7)
Commodity contracts	Operating Revenues		(1)	(2)	3
	Total	\$ (8)	\$ (9)	\$ (3)	\$ (4)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	December 31, 2012	December 31, 2011
		Interest rate swaps	Regulatory assets - noncurrent

Derivatives Designated as Cash Flow Hedges	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	December 31, 2012	December 31, 2011
		Interest rate swaps	Regulatory liabilities - noncurrent

(KU)

At December 31, 2012, KU had interest rate swaps, which were designated as hedging instruments, of \$7 million recorded in "Other current assets" on the Balance Sheet. KU recognized a \$7 million, pre-tax gain on the derivative instruments in "Noncurrent regulatory liabilities" at December 31, 2012.

Credit Risk-Related Contingent Features (PPL, PPL Energy Supply, LKE, LG&E and KU)

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E, KU or certain of their subsidiaries. Most of these provisions would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these provisions also would allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P and Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent provisions require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent provisions that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among

the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" provisions.

At December 31, 2012, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit risk-related contingent features and were in a net liability position is summarized as follows:

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent provisions	\$ 219	\$ 142	\$ 39	\$ 39
Aggregate fair value of collateral posted on these derivative instruments	39	7	32	32
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	202	155	9	9

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

20. Goodwill and Other Intangible Assets

Goodwill

(PPL and PPL Energy Supply)

The changes in the carrying amount of goodwill by segment were:

	<u>Kentucky Regulated</u>		<u>U.K. Regulated</u>		<u>Supply</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
PPL								
Balance at beginning of period (a)	\$ 662	\$ 662	\$ 3,032	\$ 679	\$ 420	\$ 420	\$ 4,114	\$ 1,761
Goodwill recognized during the period (b)			(14)	2,391			(14)	2,391
Effect of foreign currency exchange rates			58	(38)			58	(38)
Balance at end of period (a)	<u>\$ 662</u>	<u>\$ 662</u>	<u>\$ 3,076</u>	<u>\$ 3,032</u>	<u>\$ 420</u>	<u>\$ 420</u>	<u>\$ 4,158</u>	<u>\$ 4,114</u>
PPL Energy Supply								
Balance at beginning of period (a)			\$ 679		\$ 86	\$ 86	\$ 86	\$ 765
Derecognition (c)				(679)				(679)
Balance at end of period (a)			<u>\$</u>		<u>\$ 86</u>	<u>\$ 86</u>	<u>\$ 86</u>	<u>\$ 86</u>

(a) There were no accumulated impairment losses related to goodwill.

(b) Represents goodwill recognized as a result of the acquisition of WPD Midlands. See Note 10 for additional information.

(c) Represents the amount of goodwill derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 9 for additional information on the distribution. Subsequent to the distribution, PPL Energy Supply operates in a single reportable segment and reporting unit.

Other Intangibles

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Subject to amortization:				
Contracts (a) (b) (c)	\$ 408	\$ 150	\$ 611	\$ 155
Land and transmission rights	284	113	263	110
Emission allowances/RECs (d) (e) (f)	17		20	
Licenses and other (g)	287	39	265	35
Total subject to amortization	<u>996</u>	<u>302</u>	<u>1,159</u>	<u>300</u>
Not subject to amortization due to indefinite life:				
Land and transmission rights	18		16	
Easements (h)	220		199	
Total not subject to amortization due to indefinite life	<u>238</u>		<u>215</u>	
Total	<u>\$ 1,234</u>	<u>\$ 302</u>	<u>\$ 1,374</u>	<u>\$ 300</u>

- (a) In 2012, intangible assets related to a tolling agreement were eliminated in consolidation as a result of the Ironwood Acquisition. See Note 10 for additional information.
- (b) Gross carrying amount for 2011 includes \$10 million, which represents the fair value of customer contracts with terms favorable to market recognized as a result of the 2011 acquisition of WPD Midlands. The weighted-average amortization period of these contracts was ten years at the acquisition date. See Note 10 for additional information.
- (c) The gross carrying amount includes \$269 million of coal contracts related to LKE, which represents the fair value of contracts with terms that are favorable to market recognized as a result of the 2010 acquisition of LKE by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (d) PPL Energy Supply emission allowances/RECs are expensed when consumed or sold. Consumption expense was \$12 million, \$16 million, and \$45 million in 2012, 2011 and 2010. Consumption expense is expected to be insignificant in future periods.
- (e) Includes emission allowances of LKE. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. The carrying amounts of these emission allowances were insignificant at December 31, 2012 and 2011. Consumption related to these emission allowances was insignificant in 2012 and \$11 million in 2011.
- (f) During 2011, PPL recorded \$7 million of impairment charges. See Note 18 for additional information.
- (g) "Other" includes costs for the development of licenses, the most significant of which is the COLA. Amortization of these costs begins when the related asset is placed in service. See Note 8 for additional information on the COLA.
- (h) Gross carrying amount for 2011 includes \$88 million, which represents the fair value of easements recognized as a result of the 2011 acquisition of WPD Midlands. See Note 10 for additional information.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" in their respective areas on the Balance Sheets.

Amortization expense, excluding consumption of emission allowances/RECs, was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Intangible assets with no regulatory offset	\$ 14	\$ 25	\$ 24
Intangible assets with regulatory offset	47	87	11
Total	<u>\$ 61</u>	<u>\$ 112</u>	<u>\$ 35</u>

Amortization expense for each of the next five years, excluding consumption of emission allowances/RECs, is estimated to be:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Intangible assets with no regulatory offset	\$ 10	\$ 10	\$ 10	\$ 8	\$ 8
Intangible assets with a regulatory offset	52	46	51	27	9
Total	<u>\$ 62</u>	<u>\$ 56</u>	<u>\$ 61</u>	<u>\$ 35</u>	<u>\$ 17</u>

(PPL Energy Supply)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Subject to amortization:				
Contracts (a)			\$ 203	\$ 53
Land and transmission rights	\$ 17	\$ 13	17	13
Emission allowances/RECs (b) (c)	13		15	
Licenses and other (d)	277	35	255	30
Total subject to amortization	<u>\$ 307</u>	<u>\$ 48</u>	<u>\$ 490</u>	<u>\$ 96</u>

- (a) In 2012, intangible assets related to a tolling agreement were eliminated in consolidation as a result of the Ironwood acquisition. See Note 10 for additional information.
- (b) These emission allowances/RECs are expensed when consumed or sold. Consumption expense was \$12 million, \$16 million, and \$46 million in 2012, 2011, and 2010. Consumption expense is expected to be insignificant in future periods.
- (c) During 2011, PPL Energy Supply recorded \$7 million of impairment charges. See Note 18 for additional information.
- (d) "Other" includes costs for the development of licenses, the most significant of which is the COLA. Amortization of these costs begins when the related asset is placed in service. See Note 8 for additional information on the COLA.

Current intangible assets are included in "Other current assets" and long-term intangible assets are presented as "Other intangibles" in their respective areas on the Balance Sheets.

Amortization expense, excluding consumption of emission allowances/RECs, was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Amortization expense	\$ 9	\$ 20	\$ 20

Amortization expense for each of the next five years, excluding consumption of emission allowances/RECs, is estimated to be:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Estimated amortization expense	\$ 5	\$ 5	\$ 5	\$ 3	\$ 3

(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Subject to amortization:				
Land and transmission rights	\$ 249	\$ 99	\$ 232	\$ 96
Licenses and other	4	1	4	1
Total subject to amortization	<u>253</u>	<u>100</u>	<u>236</u>	<u>97</u>
Not subject to amortization due to indefinite life:				
Land and transmission rights	18		16	
Total	<u>\$ 271</u>	<u>\$ 100</u>	<u>\$ 252</u>	<u>\$ 97</u>

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2012, 2011 and 2010, and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Subject to amortization:				
Coal contracts (a)	\$ 269	\$ 128	\$ 269	\$ 89
Land and transmission rights (b)	18	1	14	1
Emission allowances (c)	4		5	
OVEC power purchase agreement (d)	126	17	126	9
Total subject to amortization	<u>\$ 417</u>	<u>\$ 146</u>	<u>\$ 414</u>	<u>\$ 99</u>

- (a) Gross carrying amount represents the fair value of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Gross carrying amount includes \$14 million, which represents the fair value of land and transmission rights recognized as an intangible asset as a result of adopting PPL's accounting policies in the Successor period. Amortization expense is recovered through base rates and is expected to be insignificant for future periods.
- (c) Represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was insignificant in 2012 and \$11 million in 2011.
- (d) Gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense for the Successor, excluding consumption of emission allowances, was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Intangible assets with no regulatory offset		\$ 1	
Intangible assets with regulatory offset	\$ 47	87	\$ 11
Total	<u>\$ 47</u>	<u>\$ 88</u>	<u>\$ 11</u>

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Intangibles with regulatory offset	\$ 52	\$ 46	\$ 51	\$ 27	\$ 9

(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Subject to amortization:				
Coal contracts (a)	\$ 124	\$ 62	\$ 124	\$ 46
Land and transmission rights (b)	8	1	6	1
Emission allowances (c)	1		2	
OVEC power purchase agreement (d)	87	13	87	6
Total subject to amortization	<u>\$ 220</u>	<u>\$ 76</u>	<u>\$ 219</u>	<u>\$ 53</u>

- (a) Gross carrying amount represents the fair value of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Gross carrying amount includes \$6 million, which represents the fair value of land and transmission rights recognized as an intangible asset as a result of adopting PPL's accounting policies in the Successor period. Amortization expense is recovered through base rates and is expected to be insignificant for future periods.
- (c) Represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was insignificant in 2012 and \$5 million in 2011.
- (d) Gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense for the Successor, excluding consumption of emission allowances, was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Intangible assets with no regulatory offset		\$ 1	
Intangible assets with regulatory offset	\$ 23	45	\$ 7
Total	<u>\$ 23</u>	<u>\$ 46</u>	<u>\$ 7</u>

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Intangibles with regulatory offset	\$ 25	\$ 23	\$ 24	\$ 14	\$ 6

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	\$ 145	\$ 66	\$ 145	\$ 43
Land and transmission rights (b)	10		8	
Emission allowances (c)	3		3	
OVEC power purchase agreement (d)	39	4	39	3
Total subject to amortization	\$ 197	\$ 70	\$ 195	\$ 46

- (a) Gross carrying amount represents the fair value of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Gross carrying amount includes \$8 million, which represents the fair value of land and transmission rights recognized as an intangible asset as a result of adopting PPL's accounting policies in the Successor period. Amortization expense is recovered through base rates and is expected to be insignificant for future periods.
- (c) Represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was \$6 million for 2011. KU had no consumption related to these emission allowances in 2012.
- (d) Gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense for the Successor, excluding consumption of emission allowances, was as follows:

	2012	2011	2010
Intangible assets with regulatory offset	\$ 24	\$ 42	\$ 4

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	2013	2014	2015	2016	2017
Intangibles with regulatory offset	\$ 27	\$ 23	\$ 27	\$ 13	\$ 3

21. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Energy Supply)

PPL Energy Supply has recorded liabilities in the financial statements to reflect various legal obligations associated with the retirement of long-lived assets, the most significant of which relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was \$316 million and \$292 million at December 31, 2012 and 2011. The fair value of investments that are legally restricted for the decommissioning of the Susquehanna nuclear plant was \$712 million and \$640 million at December 31, 2012 and 2011, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 18 and 23 for additional information on the nuclear decommissioning trust funds. Other AROs recorded relate to various environmental requirements for coal piles, ash basins and other waste basin retirements.

PPL Energy Supply has recorded several conditional AROs, the most significant of which related to the removal and disposal of asbestos-containing material. In addition to the AROs that were recorded for asbestos-containing material, PPL Energy Supply identified other asbestos-related obligations, but was unable to reasonably estimate their fair values. PPL Energy Supply management was unable to reasonably estimate a settlement date or range of settlement dates for the remediation of all of the asbestos-containing material at certain of the generation plants. If economic events or other circumstances change that enable PPL Energy Supply to reasonably estimate the fair value of these retirement obligations, they will be recorded at that time.

PPL Energy Supply also identified legal retirement obligations associated with the retirement of a reservoir that could not be reasonably estimated due to an indeterminable settlement date.

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LKE, LG&E and KU)

LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. As described in Notes 1 and 6, the accretion and depreciation expense recorded by LG&E and KU is offset with a regulatory credit on the income statement, such that there is no earnings impact.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	PPL		PPL Energy Supply	
	2012	2011	2012	2011
ARO at beginning of period	\$ 497	\$ 448	\$ 359	\$ 345
Accretion expense	36	33	28	26
Obligations assumed in acquisition of WPD Midlands (a)		15		
Derecognition (b)				(5)
Obligations incurred	9	14	3	11
Changes in estimated cash flow or settlement date	31	5	(7)	(1)
Effect of foreign currency exchange rates	1			
Obligations settled	(22)	(18)	(8)	(17)
ARO at end of period	\$ 552	\$ 497	\$ 375	\$ 359

	LKE		LG&E		KU	
	2012	2011	2012	2011	2012	2011
ARO at beginning of period	\$ 118	\$ 103	\$ 57	\$ 49	\$ 61	\$ 54
Accretion expense	6	6	3	3	3	3
Obligations incurred	6	3		2	6	1
Changes in estimated cash flow or settlement date	15	7	5	4	10	3
Obligations settled	(14)	(1)	(3)	(1)	(11)	
ARO at end of period	\$ 131	\$ 118	\$ 62	\$ 57	\$ 69	\$ 61

(a) Obligations required under U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables. See Note 10 for additional information on the acquisition.

(b) Represents AROs derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 9 for additional information on the distribution.

Substantially all of the ARO balances are classified as noncurrent at December 31, 2012 and 2011.

22. Variable Interest Entities

(PPL and PPL Energy Supply)

In December 2001, a subsidiary of PPL Energy Supply entered into a \$455 million operating lease arrangement, as lessee, for the development, construction and operation of a gas-fired combined-cycle generation facility located in Lower Mt. Bethel Township, Northampton County, Pennsylvania. The owner/lessor of this generation facility, LMB Funding, LP, was created to own/lease the facility and incur the related financing costs. The initial lease term commenced on the date of commercial operation, which occurred in May 2004, and ends in December 2013. Under a residual value guarantee, if the generation facility is sold at the end of the lease term and the cash proceeds from the sale are less than the original acquisition cost, the subsidiary of PPL Energy Supply is obligated to pay up to 70.52% of the original acquisition cost. This residual value guarantee protects the other variable interest holders from losses related to their investments. LMB Funding, LP cannot

extend or cancel the lease or sell the facility without the prior consent of the PPL Energy Supply subsidiary. As a result, LMB Funding, LP was determined to be a VIE and the subsidiary of PPL Energy Supply was considered the primary beneficiary that consolidates this VIE.

The lease financing, which includes \$437 million of debt and \$18 million of "Noncontrolling interests" at December 31, 2012 and December 31, 2011, is secured by, among other things, the generation facility, the carrying amount of which is disclosed on the Balance Sheets. The debt matures in December 2013, the end of the initial lease term, and therefore has been classified in "Long-term debt due within one year" at December 31, 2012. As a result of the consolidation, PPL Energy Supply has recorded interest expense in lieu of rent expense. For 2012, 2011 and 2010, additional depreciation on the generation facility of \$16 million was recorded each year.

23. Available-for-Sale Securities

(PPL, PPL Energy Supply, LKE and LG&E)

Certain short-term investments, securities held by the NDT funds and auction rate securities are classified as available-for-sale.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI and the fair value of available-for-sale securities.

	December 31, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL								
NDT funds:								
Cash and cash equivalents	\$ 11			\$ 11	\$ 12			\$ 12
Equity securities:								
U.S. large-cap	222	\$ 190		412	211	\$ 146		357
U.S. mid/small-cap	30	30		60	29	23		52
Debt securities:								
U.S. Treasury	86	9		95	76	10		86
U.S. government sponsored agency								
Municipality	8	1		9	9	1		10
Municipality	78	5	\$ 1	82	80	4	\$ 1	83
Investment-grade corporate	36	4		40	35	3		38
Other	3			3	2			2
Total NDT funds	474	239	1	712	454	187	1	640
Auction rate securities	20		1	19	25		1	24
Total	\$ 494	\$ 239	\$ 2	\$ 731	\$ 479	\$ 187	\$ 2	\$ 664
PPL Energy Supply								
NDT funds:								
Cash and cash equivalents	\$ 11			\$ 11	\$ 12			\$ 12
Equity securities:								
U.S. large-cap	222	\$ 190		412	211	\$ 146		357
U.S. mid/small-cap	30	30		60	29	23		52
Debt securities:								
U.S. Treasury	86	9		95	76	10		86
U.S. government sponsored agency								
Municipality	8	1		9	9	1		10
Municipality	78	5	\$ 1	82	80	4	\$ 1	83
Investment-grade corporate	36	4		40	35	3		38
Other	3			3	2			2
Total NDT funds	474	239	1	712	454	187	1	640
Auction rate securities	17		1	16	20		1	19
Total	\$ 491	\$ 239	\$ 2	\$ 728	\$ 474	\$ 187	\$ 2	\$ 659

There were no securities with credit losses at December 31, 2012 and 2011.

The following table shows the scheduled maturity dates of debt securities held at December 31, 2012.

	<u>Maturity Less Than 1 Year</u>	<u>Maturity 1-5 Years</u>	<u>Maturity 6-10 Years</u>	<u>Maturity in Excess of 10 Years</u>	<u>Total</u>
PPL					
Amortized cost	\$ 12	\$ 79	\$ 62	\$ 78	\$ 231
Fair value	12	83	68	85	248
PPL Energy Supply					
Amortized cost	\$ 12	\$ 79	\$ 62	\$ 75	\$ 228
Fair value	12	83	68	82	245

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PPL			
Proceeds from sales of NDT securities (a)	\$ 139	\$ 156	\$ 114
Other proceeds from sales	5	163	
Gross realized gains (b)	29	28	13
Gross realized losses (b)	21	16	5
PPL Energy Supply			
Proceeds from sales of NDT securities (a)	\$ 139	\$ 156	\$ 114
Other proceeds from sales	3		
Gross realized gains (b)	29	28	13
Gross realized losses (b)	21	16	5

- (a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.
(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

Short-term Investments (PPL, LKE and LG&E)

At December 31, 2010, LG&E held \$163 million aggregate principal amount of tax-exempt revenue bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were purchased from the remarketing agent in 2008. In 2011, LG&E received \$163 million for its investments in these bonds when they were remarketed to unaffiliated investors. No realized or unrealized gains (losses) were recorded on these securities, as the difference between carrying value and fair value was not significant.

NDT Funds (PPL and PPL Energy Supply)

Amounts previously collected from PPL Electric's customers for decommissioning the Susquehanna nuclear plant, less applicable taxes, were deposited in external trust funds for investment and can only be used for future decommissioning costs. To the extent that the actual costs for decommissioning exceed the amounts in the nuclear decommissioning trust funds, PPL Susquehanna would be obligated to fund 90% of the shortfall.

When the fair value of a security is less than amortized cost, PPL and PPL Energy Supply must make certain assertions to avoid recording an other-than-temporary impairment that requires a current period charge to earnings. The NRC requires that nuclear decommissioning trusts be managed by independent investment managers, with discretion to buy and sell securities in the trusts. As a result, PPL and PPL Energy Supply have been unable to demonstrate the ability to hold an impaired security until it recovers its value; therefore, unrealized losses on equity securities for all periods presented, represented other-than-temporary impairments that required a current period charge to earnings. PPL and PPL Energy Supply recorded impairments for certain securities invested in the NDT funds of \$1 million, \$6 million and \$3 million for 2012, 2011 and 2010. These impairments are reflected on the Statements of Income in "Other-Than-Temporary Impairments."

24. New Accounting Guidance Pending Adoption

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Improving Disclosures about Offsetting Balance Sheet Items

Effective January 1, 2013, the Registrants will retrospectively adopt accounting guidance issued to enhance disclosures about derivative instruments that either (1) offset on the balance sheet or (2) are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the balance sheet.

Upon adoption, the enhanced disclosure requirements are not expected to have a significant impact on the Registrants.

Testing Indefinite-Lived Intangible Assets for Impairment

Effective January 1, 2013, the Registrants will prospectively adopt accounting guidance that allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of an indefinite-lived intangible asset. If, based on this assessment, the entity determines that it is more likely than not that the fair value of the indefinite-lived intangible asset exceeds the carrying amount, the fair value of that asset does not need to be calculated. If the entity concludes otherwise, a quantitative impairment test must be performed by determining the fair value of the asset and comparing it with the carrying value. The entity would record an impairment charge, if necessary.

Upon adoption, the guidance is not expected to have a significant impact on the Registrants.

Reporting Amounts Reclassified Out of AOCI

Effective January 1, 2013, the Registrants will prospectively adopt accounting guidance issued to improve the reporting of reclassifications out of AOCI. The Registrants will be required to provide information about the effects on net income of significant amounts reclassified out of AOCI by their respective statement of income line item, if the item is required to be reclassified to net income in its entirety. For items not reclassified to net income in their entirety, the Registrants will be required to reference other disclosures that provide details on these amounts.

Upon adoption, the enhanced disclosure requirements are not expected to have a significant impact on the Registrants.

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Operating Revenues				
Operating Expenses				
Other operation and maintenance	\$ 3			\$ (3)
Total Operating Expenses	<u>3</u>			<u>(3)</u>
Operating Income (Loss)	(3)			3
Equity in Earnings of Subsidiaries	234	\$ 267	\$ 48	204
Other Income (Expense) - net				(1)
Interest Income with Affiliate	10	29	5	29
Interest Expense	39	31	4	
Interest Expense with Affiliate	<u>2</u>	<u>2</u>	<u>1</u>	<u>47</u>
Income (Loss) Before Income Taxes	200	263	48	188
Income Tax Expense (Benefit)	<u>(19)</u>	<u>(2)</u>	<u>1</u>	<u>(2)</u>
Net Income (Loss) Attributable to Member	<u>\$ 219</u>	<u>\$ 265</u>	<u>\$ 47</u>	<u>\$ 190</u>
Comprehensive Income (Loss) Attributable to Member	<u>\$ 200</u>	<u>\$ 263</u>	<u>\$ 53</u>	<u>\$ 180</u>

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Cash Flows from Operating Activities				
Net cash provided by (used in) operating activities	\$ 364	\$ 346	\$ 53	\$ 156
Cash Flows from Investing Activities				
Capital contributions to affiliated subsidiaries			(3)	(525)
Net decrease (increase) in notes receivable from affiliates	(15)	(63)	313	234
Net cash provided by (used in) investing activities	(15)	(63)	310	(291)
Cash Flows from Financing Activities				
Net increase (decrease) in debt with affiliates			(208)	243
Net (decrease) increase in notes payable with affiliates	(196)			
Repayment of short-term borrowings			(2,103)	
Retirement of long-term debt			(400)	
Issuance of long-term debt		250	870	
Debt-issuance costs			(6)	
Contribution from member			1,565	
Distribution to member	(155)	(533)	(100)	
Payment of common stock dividends				(87)
Net cash provided by (used in) financing activities	(351)	(283)	(382)	156
Net Increase (Decrease) in Cash and Cash Equivalents	(2)		(19)	21
Cash and Cash Equivalents at Beginning of Period	2	2	21	21
Cash and Cash Equivalents at End of Period	\$ 2	\$ 2	\$ 2	\$ 21
Supplemental disclosures of cash flow information:				
Cash Dividends Received from Affiliated Subsidiaries	\$ 175	\$ 207	\$	\$ 105

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
(Millions of Dollars)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents		\$ 2
Accounts receivable from affiliates	\$ 4	11
Notes receivable from affiliates	1,560	1,520
Other current assets	1	4
Total Current Assets	<u>1,565</u>	<u>1,537</u>
Investments		
Affiliated companies at equity	4,096	4,056
Other Noncurrent Assets		
Deferred income taxes	184	163
Other noncurrent assets	7	8
Total Other Noncurrent Assets	<u>191</u>	<u>171</u>
Total Assets	<u>\$ 5,852</u>	<u>\$ 5,764</u>
Liabilities and Equity		
Current Liabilities		
Notes payable to affiliates	\$ 25	
Accounts payable to affiliates	906	\$ 701
Taxes	8	
Other current liabilities	6	6
Total Current Liabilities	<u>945</u>	<u>707</u>
Long-term Debt		
Long-term debt	1,121	1,120
Notes payable to affiliates		196
Total Long-term Debt	<u>1,121</u>	<u>1,316</u>
Equity	<u>3,786</u>	<u>3,741</u>
Total Liabilities and Equity	<u>\$ 5,852</u>	<u>\$ 5,764</u>

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

Schedule I - LG&E and KU Energy LLC
Notes to Condensed Unconsolidated Financial Statements

1. Basis of Presentation

LG&E and KU Energy LLC (LKE) is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. Accordingly, its cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends or repayment of loans and advances from the subsidiaries. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of LKE.

LKE indirectly or directly owns all of the ownership interests of its significant subsidiaries. LKE relies primarily on dividends from its subsidiaries to fund LKE's dividends to its member and to meet its other cash requirements.

2. Commitments and Contingencies

See Note 15 to LKE's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees

LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. See Note 9 to LKE's consolidated financial statements for additional information. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing a December 2012 order of the Henderson Circuit Court confirming the arbitration award. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including the potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. In the second quarter of 2012, LKE adjusted its investments in subsidiaries for certain of these indemnifications by \$9 million (\$5 million after-tax), which is reflected in "Equity in Earnings of Subsidiaries" on the Statement of Income. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.

QUARTERLY FINANCIAL, COMMON STOCK PRICE AND DIVIDEND DATA (Unaudited)**PPL Corporation and Subsidiaries***(Millions of Dollars, except per share data)*

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2012				
Operating revenues	\$ 4,112	\$ 2,549	\$ 2,403	\$ 3,222
Operating income	1,051	572	664	822
Income from continuing operations after income taxes	545	277	355	360
Income (loss) from discontinued operations		(6)		
Net income	545	271	355	360
Net income attributable to PPL	541	271	355	359
Income from continuing operations after income taxes available to PPL common shareowners: (b)				
Basic EPS	0.93	0.47	0.61	0.61
Diluted EPS	0.93	0.47	0.61	0.60
Net income available to PPL common shareowners: (b)				
Basic EPS	0.93	0.46	0.61	0.61
Diluted EPS	0.93	0.46	0.61	0.60
Dividends declared per share of common stock (c)	0.360	0.360	0.360	0.360
Price per common share:				
High	\$ 29.85	\$ 28.44	\$ 29.98	\$ 30.18
Low	27.29	26.68	27.72	27.74
2011				
Operating revenues	\$ 2,910	\$ 2,489	\$ 3,120	\$ 4,218
Operating income	805	595	767	934
Income from continuing operations after income taxes	402	201	449	458
Income (loss) from discontinued operations	3	(1)		
Net income	405	200	449	458
Net income attributable to PPL	401	196	444	454
Income from continuing operations after income taxes available to PPL common shareowners: (b)				
Basic EPS	0.82	0.35	0.76	0.78
Diluted EPS	0.82	0.35	0.76	0.78
Net income available to PPL common shareowners: (b)				
Basic EPS	0.82	0.35	0.76	0.78
Diluted EPS	0.82	0.35	0.76	0.78
Dividends declared per share of common stock (c)	0.350	0.350	0.350	0.350
Price per common share:				
High	\$ 26.98	\$ 28.38	\$ 29.61	\$ 30.27
Low	24.10	25.23	25.00	27.00

- (a) Quarterly results can vary depending on, among other things, weather and the forward pricing of power. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.
- (b) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.
- (c) PPL has paid quarterly cash dividends on its common stock in every year since 1946. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.

QUARTERLY FINANCIAL DATA (Unaudited)
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2012				
Operating revenues	\$ 458	\$ 404	\$ 444	\$ 457
Operating income	79	63	71	81
Net income	37	29	33	37
Net income available to PPL	33	29	33	37
2011				
Operating revenues	\$ 558	\$ 440	\$ 455	\$ 439
Operating income	103	82	69	94
Net income	56	40	32	61
Net income available to PPL	52	36	28	57

(a) PPL Electric's business is seasonal in nature, with peak sales periods generally occurring in the winter and summer months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of December 31, 2012, the registrants' disclosure controls and procedures are effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this annual report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

PPL Corporation

The registrant's principal executive officer and principal financial officer have concluded that there were no changes in the registrant's internal control over financial reporting during the registrant's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

As reported in the 2011 Form 10-K, PPL's principal executive officer and principal financial officer concluded that a systems migration related to the WPD Midlands acquisition created a material change to its internal control over financial reporting in 2012. In December 2011, the use of legacy information technology systems at WPD Midlands was discontinued and the related data, processes and internal controls were migrated to the systems, processes and controls currently in place at PPL WW.

Risks related to the systems migration were partially mitigated by PPL's expanded internal control over financial reporting that were implemented subsequent to the acquisition and PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provided management additional time for review and analysis of WPD Midlands' results and their incorporation into PPL's consolidated financial statements.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers have concluded that there were no changes in the registrants' internal control over financial reporting during the registrants' fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrants' internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

PPL Corporation

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework," our management concluded that our internal control over financial reporting was effective as of December 31, 2012. The effectiveness of our internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report contained on page 197.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Management of PPL's non-accelerated filer companies, PPL Energy Supply, PPL Electric, LKE, LG&E and KU, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). Each of the aforementioned companies' internal control over financial reporting is a process designed to provide reasonable assurance to management and Board of Directors of these companies regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including the principal executive officers and principal financial officers of the companies listed above, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework," management of these companies concluded that our internal control over financial reporting was effective as of December 31, 2012. This annual report does not include an attestation report of Ernst & Young LLP, the companies' independent registered public accounting firm regarding internal control over financial reporting for these non-accelerated filer companies. The effectiveness of internal control over financial reporting for the aforementioned companies was not subject to attestation by the companies' registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit these companies to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

PPL Corporation

Additional information for this item will be set forth in the sections entitled "Nominees for Directors," "Board Committees - Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" in PPL's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2012, and which information is incorporated herein by reference. There have been no changes to the procedures by which shareowners may recommend nominees to PPL's board of directors since the filing with the SEC of PPL's 2012 Notice of Annual Meeting and Proxy Statement. Information required by this item concerning the executive officers of PPL is set forth at the end of Part I of this report.

PPL has adopted a code of ethics entitled "Standards of Integrity" that applies to all directors, managers, trustees, officers (including the principal executive officers, principal financial officers and principal accounting officers (each, a "principal officer")), employees and agents of PPL and PPL's subsidiaries for which it has operating control (including PPL Energy Supply, PPL Electric, LKE, LG&E and KU). The "Standards of Integrity" are posted on PPL's Internet website: www.pplweb.com/about-us/corporate-governance. A description of any amendment to the "Standards of Integrity" (other than a technical, administrative or other non-substantive amendment) will be posted on PPL's Internet website within four business days following the date of the amendment. In addition, if a waiver constituting a material departure from a provision of the "Standards of Integrity" is granted to one of the principal officers, a description of the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will be posted on PPL's Internet website within four business days following the date of the waiver.

PPL also has adopted its "Guidelines for Corporate Governance," which address, among other things, director qualification standards and director and board committee responsibilities. These guidelines, and the charters of each of the committees of PPL's board of directors, are posted on PPL's Internet website: www.pplweb.com/about-us/corporate-governance.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 10 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K

EXECUTIVE OFFICERS OF THE REGISTRANTS

Officers of the Registrants are elected annually by their Boards of Directors (or Board of Managers for PPL Energy Supply) to serve at the pleasure of the respective Boards. There are no family relationships among any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Listed below are the executive officers at December 31, 2012.

PPL Corporation

<u>Name</u>	<u>Age</u>	<u>Positions Held During the Past Five Years</u>	<u>Dates</u>
William H. Spence (a)	55	Chairman, President and Chief Executive Officer President and Chief Executive Officer President and Chief Operating Officer Executive Vice President and Chief Operating Officer	April 2012 - present November 2011 - March 2012 July 2011 - November 2011 June 2006 - July 2011
Paul A. Farr	45	Executive Vice President and Chief Financial Officer Senior Vice President-Financial	April 2007 - present January 2006 - March 2007
Robert J. Grey (b)	62	Executive Vice President, General Counsel and Secretary Senior Vice President, General Counsel and Secretary	November 2012 - present March 1996 - November 2012
David G. DeCampli (c) (f)	55	President-PPL Energy Supply President-PPL Electric	March 2012 - present April 2007 - March 2012
Gregory N. Dudkin (d) (f)	55	President-PPL Electric Senior Vice President-Operations-PPL Electric Independent Consultant Senior Vice-President of Technical Operations and Fulfillment-Comcast Corporation	March 2012 - present June 2009 - March 2012 February 2009 - June 2009 June 2006 - January 2009
Robert D. Gabbard (f)	53	President-PPL EnergyPlus Senior Vice President-Trading-PPL EnergyPlus Senior Vice President Merchant Trading Operations-Conectiv Energy	June 2008 - present June 2008 - June 2008 June 2005 - May 2008
Rick L. Klingensmith (f)	52	President-PPL Global	August 2004 - present
Victor A. Staffieri (f)	57	Chairman of the Board, President and Chief Executive Officer-LKE	May 2001 - present
Mark F. Wilten (e)	45	Vice President-Finance and Treasurer Treasurer-Nissan North America and Nissan Motor Acceptance Corporation Assistant Treasurer-Nissan Motor Acceptance Corporation Group Treasurer-Kensington Group plc	June 2012 - present August 2010 - May 2012 August 2008 - August 2010 October 2004 - January 2008
Vincent Sorgi	41	Vice President and Controller Controller-Supply Accounting Controller-PPL EnergyPlus	March 2010 - present June 2008 - March 2010 April 2007 - June 2008

(a) On April 1, 2012, William H. Spence was elected Chairman, President and Chief Executive Officer.

(b) On November 1, 2012, Robert J. Grey was elected Executive Vice President, General Counsel and Secretary.

(c) On March 4, 2012, David G. DeCampli resigned as President of PPL Electric. On March 5, 2012, Mr. DeCampli was elected as President of PPL Energy Supply.

(d) On March 4, 2012, Gregory N. Dudkin resigned as Senior Vice President-Operations of PPL Electric. On March 5, 2012, Mr. Dudkin was elected as President of PPL Electric.

(e) On June 4, 2012, Mark F. Wilten was elected Vice President-Finance and Treasurer.

(f) Designated an executive officer of PPL by virtue of their respective positions at a PPL subsidiary.

ITEM 11. EXECUTIVE COMPENSATION

PPL Corporation

Information for this item will be set forth in the sections entitled "Compensation of Directors," "Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" in PPL's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2012, and which information is incorporated herein by reference.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 11 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

PPL Corporation

Information for this item will be set forth in the section entitled "Stock Ownership" in PPL's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2012, and which information is incorporated herein by reference. In addition, provided below in tabular format is information as of December 31, 2012, with respect to compensation plans (including individual compensation arrangements) under which equity securities of PPL are authorized for issuance.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (3)	Weighted-average exercise price of outstanding options, warrants and rights (3)	Number of securities remaining available for future issuance under equity compensation plans (4)
Equity compensation plans approved by security holders (1)	4,968,849 - ICP 413,210 - SIP <u>3,752,486</u> - ICPKE 9,134,545 - Total	\$ 30.72- ICP \$ 28.19- SIP \$ 30.12- ICPKE \$ 30.36- Combined	334,877 - ICP 5,688,059 - ICPKE 9,541,170 - SIP <u>1,948,928</u> - DDCP 17,513,034 - Total
Equity compensation plans not approved by security holders (2)			

- (1) Includes (a) the Amended and Restated Incentive Compensation Plan (ICP), under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL; (b) the Amended and Restated Incentive Compensation Plan for Key Employees (ICPKE), under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to non-executive key employees of PPL and its subsidiaries; (c) the PPL 2012 SIP approved by shareowners in 2012 under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL and its subsidiaries; and (d) the Directors Deferred Compensation Plan (DDCP), under which stock units may be awarded to directors of PPL. See Note 12 to the Financial Statements for additional information.
- (2) All of PPL's current compensation plans under which equity securities of PPL are authorized for issuance have been approved by PPL's shareowners.
- (3) Relates to common stock issuable upon the exercise of stock options awarded under the ICP, SIP and ICPKE as of December 31, 2012. In addition, as of December 31, 2012, the following other securities had been awarded and are outstanding under the ICP, SIP, ICPKE and DDCP: 30,400 shares of restricted stock, 400,660 restricted stock units and 324,387 performance units under the ICP; 40,000 shares of restricted stock, 1,856 restricted stock units and 3,927 performance units under the SIP; 24,600 shares of restricted stock, 2,006,254 restricted stock units and 265,889 performance units under the ICPKE; and 467,741 stock units under the DDCP.

- (4) Based upon the following aggregate award limitations under the ICP, SIP, ICPKE and DDCP: (a) under the ICP, 15,769,431 awards (i.e., 5% of the total PPL common stock outstanding as of April 23, 1999) granted after April 23, 1999; (b) under the SIP, 10,000,000 awards; (c) under the ICPKE, 16,573,608 awards (i.e., 5% of the total PPL common stock outstanding as of January 1, 2003) granted after April 25, 2003, reduced by outstanding awards for which common stock was not yet issued as of such date of 2,373,812 resulting in a limit of 14,199,796; and (d) under the DDCP, the number of shares available for issuance was reduced to 2,000,000 shares in March 2012. In addition, each of the ICP and ICPKE includes an annual award limitation of 2% of total PPL common stock outstanding as of January 1 of each year.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 12 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

PPL Corporation

Information for this item will be set forth in the sections entitled "Transactions with Related Persons" and "Independence of Directors" in PPL's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2012, and is incorporated herein by reference.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 13 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

PPL Corporation

Information for this item will be set forth in the section entitled "Fees to Independent Auditor for 2012 and 2011" in PPL's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2012, and which information is incorporated herein by reference.

PPL Energy Supply, LLC

The following table presents an allocation of fees billed, including expenses, by Ernst & Young LLP (EY) to PPL for the fiscal years ended December 31, 2012 and 2011, for professional services rendered for the audit of PPL Energy Supply's annual financial statements and for fees billed for other services rendered by EY.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Audit fees (a)	\$ 2,132	\$ 1,701
Audit-related fees (b)	54	9
Tax fees (c)	163	518

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Energy Supply's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
- (b) Fees for performance of specific agreed-upon procedures.
- (c) Includes fees for tax advice in connection with a tax basis and earnings and profit study, a private letter ruling related to the sale of Safe Harbor, Ironwood purchase accounting, and review, consultation and analysis related to investment tax credits and related capital expenditures on certain hydro-electric plant upgrades.

PPL Electric Utilities Corporation

The following table presents an allocation of fees billed, including expenses, by EY to PPL for the fiscal years ended December 31, 2012 and 2011, for professional services rendered for the audit of PPL Electric's annual financial statements and for fees billed for other services rendered by EY.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Audit fees (a)	\$ 1,319	\$ 1,193
Audit-related fees (b)	10	45
Tax fees (c)	207	19

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Electric's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
- (b) Fees for consultation on a transmission and distribution study and performance of specific agreed-upon procedures.
- (c) Includes fees for tax advice in connection with non-income tax processes, sales and use tax matters and analysis related to the deductibility of certain transmission and distribution costs.

LG&E and KU Energy LLC

The following table presents an allocation of fees billed, including expenses, by EY to LKE for the fiscal years ended December 31, 2012 and 2011, for professional services rendered for the audits of LKE's annual financial statements and for fees billed for other services rendered by EY.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Audit fees (a)	\$ 1,715	\$ 1,528

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LKE's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

Louisville Gas and Electric Company

The following table presents an allocation of fees billed, including expenses, by EY to LG&E for the fiscal years ended December 31, 2012 and 2011, for professional services rendered for the audits of LG&E's annual financial statements and for fees billed for other services rendered by EY.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Audit fees (a)	\$ 731	\$ 552

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LG&E's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

Kentucky Utilities Company

The following table presents an allocation of fees billed, including expenses, by EY to KU for the fiscal years ended December 31, 2012 and 2011, for professional services rendered for the audits of KU's annual financial statements and for fees billed for other services rendered by EY.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Audit fees (a)	\$ 626	\$ 552

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in KU's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Approval of Fees The Audit Committee of PPL has procedures for pre-approving audit and non-audit services to be provided by the independent auditor. These procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of the independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the Audit Committee of PPL. As a result of this approval process, the Audit Committee of PPL has pre-approved specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are approved by the Chair of the Audit Committee of PPL, who serves as the Committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full Audit Committee of PPL no later than its next meeting.

The Audit Committee of PPL approved 100% of the 2012 and 2011 services provided by EY.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

(a) The following documents are filed as part of this report:

1. Financial Statements - Refer to the "Table of Contents" for an index of the financial statements included in this report.
2. Supplementary Data and Supplemental Financial Statement Schedule - included in response to Item 8.
Schedule I - LG&E and KU Energy LLC Condensed Unconsolidated Financial Statements.

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

3. Exhibits

See Exhibit Index immediately following the signature pages.

SHAREOWNER AND INVESTOR INFORMATION

Annual Meetings : The 2013 annual meeting of shareowners of PPL will be held on Wednesday, May 15, 2013, at the Zoellner Arts Center, on the campus of Lehigh University in Bethlehem, Pennsylvania, in Northampton County.

Proxy and Information Statement Material : A proxy statement and notice of PPL's annual meeting is mailed to all shareowners of record as of February 28, 2013.

PPL Annual Report : The report is published and mailed in the beginning of April to all shareowners of record. The latest annual report can be accessed at www.pplweb.com. If you have more than one account, or if there is more than one investor in your household, you may call the PPL Shareowner Information Line to request that only one annual report be delivered to your address. Please provide account numbers for all duplicate mailings.

Dividends : Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee and PPL Electric preference stock by the PPL Electric Board of Directors, dividends are paid on the first business day of April, July, October and January. The 2013 record dates for dividends are expected to be March 8, June 10, September 10 and December 10.

PPL Shareowner Information Line (1-800-345-3085): Shareowners can obtain corporate and financial information 24 hours a day using the PPL Shareowner Information Line. Earnings, dividends and other company news releases are available by fax or mail. Other PPL publications, such as the annual and quarterly reports to the Securities and Exchange Commission (Forms 10-K and 10-Q), will be mailed upon request, or write to:

Manager - PPL Investor Services
Two North Ninth Street (GENTW13)
Allentown, PA 18101

FAX: 610-774-5106
Via email: invserv@pplweb.com

PPL's Website (www.pplweb.com): Shareowners can access PPL Securities and Exchange Commission filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website can provide their email address and indicate their desire to receive future earnings or news releases automatically.

Shareowner Inquiries :

PPL Shareowner Services
Wells Fargo Bank, N.A.
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120

Toll Free: 1-800-345-3085
Outside U.S.: 651-453-2129
FAX: 651-450-4085
shareowneronline.com

Online Account Access : Registered shareowners can activate their account for online access by visiting shareowneronline.com.

Dividend Reinvestment and Direct Stock Purchase Plan (Plan): PPL offers investors the opportunity to acquire shares of PPL common stock through its Plan. Through the Plan, participants are eligible to invest up to \$25,000 per calendar month in PPL common stock. Shareowners may choose to have dividends on their PPL common stock fully or partially reinvested in PPL common stock or can receive full payment of cash dividends by check or EFT. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

Direct Registration System: PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

Listed Securities:

New York Stock Exchange

PPL Corporation:

Common Stock (Code: PPL)

Corporate Units issued 2010 (Code: PPLPRU)

Corporate Units issued 2011 (Code: PPLPRW)

PPL Capital Funding, Inc.:

2007 Series A Junior Subordinated Notes due 2067 (Code: PPL/67)

Fiscal Agents:

Stock Transfer Agent and Registrar; Dividend Reinvestment Plan Agent

Wells Fargo Bank, N.A.

Shareowner Services

1110 Centre Pointe Curve, Suite 101

Mendota Heights, MN 55120

Toll Free: 1-800-345-3085

Outside U.S.: 651-453-2129

Dividend Disbursing Office

PPL Investor Services

Two North Ninth Street (GENTW13)

Allentown, PA 18101

FAX: 610-774-5106

Via email: invserv@pplweb.com

Or call the PPL Shareowner Information Line

Toll Free: 1-800-345-3085

1945 Mortgage Bond Trustee, Transfer and Bond Interest Paying Agent

Deutsche Bank Trust Company Americas

5022 Gate Parkway (Suite 200)

Jacksonville, FL 32256

Toll Free: 1-800-735-7777

FAX: 615-866-3887

Indenture Trustee

The Bank of New York Mellon

101 Barclay Street

New York, NY 10286

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Corporation

(Registrant)

By /s/ William H. Spence

William H. Spence -
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ William H. Spence

William H. Spence -
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

By /s/ Paul A. Farr

Paul A. Farr -
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

By /s/ Vincent Sorgi

Vincent Sorgi -
Vice President and Controller
(Principal Accounting Officer)

Directors:

Frederick M. Bernthal
John W. Conway
Steven G. Elliott
Louise K. Goeser
Stuart E. Graham
Stuart Heydt

Venkata Rajamannar Madabhushi
Craig A. Rogerson
William H. Spence
Natica von Althann
Keith H. Williamson

By /s/ William H. Spence

William H. Spence, Attorney-in-fact

Date: February 28, 2013

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Energy Supply, LLC

(Registrant)

By /s/ David G. DeCampli

David G. DeCampli -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ David G. DeCampli

David G. DeCampli -
President
(Principal Executive Officer)

By /s/ Paul A. Farr

Paul A. Farr -
Executive Vice President
(Principal Financial Officer)

By /s/ Vincent Sorgi

Vincent Sorgi -
Vice President and Controller
(Principal Accounting Officer)

Managers:

/s/ David G. DeCampli

David G. DeCampli

/s/ Paul A. Farr

Paul A. Farr

/s/ Robert J. Grey

Robert J. Grey

/s/ William H. Spence

William H. Spence

Date: February 28, 2013

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Electric Utilities Corporation

(Registrant)

By /s/ Gregory N. Dudkin

Gregory N. Dudkin -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Gregory N. Dudkin

Gregory N. Dudkin -
President
(Principal Executive Officer)

By /s/ Vincent Sorgi

Vincent Sorgi -
Vice President and Chief Accounting Officer
(Principal Financial and Accounting Officer)

Directors:

/s/ William H. Spence

William H. Spence

/s/ Gregory N. Dudkin

Gregory N. Dudkin

/s/ Paul A. Farr

Paul A. Farr

/s/ Dean A. Christiansen

Dean A. Christiansen

/s/ Robert J. Grey

Robert J. Grey

Date: February 28, 2013

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LG&E and KU Energy LLC

(Registrant)

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President
(Principal Executive Officer)

By /s/ Kent W. Blake

Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr

Paul A. Farr

/s/ William H. Spence

William H. Spence

/s/ Chris Hermann

Chris Hermann

/s/ Victor A. Staffieri

Victor A. Staffieri

/s/ S. Bradford Rives

S. Bradford Rives

/s/ Paul W. Thompson

Paul W. Thompson

Date: February 28, 2013

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Louisville Gas and Electric Company

(Registrant)

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President
(Principal Executive Officer)

By /s/ Kent W. Blake

Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr

Paul A. Farr

/s/ William H. Spence

William H. Spence

/s/ Chris Hermann

Chris Hermann

/s/ Victor A. Staffieri

Victor A. Staffieri

/s/ S. Bradford Rives

S. Bradford Rives

/s/ Paul W. Thompson

Paul W. Thompson

Date: February 28, 2013

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kentucky Utilities Company

(Registrant)

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President
(Principal Executive Officer)

By /s/ Kent W. Blake

Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr

Paul A. Farr

/s/ William H. Spence

William H. Spence

/s/ Chris Hermann

Chris Hermann

/s/ Victor A. Staffieri

Victor A. Staffieri

/s/ S. Bradford Rives

S. Bradford Rives

/s/ Paul W. Thompson

Paul W. Thompson

Date: February 28, 2013

EXHIBIT INDEX

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

- 3(a) - Amended and Restated Articles of Incorporation of PPL Corporation, effective as of May 21, 2008 (Exhibit 3(i) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 21, 2008)
- 3(b) - Amended and Restated Articles of Incorporation of PPL Electric Utilities Corporation, effective as of May 2, 2006 (Exhibit 3(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended March 31, 2006)
- 3(c)-1 - Certificate of Formation of PPL Energy Supply, LLC, effective as of November 14, 2000 (Exhibit 3.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 3(c)-2 - Certificate of Amendment of PPL Energy Supply, LLC, effective as of November 12, 2002 (Exhibit 3(c)-2 to PPL Energy Supply, LLC Form 10-K Report (File No. 1-32944) for the year ended December 31, 2011)
- 3(d) - Amended and Restated Bylaws of PPL Corporation, effective as of May 19, 2010 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2010)
- 3(e) - Amended and Restated Bylaws of PPL Electric Utilities Corporation, effective as of March 30, 2006 (Exhibit 3.2 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 30, 2006)
- 3(f) - Limited Liability Company Agreement of PPL Energy Supply, LLC, effective as of March 20, 2001 (Exhibit 3.2 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 3(g) - Articles of Organization of LG&E and KU Energy LLC, effective as of December 29, 2003 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173665))
- 3(h) - Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 1, 2010 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173665))
- 3(i)-1 - Amended and Restated Articles of Incorporation of Louisville Gas and Electric Company, effective as of November 6, 1996 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(i)-2 - Articles of Amendment to Articles of Incorporation of Louisville Gas and Electric Company, effective as of April 6, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(j) - Bylaws of Louisville Gas and Electric Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(k)-1 - Amended and Restated Articles of Incorporation of Kentucky Utilities Company, effective as of December 14, 1993 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(k)-2 - Articles of Amendment to Articles of Incorporation of Kentucky Utilities Company, effective as of April 8, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(l) - Bylaws of Kentucky Utilities Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 4(a) - Pollution Control Facilities Loan Agreement, dated as of May 1, 1973, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 5(z) to Registration Statement No. 2-60834)
- 4(b)-1 - Amended and Restated Employee Stock Ownership Plan, dated January 12, 2007 (Exhibit 4(a) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)

- 4(b)-2 - Amendment No. 1 to said Employee Stock Ownership Plan, dated July 2, 2007 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2007)
- 4(b)-3 - Amendment No. 2 to said Employee Stock Ownership Plan, dated December 13, 2007 (Exhibit 4(a)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
- 4(b)-4 - Amendment No. 3 to said Employee Stock Ownership Plan, dated August 19, 2009 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2009)
- 4(b)-5 - Amendment No. 4 to said Employee Stock Ownership Plan, dated December 2, 2009 (Exhibit 4(a)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
- 4(b)-6 - Amendment No. 5 to said Employee Stock Ownership Plan, dated November 17, 2010 (Exhibit 4(b)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(b)-7 - Amendment No. 6 to said Employee Stock Ownership Plan, dated January 18, 2012 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- 4(b)-8 - Amendment No. 7 to said Employee Stock Ownership Plan, dated May 30, 2012 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- 4(b)-9 - Amendment No. 8 to said Employee Stock Ownership Plan, dated July 17, 2012 (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- *4(b)-10 - Amendment No. 9 to said Employee Stock Ownership Plan, dated December 21, 2012
- 4(c) - Trust Deed constituting £150 million 9 ¼ percent Bonds due 2020, dated November 9, 1995, between South Wales Electric plc and Bankers Trustee Company Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(d)-1 - Indenture, dated as of November 1, 1997, among PPL Corporation, PPL Capital Funding, Inc. and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 12, 1997)
- 4(d)-2 - Supplemental Indenture No. 7, dated as of July 1, 2007, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated July 16, 2007)
- 4(d)-3 - Supplemental Indenture No. 8, dated as of June 14, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2012)
- 4(d)-4 - Supplemental Indenture No. 9, dated as of October 15, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 15, 2012)
- 4(e) - Indenture, dated as of March 16, 2001, among WPD Holdings UK, Bankers Trust Company, as Trustee, Principal Paying Agent, and Transfer Agent and Deutsche Bank Luxembourg, S.A., as Paying and Transfer Agent (Exhibit 4(g) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
- 4(f)-1 - Indenture, dated as of August 1, 2001, by PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)
- 4(f)-2 - Supplemental Indenture No. 4, dated as of February 1, 2005, to said Indenture (Exhibit 4(g)-5 to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 2004)

- 4(f)-3 - Supplemental Indenture No. 5, dated as of May 1, 2005, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2005)
- 4(f)-4 - Supplemental Indenture No. 6, dated as of December 1, 2005, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated December 22, 2005)
- 4(f)-5 - Supplemental Indenture No. 7, dated as of August 1, 2007, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 14, 2007)
- 4(f)-6 - Supplemental Indenture No. 9, dated as of October 1, 2008, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(f)-7 - Supplemental Indenture No. 10, dated as of May 1, 2009, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 22, 2009)
- 4(f)-8 - Supplemental Indenture No. 11, dated as of July 1, 2011, to said Indenture (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 13, 2011)
- 4(f)-9 - Supplemental Indenture No. 12, dated as of July 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 18, 2011)
- 4(f)-10 - Supplemental Indenture No. 13, dated as of August 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 23, 2011)
- 4(f)-11 - Supplemental Indenture No. 14, dated as of August 1, 2012, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 24, 2012)
- 4(g)-1 - Indenture, dated as of October 1, 2001, by PPL Energy Supply, LLC and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 4(g)- 2 - Supplemental Indenture No. 2, dated as of August 15, 2004, to said Indenture (Exhibit 4(h)-4 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2004)
- 4(g)-3 - Supplemental Indenture No. 3, dated as of October 15, 2005, to said Indenture (Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated October 28, 2005)
- 4(g)-4 - Form of Note for PPL Energy Supply, LLC's \$300 million aggregate principal amount of 5.70% REset Put Securities due 2035 (REPSSM) (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated October 28, 2005)
- 4(g)-5 - Supplemental Indenture No. 4, dated as of May 1, 2006, to said Indenture (Exhibit 4(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2006)
- 4(g)-6 - Supplemental Indenture No. 6, dated as of July 1, 2006, to said Indenture (Exhibit 4(c) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2006)
- 4(g)-7 - Supplemental Indenture No. 7, dated as of December 1, 2006, to said Indenture (Exhibit 4(f)-10 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2006)
- 4(g)-8 - Supplemental Indenture No. 8, dated as of December 1, 2007, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated December 20, 2007)
- 4(g)-9 - Supplemental Indenture No. 9, dated as of March 1, 2008, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated March 14, 2008)

- 4(g)-10 - Supplemental Indenture No. 10, dated as of July 1, 2008, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated July 21, 2008)
- 4(g)-11 - Supplemental Indenture No. 11, dated as of December 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-1149) dated December 16, 2011)
- 4(h)-1 - Trust Deed constituting £200 million 5.875 percent Bonds due 2027, dated March 25, 2003, between Western Power Distribution (South West) plc and J.P. Morgan Corporate Trustee Services Limited (Exhibit 4(o)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(h)-2 - Supplement, dated May 27, 2003, to said Trust Deed, constituting £50 million 5.875 percent Bonds due 2027 (Exhibit 4(o)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(i)-1 - Pollution Control Facilities Loan Agreement, dated as of February 1, 2005, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 10(ff) to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 2004)
- 4(i)-2 - Pollution Control Facilities Loan Agreement, dated as of May 1, 2005, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2005)
- 4(i)-3 - Pollution Control Facilities Loan Agreement, dated as of October 1, 2008, between Pennsylvania Economic Development Financing Authority and PPL Electric Utilities Corporation (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(j) - Trust Deed constituting £105 million 1.541 percent Index-Linked Notes due 2053, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(i) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(k) - Trust Deed constituting £120 million 1.541 percent Index-Linked Notes due 2056, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(j) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(l) - Trust Deed constituting £225 million 4.80436 percent Notes due 2037, dated December 21, 2006, between Western Power Distribution (South Wales) plc and HSBC Trustee (CI) Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(m)-1 - Subordinated Indenture, dated as of March 1, 2007, between PPL Capital Funding, Inc., PPL Corporation and The Bank of New York, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- 4(m)-2 - Supplemental Indenture No. 1, dated as of March 1, 2007, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- 4(m)-3 - Supplemental Indenture No. 2, dated as of June 28, 2010, to said Subordinated Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 30, 2010)
- 4(m)-4 - Supplemental Indenture No. 3, dated as of April 15, 2011, to said Subordinated Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
- 4(n)-1 - Series 2009A Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)

- 4(n)-2 - Series 2009B Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)
- 4(n)-3 - Series 2009C Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(c) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)
- 4(o) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South Wales) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- 4(p) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South West) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- 4(q)-1 - Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(q)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(q)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(q)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(q)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-1 - Indenture, dated as of October 1, 2010, between Louisville Gas and Electric Company and The Bank of New York Mellon, as Trustee (Exhibit 4(r)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(r)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(r)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-1 - Indenture, dated as of November 1, 2010, between LG&E and KU Energy LLC and The Bank of New York Mellon, as Trustee (Exhibit 4(s)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-2 - Supplemental Indenture No. 1, dated as of November 1, 2010, to said Indenture (Exhibit 4(s)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-3 - Supplemental Indenture No. 2, dated as of September 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
- 4(t)-1 - 2002 Series A Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(t)-2 - Amendment No. 1 dated as of September 1, 2010 to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(u)-1 - 2002 Series B Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(u)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(v)-1 - 2002 Series C Carroll County Loan Agreement, dated July 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(y)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(v)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(y)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(w)-1 - 2004 Series A Carroll County Loan Agreement, dated October 1, 2004 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(w)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(x)-1 - 2006 Series B Carroll County Loan Agreement, dated October 1, 2006 and amended and restated September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(x)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-1 - 2007 Series A Carroll County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company and County of Carroll, Kentucky (Exhibit 4(bb)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(bb)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(z)-1 - 2008 Series A Carroll County Loan Agreement, dated August 1, 2008 by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(z)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(aa)-1 - 2000 Series A Mercer County Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(aa)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(bb)-1 - 2002 Series A Mercer County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(bb)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-1 - 2002 Series A Muhlenberg County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-1 - 2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-1 - 2000 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(hh)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(hh)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-3 - Amendment No. 2 dated as of October 1, 2011, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ee)-3 to Louisville Gas and Electric Company Form 10-K Report (File No. 1-2893) for the year ended December 31, 2011)
- 4(ff)-1 - 2001 Series A Jefferson County Loan Agreement, dated July 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(ii)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ff)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(ii)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(gg)-1 - 2001 Series A Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(gg)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(hh)-1 - 2001 Series B Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(hh)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ii)-1 - 2003 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated October 1, 2003, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ii)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(jj)-1 - 2005 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated February 1, 2005 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(jj)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(kk)-1 - 2007 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated as of March 1, 2007 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(kk)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ll) - 2007 Series B Louisville/Jefferson County Metro Government Amended and Restated Loan Agreement, dated November 1, 2010, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(oo) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(mm)-1 - 2000 Series A Trimble County Loan Agreement, dated August 1, 2000, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(pp)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(mm)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(pp)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(nn)-1 - 2001 Series A Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(qq)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(nn)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and the County of Trimble, Kentucky (Exhibit 4(qq)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(oo)-1 - 2001 Series B Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(oo)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(pp)-1 - 2002 Series A Trimble County Loan Agreement, dated July 1, 2002, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(ss)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(pp)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(ss)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(qq)-1 - 2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(tt)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(qq)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(tt)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(rr)-1 - Indenture, dated April 21, 2011, between PPL WEM Holdings PLC, as Issuer, and The Bank of New York Mellon, as Trustee (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(rr)-2 - Supplemental Indenture No. 1, dated April 21, 2011, to said Indenture (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(ss)-1 - Trust Deed, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No.1-11459) dated May 17, 2011)
- 4(ss)-2 - Final Terms of WPD West Midlands £800,000,000 5.75 per cent Notes due 2032 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 4(ss)-3 - Final Terms of WPD East Midlands £600,000,000 5.25 per cent Notes due 2023 (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 4(ss)-4 - Final Terms of WPD East Midlands £100,000,000 Index Linked Notes due 2043 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 2, 2011)
- 4(ss)-5 - Final Terms of WPD East Midlands £100,000,000 5.25% Notes due 2023 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2012)
- 4(tt) - Agency Agreement, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited and HSBC Bank plc (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 10(a) - Generation Supply Agreement, dated as of June 20, 2001, between PPL Electric Utilities Corporation and PPL EnergyPlus, LLC (Exhibit 10.5 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 10(b)-1 - Master Power Purchase and Sale Agreement, dated as of October 15, 2001, between NorthWestern Energy Division (successor in interest to The Montana Power Company) and PPL Montana, LLC (Exhibit 10(g) to PPL Montana, LLC Form 10-K Report (File No. 333-50350) for the year ended December 31, 2001)

- 10(b)-2 - Confirmation Letter, dated July 5, 2006, between PPL Montana, LLC and NorthWestern Corporation (PPL Corporation and PPL Energy Supply, LLC Form 8-K Reports (File Nos. 1-11459 and 333-74794) dated July 6, 2006)
- 10(c) - Guaranty, dated as of December 21, 2001, from PPL Energy Supply, LLC in favor of LMB Funding, Limited Partnership (Exhibit 10(j) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2001)
- 10(d)-1 - Agreement for Lease, dated as of December 21, 2001, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(m) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(d)-2 - Amendment No. 1 to said Agreement for Lease, dated as of September 16, 2002, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(m)-1 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(e)-1 - Lease Agreement, dated as of December 21, 2001, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(n) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(e)-2 - Amendment No. 1 to said Lease Agreement, dated as of September 16, 2002, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(n)-1 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(f) - Facility Lease Agreement (BA 1/2) between PPL Montana, LLC and Montana OL3, LLC (Exhibit 4.7a to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
- 10(g) - Facility Lease Agreement (BA 3) between PPL Montana, LLC and Montana OL4, LLC (Exhibit 4.8a to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
- 10(h) - Services Agreement, dated as of July 1, 2000, among PPL Corporation, PPL Energy Funding Corporation and its direct and indirect subsidiaries in various tiers, PPL Capital Funding, Inc., PPL Gas Utilities Corporation, PPL Services Corporation and CEP Commerce, LLC (Exhibit 10.20 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 10(i)-1 - Asset Purchase Agreement, dated as of June 1, 2004, by and between PPL Sundance Energy, LLC, as Seller, and Arizona Public Service Company, as Purchaser (Exhibit 10(a) to PPL Corporation and PPL Energy Supply, LLC Form 10-Q Reports (File Nos. 1-11459 and 333-74794) for the quarter ended June 30, 2004)
- 10(i)-2 - Amendment No. 1, dated December 14, 2004, to said Asset Purchase Agreement (Exhibit 99.1 to PPL Corporation and PPL Energy Supply, LLC Form 8-K Reports (File Nos. 1-11459 and 333-74794) dated December 15, 2004)
- 10(j)-1 - Receivables Sale Agreement, dated as of August 1, 2004, between PPL Electric Utilities Corporation, as Originator, and PPL Receivables Corporation, as Buyer (Exhibit 10(d) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2004)
- 10(j)-2 - Amendment No. 1, dated as of August 5, 2008, to said Receivables Sale Agreement, between PPL Electric Utilities Corporation, as Originator, and PPL Receivables Corporation, as Buyer (Exhibit 10(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 6, 2008)
- 10(j)-3 - Credit and Security Agreement, dated as of August 5, 2008, among PPL Receivables Corporation, PPL Electric Utilities Corporation, Victory Receivables Corporation, the Liquidity Banks from time to time party thereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch (Exhibit 10(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 6, 2008)

- 10(j)-4 - Amendment No. 1, dated as of July 28, 2009, to said Credit and Security Agreement (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2009)
- 10(j)-5 - Amendment No. 2, dated as of July 27, 2010, to said Credit and Security Agreement (Exhibit 10(g) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2010)
- 10(j)-6 - Amendment No. 3, dated as of December 23, 2010, to said Credit and Security Agreement (Exhibit 10(j)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(j)-7 - Amendment No. 4, dated as of March 31, 2011, to said Credit and Security Agreement (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2011)
- 10(j)-8 - Amendment No. 5, dated as of July 26, 2011, to said Credit and Security Agreement (Exhibit 10(c) to PPL Corporation Form 10-Q/A Report (File No. 1-11459) for the quarter ended June 30, 2011)
- 10(j)-9 - Amendment No. 6, dated as of July 24, 2012, to said Credit and Security Agreement (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2012)
- 10(j)-10 - Amendment No. 7, dated as of September 24, 2012, to said Credit and Security Agreement (Exhibit 10(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2012)
- 10(k)-1 - Reimbursement Agreement, dated as of March 31, 2005, among PPL Energy Supply, LLC, The Bank of Nova Scotia, as Issuer and Administrative Agent, and the Lenders party thereto from time to time (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended March 31, 2005)
- 10(k)-2 - First Amendment, dated as of June 16, 2005, to said Reimbursement Agreement (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2005)
- 10(k)-3 - Second Amendment, dated as of September 1, 2005, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended September 30, 2005)
- 10(k)-4 - Third Amendment, dated as of March 30, 2006, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated April 5, 2006)
- 10(k)-5 - Fourth Amendment, dated as of April 12, 2006, to said Reimbursement Agreement (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended September 30, 2006)
- 10(k)-6 - Fifth Amendment, dated as of November 1, 2006, to said Reimbursement Agreement (Exhibit 10(q)-6 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2006)
- 10(k)-7 - Sixth Amendment, dated as of March 29, 2007, to said Reimbursement Agreement (Exhibit 10(q)-7 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2007)
- 10(k)-8 - Seventh Amendment, dated as of March 1, 2008, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended March 31, 2008)

- 10(k)-9 - Eighth Amendment, dated as of March 30, 2009, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended March 31, 2009)
- 10(k)-10 - Ninth Amendment, dated as of March 31, 2010, to said Reimbursement Agreement (Exhibit 99.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 6, 2010)
- 10(k)-11 - Tenth Amendment, dated as of February 22, 2012, to said Reimbursement Agreement (Exhibit 10(k)-11 to PPL Energy Supply, LLC Form 10-K Report (File No. 1-32944) for the year ended December 31, 2011)
- *10(k)-12 - Eleventh Amendment, dated as of February 28, 2013, to said Reimbursement Agreement
- 10(l) - Purchase and Sale Agreement, dated as of April 28, 2010, by and between E.ON US Investments Corp., PPL Corporation and E.ON AG (Exhibit No. 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 30, 2010)
- 10(m) - \$500 million Facility Agreement, dated as of May 14, 2010, among PPL Energy Supply, LLC, as Borrower, and Morgan Stanley Bank, as Issuer (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2010)
- 10(n) - Purchase and Sale Agreement, dated as of September 9, 2010, by and between PPL Holtwood, LLC and LSP Safe Harbor Holdings, LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 13, 2010)
- 10(o) - Purchase and Sale Agreement, dated as of September 9, 2010, by and between PPL Generation, LLC and Harbor Gen Holdings, LLC (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 13, 2010)
- 10(p) - Open-End Mortgage, Security Agreement and Fixture Filing from PPL Montour, LLC to Wilmington Trust FSB, as Collateral Agent, dated as of October 26, 2010 (Exhibit 10(w) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(q) - Open-End Mortgage, Security Agreement and Fixture Filing from PPL Brunner Island, LLC to Wilmington Trust FSB, as Collateral Agent, dated as of October 26, 2010 (Exhibit 10(x) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(r) - Guaranty of PPL Montour, LLC and PPL Brunner Island, LLC, dated as of November 3, 2010, in favor of Wilmington Trust FSB, as Collateral Agent, for itself as Beneficiary and for the Secured Counterparties described therein (Exhibit 10 (y) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(s) - £300,000,000 Multicurrency Revolving Credit Facility Agreement, dated April 4, 2011, among Western Power Distribution (West Midlands) plc and Royal Bank of Canada as Lead Arranger, Bank of America Securities Limited as Bookrunner and Facility Agent, Bank of America, N.A. as Issuing Bank and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 8, 2011)
- 10(t) - £300,000,000 Multicurrency Revolving Credit Facility Agreement, dated April 4, 2011, among Western Power Distribution (East Midlands) plc and Royal Bank of Canada as Lead Arranger, Bank of America Securities Limited as Bookrunner and Facility Agent, Bank of America, N.A. as Issuing Bank and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 8, 2011)
- 10(u) - Amendment and Restatement Agreement, dated as of August 16, 2012, regarding \$198,309,583.05 Amended and Restated Letter of Credit Agreement, dated as of August 16, 2012, among Kentucky Utilities Company, the Lenders from time to time party hereto, and Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent (Exhibit 10(c) to Kentucky Utilities Company Form 10-Q Report (File No. 1-3464) for the quarter ended September 30, 2012)

- 10(v) - £245,000,000 Revolving Credit Facility Agreement, dated January 12, 2012, among Western Power Distribution (South West) plc, the lenders party thereto and Lloyds TSB Bank Plc and Mizuho Corporate Bank, Ltd. as Joint Coordinators (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated January 18, 2012)
- 10(w)-1 - Confirmation of Forward Sale Transaction, dated April 9, 2012, between PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 13, 2012)
- 10(w)-2 - Confirmation of Forward Sale Transaction, dated April 20, 2012, between PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 26, 2012)
- 10(x)-1 - Confirmation of Forward Sale Transaction, dated April 9, 2012, between PPL Corporation and Merrill Lynch International (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 13, 2012)
- 10(x)-2 - Confirmation of Forward Sale Transaction, dated April 20, 2012, between PPL Corporation and Merrill Lynch International (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 26, 2012)
- 10(y) - Commitment Increase Agreement, dated as of April 20, 2012, entered into by and among PPL Electric Utilities Corporation, the Lenders who are increasing their Commitments, the JLA Issuing Banks, who are consenting to the increase in Fronting Sublimit, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- 10(z)-1 - Uncommitted Line of Credit Letter Agreement, dated as of July 1, 2012, between PPL Energy Supply, LLC, the Borrower, and Banco Bilbao Vizcaya Argentaria, S.A., the Bank (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2012)
- 10(z)-2 - Reimbursement Agreement, dated as of July 1, 2012, between PPL Energy Supply, LLC and Banco Bilbao Vizcaya Argentaria, S.A. (Exhibit 10(c) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2012)
- 10(aa) - Letter of Credit Issuance and Reimbursement Agreement, dated as of July 27, 2012, between PPL Energy Supply, LLC and Canadian Imperial Bank of Commerce, New York Agency (Exhibit 10(e) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2012)
- *10(bb) - \$300,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among PPL Electric Utilities Corporation, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender
- *10(cc) - \$3,000,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among PPL Energy Supply, LLC, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender
- *10(dd) - \$400,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among Kentucky Utilities Company, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender
- *10(ee) - \$500,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among Louisville Gas and Electric Company, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender

- *10(ff) - £210,000,000 Multicurrency Revolving Facility Agreement, dated December 21, 2012, among PPL WW Holdings Ltd., as the Company, Lloyds TSB Bank plc and Mizuho Corporate Bank, Ltd., as Joint Coordinators and Bookrunners, Barclays Bank PLC, Commonwealth Bank of Australia, HSBC Bank plc, Lloyds TSB Bank plc, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. and The Royal Bank of Scotland plc, as Mandated Lead Arrangers and Mizuho Corporate Bank, Ltd., as Facility Agent
- [_]10(gg)-1 - Amended and Restated Directors Deferred Compensation Plan, dated June 12, 2000 (Exhibit 10(h) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2000)
- [_]10(gg)-2 - Amendment No. 1 to said Directors Deferred Compensation Plan, dated December 18, 2002 (Exhibit 10(m)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- [_]10(gg)-3 - Amendment No. 2 to said Directors Deferred Compensation Plan, dated December 4, 2003 (Exhibit 10(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- [_]10(gg)-4 - Amendment No. 3 to said Directors Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- [_]10(gg)-5 - Amendment No. 4 to said Directors Deferred Compensation Plan, dated as of May 1, 2008 (Exhibit 10(x)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- [_]10(gg)-6 - Amendment No. 5 to said Directors Deferred Compensation Plan, dated May 28, 2010 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2010)
- *[_]10(hh)-1 - PPL Corporation Directors Deferred Compensation Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee
- *[_]10(hh)-2 - PPL Officers Deferred Compensation Plan, PPL Supplemental Executive Retirement Plan and PPL Supplemental Compensation Pension Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee
- [_]10(hh)-3 - PPL Revocable Employee Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-1149) for the quarter ended March 31, 2007)
- [_]10(hh)-4 - PPL Employee Change in Control Agreements Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [_]10(hh)-5 - PPL Revocable Director Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(e) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [_]10(ii)-1 - Amended and Restated Officers Deferred Compensation Plan, dated December 8, 2003 (Exhibit 10(r) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- [_]10(ii)-2 - Amendment No. 1 to said Officers Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)

- []10(ii)-3 - Amendment No. 2 to said Officers Deferred Compensation Plan, dated as of January 22, 2007 (Exhibit 10(bb)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(ii)-4 - Amendment No. 3 to said Officers Deferred Compensation Plan, dated as of June 1, 2008 (Exhibit 10(z)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- []10(ii)-5 - Amendment No. 4 to said Officers Deferred Compensation Plan, dated as of February 15, 2012 (Exhibit 10(ff)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- []10(jj)-1 - Amended and Restated Supplemental Executive Retirement Plan, dated December 8, 2003 (Exhibit 10(s) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- []10(jj)-2 - Amendment No. 1 to said Supplemental Executive Retirement Plan, dated December 16, 2004 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 17, 2004)
- []10(jj)-3 - Amendment No. 2 to said Supplemental Executive Retirement Plan, dated as of January 1, 2005 (Exhibit 10(ff)-3 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- []10(jj)-4 - Amendment No. 3 to said Supplemental Executive Retirement Plan, dated as of January 22, 2007 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(jj)-5 - Amendment No. 4 to said Supplemental Executive Retirement Plan, dated as of December 9, 2008 (Exhibit 10(aa)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- []10(jj)-6 - Amendment No. 5 to said Supplemental Executive Retirement Plan, dated as of February 15, 2012 (Exhibit 10(gg)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- []10(kk)-1 - Amended and Restated Incentive Compensation Plan, effective January 1, 2003 (Exhibit 10(p) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- []10(kk)-2 - Amendment No. 1 to said Incentive Compensation Plan, dated as of January 1, 2005 (Exhibit 10(gg)-2 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- []10(kk)-3 - Amendment No. 2 to said Incentive Compensation Plan, dated as of January 26, 2007 (Exhibit 10(dd)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(kk)-4 - Amendment No. 3 to said Incentive Compensation Plan, dated as of March 21, 2007 (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(kk)-5 - Amendment No. 4 to said Incentive Compensation Plan, effective December 1, 2007 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2008)
- []10(kk)-6 - Amendment No. 5 to said Incentive Compensation Plan, dated as of December 16, 2008 (Exhibit 10(bb)-6 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2008)
- []10(kk)-7 - Form of Stock Option Agreement for stock option awards under the Incentive Compensation Plan (Exhibit 10(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- []10(kk)-8 - Form of Restricted Stock Unit Agreement for restricted stock unit awards under the Incentive Compensation Plan (Exhibit 10(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)

- []10(kk)-9 - Form of Performance Unit Agreement for performance unit awards under the Incentive Compensation Plan (Exhibit 10 (ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
- []10(ll)-1 - Amended and Restated Incentive Compensation Plan for Key Employees, effective January 1, 2003 (Schedule B to Proxy Statement of PPL Corporation, dated March 17, 2003)
- []10(ll)-2 - Amendment No. 1 to said Incentive Compensation Plan for Key Employees, dated as of January 1, 2005 (Exhibit (hh)-1 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- []10(ll)-3 - Amendment No. 2 to said Incentive Compensation Plan for Key Employees, dated as of January 26, 2007 (Exhibit 10(ee)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(ll)-4 - Amendment No. 3 to said Incentive Compensation Plan for Key Employees, dated as of March 21, 2007 (Exhibit 10(q) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(ll)-5 - Amendment No. 4 to said Incentive Compensation Plan for Key Employees, dated as of December 15, 2008 (Exhibit 10 (cc)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- []10(ll)-6 - Amendment No. 5 to said Incentive Compensation Plan for Key Employees, dated as of March 24, 2011 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2011)
- []10(mm) - Short-term Incentive Plan (Schedule A to Proxy Statement of PPL Corporation, dated April 6, 2011)
- []10(nn) - Agreement, dated January 15, 2003, between PPL Corporation and Mr. Miller regarding Supplemental Pension Benefits (Exhibit 10(u) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- []10(oo) - Employment letter, dated May 31, 2006, between PPL Services Corporation and William H. Spence (Exhibit 10(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(pp) - Form of Retention Agreement entered into between PPL Corporation and Messrs. DeCampli, Dudkin, Farr and Gabbard (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(qq)-1 - Form of Severance Agreement entered into between PPL Corporation and the Named Executive Officers (Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(qq)-2 - Amendment to said Severance Agreement (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2009)
- []10(rr) - Amended and Restated Employment and Severance Agreement, dated as of October 29, 2010, between E.ON U.S. LLC and Victor A. Staffieri (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- []10(ss)-1 - Form of Change in Control Severance Protection Agreement as adopted March 5, 2012 (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)

- []10(ss)-2 - Form of Change in Control Severance Protection Agreement entered into between PPL Corporation and Messrs. Dudkin and Staffieri (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- []10(tt)-1 - PPL Corporation 2012 Stock Incentive Plan (Annex A to Proxy Statement of PPL Corporation, dated April 3, 2012)
- *[]10(tt)-2 - Form of Performance Unit Agreement for performance unit awards under the Stock Incentive Plan
- *[]10(tt)-3 - Form of Performance Contingent Restricted Stock Unit Agreement for restricted stock unit awards under the Stock Incentive Plan
- *[]10(tt)-4 - Form of Nonqualified Stock Option Agreement for stock option awards under the Stock Incentive Plan
- []10(uu) - PPL Corporation Executive Severance Plan, effective as of July 26, 2012 (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- *12(a) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(b) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *12(c) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(d) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *12(e) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- *12(f) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges
- *21 - Subsidiaries of PPL Corporation
- *23(a) - Consent of Ernst & Young LLP - PPL Corporation
- *23(b) - Consent of Ernst & Young LLP - PPL Energy Supply, LLC
- *23(c) - Consent of Ernst & Young LLP - PPL Electric Utilities Corporation
- *23(d) - Consent of PricewaterhouseCoopers LLP - PPL Corporation
- *23(e) - Consent of Ernst & Young LLP - LG&E and KU Energy LLC
- *23(f) - Consent of Ernst & Young LLP - Louisville Gas and Electric Company
- *23(g) - Consent of Ernst & Young LLP - Kentucky Utilities Company
- *23(h) - Consent of PricewaterhouseCoopers LLP - LG&E and KU Energy LLC
- *23(i) - Consent of PricewaterhouseCoopers LLP - Louisville Gas and Electric Company
- *23(j) - Consent of PricewaterhouseCoopers LLP - Kentucky Utilities Company
- *24 - Power of Attorney

- *31(a) - Certificate of PPL's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(b) - Certificate of PPL's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(c) - Certificate of PPL Energy Supply's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(d) - Certificate of PPL Energy Supply's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(e) - Certificate of PPL Electric's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(f) - Certificate of PPL Electric's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(g) - Certificate of LKE's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(h) - Certificate of LKE's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(i) - Certificate of LG&E's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(j) - Certificate of LG&E's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(k) - Certificate of KU's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(l) - Certificate of KU's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *32(a) - Certificate of PPL's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32(b) - Certificate of PPL Energy Supply's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32(c) - Certificate of PPL Electric's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32(d) - Certificate of LKE's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32(e) - Certificate of LG&E's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32(f) - Certificate of KU's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

- 101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

AMENDMENT NO. 9
TO
PPL EMPLOYEE STOCK OWNERSHIP PLAN

WHEREAS, PPL Services Corporation (“PPL”) has adopted the PPL Employee Stock Ownership Plan (“Plan”) effective January 1, 2000; and

WHEREAS, the Plan was amended and restated effective January 1, 2002, and subsequently amended by Amendment No. 1, 2, 3, 4, 5, 6, 7 and 8; and

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective September 17, 2012, Appendix A is amended to read as follows:

Appendix A

Participating Company

<u>Name</u>	<u>Effective Date</u>
1. PPL Services Corporation	July 1, 2000
2. PPL Electric Utilities Corporation	January 1, 1975
3. PPL EnergyPlus, LLC	July 14, 1998
4. PPL Generation, LLC	July 1, 2000
5. PPL Brunner Island, LLC	July 1, 2000
6. PPL Holtwood, LLC	July 1, 2000
7. PPL Martins Creek, LLC	July 1, 2000
8. PPL Montour, LLC	July 1, 2000
9. PPL Susquehanna, LLC	July 1, 2000
10. PPLSolutions, LLC	January 1, 2002
11. PPL Telcom, LLC	February 5, 2001
12. Lower Mount Bethel Energy, LLC	September 30, 2002
13. PPL Edgewood Energy, LLC	April 1, 2003
14. PPL Maine, LLC	April 1, 2003
15. PPL Wallingford Energy, LLC	April 1, 2003
16. PPL Development Company, LLC	January 1, 2006
17. PPL Global, LLC	January 1, 2006
18. PPL Energy Services Group, LLC	September 25, 2006
19. PPL Interstate Energy Company	January 1, 2008
20. PPL Strategic Development, LLC	January 1, 2012
21. PPL EnergyPlus Retail, LLC	June 23, 2011
22. PPL Energy Supply, LLC	September 17, 2012

II. Except as provided in this Amendment No. 9, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 9 is executed this ____ day of _____, 2012.

PPL SERVICES CORPORATION

By: _____
Mark F. Wilten
Vice President-Finance & Treasurer

ELEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

THIS ELEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of February 28, 2013 (this “Amendment”), to the Existing Reimbursement Agreement (as defined below) is made by PPL ENERGY SUPPLY, LLC, a Delaware limited liability company (the “Account Party”), and certain of the Lenders (such capitalized term and other capitalized terms used in this preamble and the recitals below to have the meanings set forth in, or are defined by reference in, Article I below).

WITNESSETH:

WHEREAS, the Account Party, the Lenders and The Bank of Nova Scotia, as the Issuer and as Administrative Agent, are all parties to the Reimbursement Agreement, dated as of March 31, 2005 (as amended or otherwise modified prior to the date hereof, the “Existing Reimbursement Agreement”, and as amended by this Amendment and as the same may be further amended, supplemented, amended and restated or otherwise modified from time to time, the “Reimbursement Agreement”); and

WHEREAS, the Account Party has requested that the Lenders amend certain provisions of the Existing Reimbursement Agreement and the Lenders are willing to modify the Existing Reimbursement Agreement on the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, the parties hereto hereby covenant and agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1. Certain Definitions. The following terms when used in this Amendment shall have the following meanings (such meanings to be equally applicable to the singular and plural forms thereof):

“Account Party” is defined in the preamble.

“Amendment” is defined in the preamble.

“Existing Reimbursement Agreement” is defined in the first recital.

“Reimbursement Agreement” is defined in the first recital.

SECTION 1.2. Other Definitions. Terms for which meanings are provided in the Existing Reimbursement Agreement are, unless otherwise defined herein or the context otherwise requires, used in this Amendment with such meanings.

ARTICLE II
AMENDMENTS TO THE EXISTING REIMBURSEMENT AGREEMENT

Effective as of the date hereof, but subject to the satisfaction of the conditions in Article III, the provisions referred to below of the Existing Reimbursement Agreement are hereby amended in accordance with this Article II.

SECTION 2.1. Amendment to Section 1.1. Section 1.1 of the Existing Reimbursement Agreement is hereby amended by amending and restating the definitions of “Applicable Commitment Fee Margin,” “Applicable Letter of Credit Margin,” “Incorporated Agreement,” “Letter of Credit Commitment Amount” and “Stated Maturity Date” in their entirety as follows:

“Applicable Commitment Fee Margin” means:

(a) from time to time prior to April 1, 2013, the following percentages per annum, based upon the Debt Rating as set forth below:

<u>Pricing Level</u>	<u>Debt Rating</u>	<u>Applicable Commitment Fee Margin</u>
1	≥ A- from S&P/ A3 from Moody’s	0.125%
2	BBB+ from S&P/ Baa1 from Moody’s	0.175%
3	BBB from S&P/ Baa2 from Moody’s	0.20%
4	BBB- from S&P/Baa3 from Moody’s	0.25%
5	<BBB- from S&P/ Baa3 from Moody’s	0.35%; and

(b) from time to time on or after April 1, 2013, 0.125% per annum.

“Applicable Letter of Credit Margin” from time to time, the following percentages per annum, based upon the Debt Rating as set forth below:

(a) from time to time prior to April 1, 2013, the following percentages per annum, based upon the Debt Rating as set forth below:

<u>Pricing Level</u>	<u>Debt Rating</u>	<u>Applicable Letter of Credit Margin</u>
1	≥ A- from S&P/ A3 from Moody’s	1.10%
2	BBB+ from S&P/ Baa1 from Moody’s	1.35%
3	BBB from S&P/ Baa2 from Moody’s	1.60%
4	BBB- from S&P/Baa3 from Moody’s	1.725%
5	<BBB- from S&P/ Baa3 from Moody’s	1.975%; and

(b) from time to time on or after April 1, 2013, 0.85% per annum.

“Incorporated Agreement” means the \$3,000,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among the Account Party, the lenders from time to time party thereto, Wells Fargo Bank, National Association, as administrative agent, issuing lender and swingline lender, certain financial institutions, as syndication agents, certain financial institutions, as lead arrangers, and certain financial institutions, as documentation agents, as in effect on the date hereof and without giving effect to any subsequent modification, supplement, amendment or waiver by the lenders under, or by other parties to, the Incorporated Agreement, unless the Required Lenders agree in writing that such modification, supplement, amendment or waiver shall apply to such provisions or schedules as incorporated herein.

“Letter of Credit Commitment Amount” means (i) on any date prior to April 1, 2013, a maximum amount of \$200,000,000, and (ii) on April 1, 2013 and on any date thereafter, a maximum amount of \$150,000,000.

“Stated Maturity Date” means March 31, 2014.

SECTION 2.1. Amendment to Section 2.1. The definition of “Additional Account Parties” in Section 2.1 of the Existing

Reimbursement Agreement is hereby amended (a) by removing the references therein to “PPL Gas Utilities Corporation,” “PPL Wallingford Energy, LLC,” “PPL Sundance Energy, LLC,” “Tyrone Synfuels, L.P.” and “Avon Lake Synfuels” and (b) by adding references thereto to “PPL Solutions, LLC,” “PPL Renewable Energy, LLC” and “Lady Jane Collieries, Inc.”

SECTION 2.2. Amendment to Section 2.5. Section 2.5 of the Existing Reimbursement Agreement is hereby amended by amending and restating it in its entirety as follows:

“SECTION 2.5. Cash Collateral. If for any reason at any time the aggregate amount of all Letter of Credit Outstandings exceeds the Letter of Credit Commitment Amount then in effect, the Issuer shall immediately Cash Collateralize the Letter of Credit Outstandings in an aggregate amount equal to such excess.”

ARTICLE III
CONDITIONS TO EFFECTIVENESS

This Amendment and the amendments contained herein shall become effective as of the date hereof when each of the conditions set forth in this Article III shall have been fulfilled to the satisfaction of the Administrative Agent.

SECTION 3.1. Counterparts. The Administrative Agent shall have received counterparts hereof executed on behalf of the Account Party and the each of the Lenders.

SECTION 3.2. Costs and Expenses, etc. The Administrative Agent shall have received for the account of each Lender, all fees, costs and expenses due and payable pursuant to Section 10.3 of the Reimbursement Agreement, if then invoiced.

SECTION 3.3. Resolutions, etc. The Administrative Agent shall have received from the Account Party (i) a copy of a good standing certificate, dated a date reasonably close to the date hereof and (ii) a certificate, dated as of the date hereof, duly executed and delivered by any vice president, the controller, the treasurer, the assistant treasurer, secretary or assistant secretary of the Account Party as to

- (a) resolutions of the Account Party's Board of Managers then in full force and effect authorizing the execution, delivery and performance of this Amendment and the transactions contemplated hereby;
- (b) the incumbency and signatures of those of its officers authorized to act with respect to this Amendment; and
- (c) the full force and validity of each Organic Document of the Account Party and copies thereof;

upon which certificates the Administrative Agent and all Lenders may conclusively rely until it shall have received a further certificate of any such officer of the Account Party canceling or amending such prior certificate.

SECTION 3.4. Opinion of Counsel. The Administrative Agent shall have received an opinion, dated the date hereof and addressed to the Administrative Agent and all Lenders, from counsel to the Account Party, in form and substance satisfactory to the Administrative Agent.

SECTION 3.5. Satisfactory Legal Form. The Administrative Agent and its counsel shall have received all information, and such counterpart originals or such certified or other copies of such materials, as the Administrative Agent or its counsel may reasonably request, and all legal matters incident to the effectiveness of this Amendment shall be satisfactory to the Administrative Agent and its counsel. All documents executed or submitted pursuant hereto or in connection herewith shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel.

ARTICLE IV
MISCELLANEOUS

SECTION 4.1. Cross-References. References in this Amendment to any Article or Section are, unless otherwise specified, to such Article or Section of this Amendment.

SECTION 4.2. Loan Document Pursuant to Existing Reimbursement Agreement. This Amendment is a Loan Document executed pursuant to the Existing Reimbursement Agreement and shall (unless otherwise expressly indicated therein) be construed, administered and applied in accordance with all of the terms and provisions of the Existing Reimbursement Agreement, as amended hereby, including Article X thereof.

SECTION 4.3. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

SECTION 4.4. Counterparts. This Amendment may be executed by the parties hereto in several counterparts, each of which when executed and delivered shall be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 4.5. Governing Law. THIS AMENDMENT WILL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING FOR SUCH PURPOSE SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).

SECTION 4.6. Full Force and Effect; Limited Amendment. Except as expressly amended hereby, all of the representations, warranties, terms, covenants, conditions and other provisions of the Existing Reimbursement Agreement and the Loan Documents shall remain unchanged and shall continue to be, and shall remain, in full force and effect in accordance with their respective terms. The amendments set forth herein shall be limited precisely as provided for herein to the provisions expressly amended herein and shall not be deemed to be an amendment to, waiver of, consent to or modification of any other term or provision of the Existing Reimbursement Agreement or any other Loan Document or of any transaction or further or future action on the part of any Obligor which would require the consent of the Lenders under the Existing Reimbursement Agreement or any of the Loan Documents.

SECTION 4.7. Representations and Warranties. In order to induce the Lenders to execute and deliver this Amendment, the Account Party hereby represents and warrants to the Lenders, on the date this Amendment becomes effective pursuant to Article III, that both before and after giving effect to this Amendment, all statements set forth in clauses (a) and (b) of Section 5.2.1 of the Reimbursement Agreement are true and correct as of such date, except to the extent that any such statement expressly relates to an earlier date (in which case such statement was true and correct on and as of such earlier date).

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first above written.

PPL ENERGY SUPPLY, LLC

By: /s/ Russell R. Clelland
Title: Assistant Treasurer

THE BANK OF NOVA SCOTIA

By: /s/ Thane Rattew
Title: Managing Director

\$300,000,000

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

dated as of November 6, 2012

among

PPL ELECTRIC UTILITIES CORPORATION,

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, Issuing Lender and Swingline Lender**

**WELLS FARGO SECURITIES, LLC,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, RBS SECURITIES INC.,
BARCLAYS BANK PLC,
THE BANK OF NOVA SCOTIA
and
MITSUBISHI UFJ FINANCIAL GROUP, INC.,
Joint Lead Arrangers and Joint Bookrunners**

**BANK OF AMERICA, N.A.
and
THE ROYAL BANK OF SCOTLAND PLC,
Syndication Agents**

**BARCLAYS BANK PLC,
THE BANK OF NOVA SCOTIA
and
MITSUBISHI UFJ FINANCIAL GROUP, INC.,
Documentation Agents**

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JLA L/C Fronting Sublimits Appendix

Exhibits:

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Exhibit A-2 - Form of Notice of Conversion/Continuation
Exhibit A-3 - Form of Letter of Credit Request
Exhibit B - Form of Note
Exhibit C - Form of Assignment and Assumption Agreement
Exhibit D - Forms of Opinion of Counsel for the Borrower

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this “Agreement”) dated as of November 6, 2012 is entered into among PPL ELECTRIC UTILITIES CORPORATION, a Pennsylvania corporation (the “Borrower”), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent. The parties hereto agree as follows:

RECITALS

WHEREAS, the Borrower is party to that certain \$300,000,000 Revolving Credit Agreement dated as of December 31, 2010, among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the “Existing Credit Agreement”); and

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, decrease the fronting sublimit for letters of credit and extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree that the Existing Credit Agreement is hereby amended and restated in its entirety, and do further agree as follows:

**ARTICLE I
DEFINITIONS**

Section 1.01. Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Additional Letter of Credit” means any standby letter of credit issued under this Agreement by an Issuing Lender on or after the Effective Date.

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

“Agent” means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers, the Documentation Agents or each Person that shall become a joint lead arranger pursuant to the terms of the Commitment Letters and “Agents” means all of the foregoing.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Amendment Fee” has the meaning set forth in Section 4.01(j).

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“Applicable Percentage” means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

Borrower’s Ratings (S&P /Moody’s)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees

Category A	≥ A from S&P / A2 from Moody's	0.100%	0.000%	1.000%
Category B	≥ A- from S&P / A3 from Moody's	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from Moody's	0.175%	0.250%	1.250%
Category D	BBB from S&P / Baa2 from Moody's	0.200%	0.500%	1.500%
Category E	BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%
Category F	≤ BB+ from S&P / Ba1 from Moody's	0.350%	0.875%	1.875%

“Asset Sale” shall mean any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

“Base Rate Borrowing” means a Borrowing comprised of Base Rate Loans.

“Base Rate Lending Office” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“Base Rate Loan” means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrower's Rating” means the senior secured long-term debt rating of the Borrower from S&P or Moody's.

“Borrowing” means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London Business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in the Commitment Appendix and as such Commitment may be reduced from time to time pursuant to Section 2.08

or Section 9.06(c) or increased from time to time pursuant to Section 9.06(c).

“Commitment Appendix” means the Appendix attached under this Agreement identified as such.

“Commitment Fee” has the meaning set forth in Section 2.07(a).

“Commitment Letters” means (i) that certain commitment letter dated as of September 24, 2012 among Wells Fargo Securities, LLC, Wells Fargo Bank, National Association, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc and (ii) that certain commitment letter dated as of October 2, 2012 among Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each commitment letter addressed to and acknowledged and agreed to by the Borrower.

“Commitment Ratio” shall mean, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“Consolidated Capitalization” shall mean the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowner’s equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Continuing Lender” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Credit Event” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time.

“Documentation Agents” means Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank N.A., each in its capacity as a documentation agent in respect of this Agreement.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; or (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended); provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“Existing Credit Agreement” has the meaning set forth in the recitals hereto.

“Existing Letters of Credit” means the standby letters of credit issued before the Effective Date pursuant to the Existing Credit Agreement.

“Extending Lenders” has the meaning set forth in Section 9.15 hereto.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code and any regulations (whether final, temporary or proposed) that are issued thereunder or official government interpretations thereof and any agreements entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter ” means the fee letter dated as of September 24, 2012 among the Borrower, Wells Fargo Securities, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated , Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc as amended, modified or supplemented from time to time.

“ FERC ” means the Federal Energy Regulatory Commission.

“ Fronting Fee ” has the meaning set forth in Section 2.07(b).

“ Fronting Sublimit ” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on the JLA L/C Fronting Sublimits Appendix hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“ GAAP ” means United States generally accepted accounting principles applied on a consistent basis.

“ Governmental Authority ” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“ Group of Loans ” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“ Guarantee ” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“ Hazardous Substances ” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“ Hybrid Securities ” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“ Indemnitee ” has the meaning set forth in Section 9.03(b).

“ Interest Period ” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clauses (iii) and (iv) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

“ Interest Rate Protection Agreements ” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“ Internal Revenue Code ” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“ Issuing Lender ” means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity, (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, and (iii) each issuer of an Existing Letter of Credit, subject in each case to the Fronting Sublimit.

“ Joint Lead Arrangers ” means Wells Fargo Securities , Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A. , each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

“JLA Issuing Bank” means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc, Barclays Bank PLC, The Bank of Nova Scotia, Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and each other Lender (or Affiliate of a Lender) that shall become (or whose Affiliate shall become) a joint lead arranger pursuant to the terms of the Commitment Letters.

“Lender” means each bank or other lending institution listed in the Commitment Appendix as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to make available any Loan or any reimbursement for a drawing under a Letter of Credit or refunding of a Swingline Loan, in each case, within one Business Day from the date it is obligated to make such amount available under the terms and conditions of this Agreement or (ii) a Lender having notified, in writing, the Administrative Agent and the Borrower that such Lender does not intend to comply with its obligations under Article II following the appointment of a receiver or conservator with respect to such Lender at the direction or request of any regulatory agency or authority.

“Letter of Credit” means an Existing Letter of Credit or an Additional Letter of Credit, and “Letters of Credit” means any combination of the foregoing.

“Letter of Credit Fee” has the meaning set forth in Section 2.07(b).

“Letter of Credit Liabilities” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“London Interbank Offered Rate” means:

(a) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period.

(b) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” shall mean Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” shall mean a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document; and

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document;

together in each case with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“ Person ” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“ Plan ” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“ Prime Rate ” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“ PUC ” has the meaning set forth in Section 4.01(h).

“ PUC Order ” has the meaning set forth in Section 4.01(h).

“ Quarterly Date ” means the last Business Day of each of March, June, September and December.

“ Rating Agency ” means S&P or Moody’s, and “Rating Agencies” means both of them.

“ Register ” has the meaning set forth in Section 9.06(e).

“ Regulation U ” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“ Regulation X ” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“ Reimbursement Obligations ” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“ Replacement Date ” has the meaning set forth in Section 2.08(b).

“ Replacement Lender ” has the meaning set forth in Section 2.08(b).

“ Required Lenders ” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“ Responsible Officer ” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“ Retiring Lender ” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

“ Revolving ” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“ Revolving Outstandings ” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) aggregate amount of such Lender’s Letter of Credit Liabilities.

“ Revolving Outstandings Excess ” has the meaning set forth in Section 2.09.

“ Sanctioned Entity ” shall mean (i) an agency of the government of, (ii) an organization directly or indirectly controlled by, or (iii) a Person resident in, a country that is subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html>, or as otherwise published from time to time as such program may be applicable to such agency, organization or Person.

“ Sanctioned Person ” shall mean a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

“SEC” means the Securities and Exchange Commission.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Swingline Borrowing” means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of Borrowing with respect thereto.

“Swingline Exposure” means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

“Swingline Lender” means Wells Fargo Bank, in its capacity as Swingline Lender.

“Swingline Loan” means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

“Swingline Sublimit” means the lesser of (a) \$10,000,000 and (b) the aggregate Commitments of all Lenders.

“Swingline Termination Date” means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

“Syndication Agents” means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earliest to occur of (a) October 18, 2017 and (b) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Wells Fargo Bank” means Wells Fargo Bank, National Association, and its successors.

“Wells Fargo Securities” means Wells Fargo Securities, LLC, and its successors and assigns.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01. Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

Section 2.02. Swingline Loans

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

(b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender's obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender's failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender's Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

Section 2.03. Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which

would exceed such limitation shall be made as Base Rate Loans.

Section 2.04. Notice to Lenders; Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

Section 2.05. Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (a) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (c) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (a) and (b) above.

Section 2.06. Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may

otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause(A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a “Notice of Conversion/Continuation”) to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender’s pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07. Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the “Commitment Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender’s Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the “Letter of Credit Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the “Fronting Fee”) in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.08. Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06 (c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender (s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the

Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (to the extent not previously adjusted pursuant to Section 2.20). The right of the Borrower to effect such a termination is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.09. Maturity of Loans; Mandatory Prepayments.

(a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a "Revolving Outstandings Excess"), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

(b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

Section 2.10. Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

Section 2.11. General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next

preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12. Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13. Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14. Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Domestic Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (i) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (ii) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16. Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office) or shall impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable

Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.17. Taxes.

(a) Payments Net of Certain Taxes. Any and all payments by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent that is a "United States person" within the meaning of Section 7701 (a)(30) of the Internal Revenue Code, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17 (a)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "Other Taxes").

(c) Indemnification. The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this Section 2.17(c). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) Refunds or Credits. If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is

required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a "Non-U.S. Lender") shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; or (C) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a "10-percent shareholder" of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a "controlled foreign corporation" that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender or are effectively connected but are not includible in the Non-U.S. Lender's gross income for United States federal income tax purposes under an income tax treaty to which the United States is a party; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8 ECI, W-8 BEN, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8 BEN, W-8 ECI or W-8 IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such Form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18. Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related

Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19. [Reserved.]

Section 2.20. Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

ARTICLE III LETTERS OF CREDIT

Section 3.01. Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent

hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

Section 3.02. Letters of Credit.

(a) Existing Letters of Credit. On the Effective Date, each Issuing Lender (as defined in the Existing Credit Agreement) that has issued an Existing Letter of Credit shall be deemed, without further action by any party to this Agreement, to have issued such Existing Letter of Credit under this Agreement pursuant to the terms and subject to the conditions of this Article III; provided, that immediately after each Letter of Credit is deemed to have been issued, the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments.

(b) Additional Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any Affiliate of the Borrower (other than PPL Energy Supply, LLC) that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$150,000,000, (B) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03. Method of Issuance of Additional Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of an Additional Letter of Credit prior to 1:00 P.M. (Charlotte, North Carolina time) on the proposed date of the issuance or extension of Additional Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

Section 3.04. Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Additional Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (i) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (ii) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (iii) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (A) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$150,000,000, (B) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Additional Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Additional Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Additional Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Additional Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05. Purchase and Sale of Letter of Credit Participations. Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06. Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07. Reimbursement Obligations. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (ii) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have

been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08. Duties of Issuing Lenders to Lenders; Reliance. In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, teletypewriter, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

Section 3.09. Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings. If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

Section 3.10. Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11. Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;
- (e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or
- (g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12. Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13. ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

ARTICLE IV CONDITIONS

Section 4.01. Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

- (a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.
- (b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.
- (c) Officers' Certificates. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or the Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are

true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Pennsylvania, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Pennsylvania and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) [Intentionally Omitted]

(g) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the order ("PUC Order") of the Pennsylvania Public Utility Commission ("PUC") and any required approvals of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions.

(h) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(i) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(j) Amendment Fee. The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the "**Amendment Fee**") as set forth in the Fee Letter, on or before the Effective Date.

Section 4.02. Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01. Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02. Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party.

Section 5.03. Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party

constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04. Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2011 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst & Young, LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2012 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2011 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05. Litigation. Except as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06. No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07. ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08. Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the PUC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect.

Section 5.09. Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.10. Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11. Compliance with Laws. To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12. No Default. No Default has occurred and is continuing.

Section 5.13. Environmental Matters.

(a) Except (i) as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, or (ii) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.14. OFAC. None of the Borrower, any Subsidiary of the Borrower or any Affiliate of the Borrower: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Entities, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. The proceeds of any Loan will not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01. Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website (<http://www.pplweb.com>) or making such information available on IntraLinks, Syndtrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated "Public Investor." "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02. Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03. Conduct of Business and Maintenance of Existence. The Borrower will (i) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04. Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance could not

reasonably be expected to have a Material Adverse Effect.

Section 6.05. Books and Records. The Borrower (i) will keep, and will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Affiliates, including for working capital purposes and for making investments in or loans to Affiliates. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Affiliates. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07. Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (ii) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08. Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower’s most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower Ratings after giving effect to any such Asset Sale.

Section 6.09. Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

ARTICLE VII DEFAULTS

Section 7.01. Events of Default. If one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on the Loans and Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in clause (ii) of Section 6.05, or Sections 6.06, 6.07, 6.08 or 6.09; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or
- (f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or
- (g) the Borrower shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or

(h) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(i) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower under the Bankruptcy Code; or

(j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(k) the Borrower shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in clause 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

ARTICLE VIII THE AGENTS

Section 8.01. Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02. Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected

in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06. Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07. Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08. Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09. Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and

duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document.

Section 8.10. Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

ARTICLE IX MISCELLANEOUS

Section 9.01. Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype, (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

PPL Electric Utilities Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151
Facsimile: 610-774-5235

with a copy to:

PPL Electric Utilities Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

if to the Administrative Agent:

Wells Fargo Bank, National Association
1525 West W.T. Harris Boulevard
Mail Code: MAC D1109-019
Charlotte, NC 28262

Attention: Syndication Agency Services
Telephone: 704.590.2706
Telecopier: 704.590.2790
Electronic Mail: agencyservices.requests@wellsfargo.com

with a copy to:

Wells Fargo Bank, National Association
90 S 7th Street, MAC: N9305-070
Minneapolis, MN 55402
Attention: Keith Luettel
Telephone: 612-667-4747
Facsimile: 602-316-0506

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Attention: Jason Kyrwood
Telephone : 212-450-4653
Facsimile: 212-450-5653

Section 9.02. No Waivers; Non-Exclusive Remedies. No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an “Indemnitee”) and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee’s own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04. Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.11(a), 2.09(b) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06. Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"). The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consent shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such

assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank. No such assignment shall release the transferor Lender from its obligations hereunder.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this subsection 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08 (b), unless, with respect to any Notes held by such Lender, the requirements of subsection 9.06(c) and this subsection 9.06(e) have been satisfied.

Section 9.07. Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08. Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09. Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10. Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will"

shall be construed to have the same meaning as the word “shall”. The term “including” shall be construed to have the same meaning as the phrase “including without limitation”.

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person’s successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by “to the best knowledge of” or “known to” (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

Section 9.11. WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12. Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender’s or Agent’s Affiliates and their respective directors, officers, employees and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower’s Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a “tombstone” or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13. USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the “Patriot Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14. No Fiduciary Duty. Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the “Lender Parties”), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the “Borrower Parties”). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm’s-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15. Amendment and Restatement of Existing Credit Agreement. Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the “**Extending Lenders**”) shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder; provided that,

for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Extending Lenders shall be redetermined based on the Commitments set forth in the Commitment Appendix and the participations of the Extending Lenders in, and the obligations of the Extending Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in the JLA L/C Fronting Sublimits Appendix.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

PPL ELECTRIC UTILITIES CORPORATION

By: /s/ Russell R. Clelland
Name: Russell R. Clelland
Title: Assistant Treasurer

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Administrative Agent, Issuing
Lender, Swingline Lender and Lender

By: /s/ Keith Luettel
Name: Keith Luettel
Title: Vice President

BANK OF AMERICA, N.A., as Issuing
Lender and Lender

By: s/ Mike Mason
Name: Mike Mason
Title: Director

THE ROYAL BANK OF SCOTLAND PLC, as
Issuing Lender and Lender

By: /s/ Tyler J McCarthy
Name: Tyler J McCarthy
Title: Director

THE ROYAL BANK OF SCOTLAND PLC, as
Issuing Lender and Lender

By: /s/ Tyler J McCarthy
Name: Tyler J McCarthy
Title: Director

BARCLAYS BANK PLC, as Issuing
Lender and Lender

By: /s/ Ronnie Glenn
Name: Ronnie Glenn
Title: Vice President

THE BANK OF NOVA SCOTIA, as
Issuing Lender and Lender

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

THE BANK OF TOKYO-MITSUBISHI UFJ, INC.
as Issuing Lender and Lender

By: /s/ Alan Reiter
Name: Alan Reiter
Title: Vice President

UNION BANK, N.A., as a Lender

By: /s/ Carmelo Restifo

Name: Carmelo Restifo

Title: Director

BNP PARIBAS, as a Lender

By: /s/ Denis O'Meara

Name: Denis O'Meara

Title: Managing Director

BNP PARIBAS, as a Lender

By: /s/ Pasquale A. Perraglia IV

Name: Pasquale A. Perraglia IV

Title: Vice President

CITIBANK, N.A., as a Lender

By: /s/ Amit Vasani
Name: Amit Vasani
Title: Vice President

CREDIT SUISSE AG, CAYMAN ISLANDS
BRANCH, as a Lender

By: /s/ Christopher Reo Day
Name: Christopher Reo Day
Title: Vice President

By: /s/ Vipul Dhadda
Name: Vipul Dhadda
Title: Associate

GOLDMAN SACHS BANK USA, as a Lender

By: /s/ Mark Walton

Name: Mark Walton

Title: Authorized Signatory

J.P. MORGAN CHASE BANK, N.A., as a Lender

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

MORGAN STANLEY BANK, N.A., as a Lender

By: /s/ Kelly Chin

Name: Kelly Chin

Title: Authorized Signatory

ROYAL BANK OF CANADA, as a Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

UBS LOAN FINANCE LLC, as a Lender

By: /s/ Irja R. Otsa

Name: Irja R. Otsa

Title: Associate Director

By: /s/ David Urban

Name: David Urban

Title: Associate Director

CREDIT AGRICOLE CORPORATE AND
INVESTMENT BANK, as a Lender

By: /s/ Dixon Schultz

Name: Dixon Schultz

Title: Managing Director

By: /s/ Sharada Manne

Name: Sharada Manne

Title: Managing Director

KEYBANK NATIONAL ASSOCIATION, as a
Lender

By: /s/ Craig A. Hanselman
Name: Craig A. Hanselman
Title: Vice President

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Stephen Giacolone

Name: Stephen Giacolone

Title: Assistant Vice President –G011

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Julia R. Franklin

Name: Julia R. Franklin

Title: Vice President –F014

MIZUHO CORPORATE BANK, LTD., as a
Lender

By: /s/ Leon Mo
Name: Leon Mo
Title: Authorized Signatory

SUNTRUST BANK, as a Lender

By: /s/ Andrew Johnson
Name: Andrew Johnson
Title: Director

THE BANK OF NEW YORK MELLON, as a
Lender

By: /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

U.S. BANK NATIONAL ASSOCIATION, as a
Lender

By: /s/ John M. Eyerman

Name: John M. Eyerman

Title: Vice President

CANADIAN IMPERIAL BANK OF
COMMERCE, New York Agency, as a Lender

By: /s/ Robert Casey
Name: Robert Casey
Title: Authorized Signatory

By: /s/ Jonathan J. Kim
Name: Jonathan J. Kim
Title: Authorized Signatory

COMPASS BANK, as a Lender

By: /s/ Susana Campuzano
Name: Susana Campuzano
Title: Senior Vice President

PNC BANK, NATIONAL ASSOCIATION, as a
Lender

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President PNC Bank, N.A.

SOVEREIGN BANK, N.A., as a Lender

By: /s/ William Maag

Name: William Maag

Title: Senior Vice President

SUMITOMO MITSUI BANKING
CORPORATION, as a Lender

By: /s/ Shugi Yabe

Name: Shugi Yabe

Title: Managing Director

THE NORTHERN TRUST COMPANY, as a
Lender

By: /s/ Daniel Boote
Name: Daniel Boote
Title: Senior Vice President

Commitment Appendix

Lender	Revolving Commitment
Wells Fargo Bank, National Association	\$15,428,571.42
Bank of America, N.A.	\$15,428,571.43
The Royal Bank of Scotland plc	\$15,428,571.43
Barclays Bank PLC	\$14,107,142.86
The Bank of Nova Scotia	\$14,107,142.86
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$7,053,571.43
Union Bank, N.A.	\$7,053,571.43
BNP Paribas	\$14,107,142.86
Citibank, N.A.	\$14,107,142.86
Credit Suisse AG, Cayman Islands Branch	\$14,107,142.86
Goldman Sachs Bank USA	\$14,107,142.86
JPMorgan Chase Bank, N.A.	\$14,107,142.86
Morgan Stanley Bank, N.A.	\$14,107,142.86
Royal Bank of Canada	\$14,107,142.86
UBS Loan Finance LLC	\$14,107,142.86
Credit Agricole Corporate & Investment Bank	\$10,071,428.57
KeyBank National Association	\$10,071,428.57
Lloyds Bank	\$10,071,428.57
Mizuho Corporate Bank, Ltd.	\$10,071,428.57
SunTrust Bank	\$10,071,428.57
The Bank of New York Mellon	\$10,071,428.57
U.S. Bank National Association	\$10,071,428.57
Canadian Imperial Bank of Commerce	\$4,892,857.14
Compass Bank	\$4,892,857.14
PNC Bank, National Association	\$4,892,857.14
Sovereign Bank, N.A.	\$4,892,857.14
Sumitomo Mitsui Banking Corporation	\$4,892,857.14
The Northern Trust Company	\$3,571,428.57
Total	\$300,000,000.00

JLA L/C Fronting Sublimits Appendix

Issuing Lender	L/C Fronting Sublimit
Wells Fargo Bank, National Association	\$29,166,666.67
Bank of America, N.A.	\$29,166,666.67
The Royal Bank of Scotland plc	\$29,166,666.67
Barclays Bank PLC	\$20,833,333.33
The Bank of Nova Scotia	\$20,833,333.33
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$20,833,333.33
Total	\$150,000,000.00

Form of Notice of Borrowing

Wells Fargo Bank, National Association,
as Administrative Agent
1525 W WT Harris Boulevard
Charlotte, NC 28262
Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Borrowing" pursuant to Section 2.03 of the \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Electric Utilities Corporation, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

- 1. The date of the Borrowing will be _____, _____. 1
2. The aggregate principal amount of the Borrowing will be _____. 2
3. The Borrowing will consist of [Revolving] [Swingline] Loans.
4. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans. 3
5. The initial Interest Period for the Loans comprising such Borrowing shall be _____. 4

[Insert appropriate delivery instructions, which shall include bank and account number] .

1 Must be a Business Day.

2 Revolving Borrowings must be an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Revolving Commitment. Swingline Borrowings must be an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000

3 Applicable for Revolving Loans only.

4 Applicable for Euro-Dollar Loans only. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of "Interest Period").

PPL ELECTRIC UTILITIES CORPORATION

By: _____
Name:
Title:

Form of Notice of Conversion/Continuation

Wells Fargo Bank, National Association,
as Administrative Agent
1525 W WT Harris Boulevard
Charlotte, NC 28262
Attention: Syndication Agency Services

_____, ____

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Electric Utilities Corporation, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of ___ months and ending on the Election Date specified below] .

2. The date on which the conversion/continuation selected hereby is to be effective is _____, _____ (the "Election Date"),⁵

3. The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$_____.⁶

4. [The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]

5. The Interest Period for such Loans will be _____.⁷

⁵ Must be a Business Day.

⁶ May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not apply, are each \$10,000,000 or any larger integral multiple of \$1,000,000.

⁷ Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of Interest Period).



PPL ELECTRIC UTILITIES CORPORATION

By: _____
Name:
Title:

Form of Notice of Conversion/Continuation

_____, ____

[Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Electric Utilities Corporation, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

The undersigned hereby requests that _____⁸ issue a Standby Letter of Credit on _____, _____⁹ in the aggregate amount of \$_____. [This request is to extend a Letter of Credit previously issued under the Credit Agreement; Letter of Credit No. _____.]

The beneficiary of the requested Standby Letter of Credit will be _____¹⁰, and such Standby Letter of Credit will be in support of _____¹¹ and will have a stated termination date of _____¹².

Copies of all documentation with respect to the supported transaction are attached hereto.

⁸Insert name of Issuing Lender.

⁹Must be a Business Day.

¹⁰ Insert name and address of beneficiary.

¹¹ Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

¹² Insert the last date upon which drafts may be presented (which may not be later than one year after the date of issuance specified above or beyond the fifth Business Day prior to the Termination Date).

PPL ELECTRIC UTILITIES CORPORATION

By: _____
Name:
Title:

APPROVED:

[ISSUING LENDER]

By: _____
Name:
Title:

Form of Note

FOR VALUE RECEIVED, the undersigned, PPL ELECTRIC UTILITIES CORPORATION, a Pennsylvania corporation (the “Borrower”), promises to pay to the order of _____ (hereinafter, together with its successors and assigns, called the “Holder”), at the Administrative Agent’s Office or such other place as the Holder may designate in writing to the Borrower, the principal sum of _____ AND _____/100s DOLLARS (\$ _____), or, if less, the principal amount of all Loans advanced by the Holder to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided. Such Loans may be endorsed from time to time on the grid attached hereto, but the failure to make such notations shall not affect the validity of the Borrower’s obligation to repay unpaid principal and interest hereunder.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (as the same may be amended, modified or supplemented from time to time, the “Credit Agreement”) by and among the Borrower, the lenders party thereto (collectively, the “Lenders”) and Wells Fargo Bank, National Association, as administrative agent (the “Administrative Agent”) for itself and on behalf of the Lenders and the Issuing Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, repay, reborrow, continue and convert the Holder’s Loans (or portion thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Holder, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Holder in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Holder not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

All parties now or hereafter liable with respect to this Note, whether the Borrower, any guarantor, endorser or any other Person or entity, hereby waive presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest.

No delay or omission on the part of the Holder or any holder hereof in exercising its rights under this Note, or delay or omission on the part of the Holder, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Holder or any holder hereof, nor shall any waiver by the Holder, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, or any holder hereof, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

The Borrower promises to pay all reasonable costs of collection, including reasonable attorneys’ fees, should this Note be collected by or through an attorney-at-law or under advice therefrom.

This Note evidences the Holder’s Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representative as of the day and year first above written.

PPL ELECTRIC UTILITIES CORPORATION

By: _____

Name:

Title:

:

Form of Assignment and Assumption Agreement

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [the] [each] 13 Assignor identified on the Schedules hereto as "Assignor" [or "Assignors" (collectively, the "Assignors" and each an "Assignor")] and [the] [each] 14 Assignee identified on the Schedules hereto as "Assignee" or "Assignees" (collectively, the "Assignees" and each an "Assignee"). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees] 15 hereunder are several and not joint.] 16 Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor's] [the respective Assignors'] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor] (in its capacity as a Lender) [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the "Assigned Interest"). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

- 1. Assignor: See Schedule attached hereto
2. Assignee: See Schedule attached hereto
3. Borrower: PPL Electric Utilities Corporation
4. Administrative Agent: Wells Fargo Bank, National Association, as the administrative agent under the Credit Agreement
5. Credit Agreement: The \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 by and among PPL Electric Utilities Corporation, as Borrower, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified)
6. Assigned Interest: See Schedule attached hereto
[7. Trade Date: _____] 17

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

13 For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.
14 For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.
15 Select as appropriate.
16 Include bracketed language if there are either multiple Assignors or multiple Assignees.
17 To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

Effective Date: _____, 20____

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____
Title:

ASSIGNEE

See Schedule attached hereto

[Consented to and] ¹⁸ Accepted:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, [Issuing Lender] and Swingline Lender

By: _____
Title:

[Consented to:] ¹⁹

PPL ELECTRIC UTILITIES CORPORATION

By: _____
Title:

[Consented to]:

[Issuing Lender] ²⁰,
as Issuing Lender

By: _____
Title:

[Consented to]:

[JOINT LEAD ARRANGERS] ²¹

WELLS FARGO BANK, N.A.

By: _____
Title:

BANK OF AMERICA, N.A.

By: _____
Title:

¹⁸ To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

¹⁹ To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

²⁰ Add all Issuing Lender signature blocks.

²¹ To be added if assignment is made before Effective Date

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

Assigned Interests:

Aggregate Amount of Commitment/ Loans for all Lenders ²²	Amount of Commitment/ Loans Assigned ²³	Percentage Assigned of Commitment/ Loans ²⁴	CUSIP Number
\$	\$	%	

[NAME OF ASSIGNEE] ²⁵

[and is an Affiliate of [*identify Lender*]] ²⁶

²² Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

²³ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

²⁴ Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

²⁵ Add additional signature blocks, as needed.

²⁶ Select as applicable.

ANNEX 1 to Assignment and Assumption

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT DATED AS OF
NOVEMBER 6, 2012
BY AND AMONG
PPL ELECTRIC UTILITIES CORPORATION, AS BORROWER,
THE LENDERS PARTY THERETO
AND WELLS FARGO BANK, NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

Forms of Opinions of Counsel for the Borrower

[Date]

To the Administrative Agent and
each of the Lenders party to the Revolving
Credit Agreement referred to below

Re: PPL Electric Utilities Corporation
\$300,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen :

We have acted as special counsel to PPL Electric Utilities Corporation, a Pennsylvania corporation (the "Company"), in connection with the negotiation, execution and delivery of the \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender, and the other Lenders from time to time party thereto (such Revolving Credit Agreement as so amended, the "Agreement"). This letter is being delivered to you at the request of the Company pursuant to Section 4.01(e) of the Agreement.

In preparing this letter, we have reviewed the Agreement[, and the Notes of the Company executed and delivered by the Company on the date hereof (the "Notes"),] and the other documents executed and delivered by the Company in connection with the Agreement. We have also reviewed the Securities Certificates (No. S-2010-2183912 and No. S-2011-2263370) filed by the Company with the Pennsylvania Public Utility Commission ("PUC") in connection with the Agreement, and the Orders of the PUC dated August 18, 2010 and September 22, 2011, registering said Securities Certificates (the "PUC Orders").

Subject to the assumptions, qualifications and other limitations set forth below, it is our opinion that:

1. The Agreement constitutes a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms.
2. [The Notes constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms.]
3. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.
4. The borrowings under the Agreement and the use of proceeds thereof as contemplated by the Agreement do not violate Regulation U or X of the Board of Governors of the Federal Reserve System.

In rendering our opinions, we have (a) without independent verification, relied, with respect to factual matters, statements and conclusions, on certificates, notifications and statements, whether written or oral, of governmental officials and individuals identified to us as officers and representatives of the Company and on the representations made by the Company in the Agreement and other documents delivered to you in connection therewith and (b) reviewed originals, or copies of such agreements, documents and records as we have considered relevant and necessary as a basis for our opinions. We note that, as counsel to the Company, we do not represent it generally and there may be facts relating to the Company of which we have no knowledge.

We have assumed (a) the accuracy and completeness of all certificates, agreements, documents, records and other materials submitted to us; (b) the authenticity of original certificates, agreements, documents, records and other materials submitted to us; (c) the conformity with the originals of any copies submitted to us; (d) the genuineness of all signatures; (e) the legal capacity of all natural persons; (f) that the Agreement constitutes the valid, legally binding and enforceable agreement of the parties thereto under all applicable law (other than, in the case of the Company, the law of the State of New York); (g) that the Company (i) is duly organized, validly existing and in good standing under the law of its jurisdiction of organization, (ii) has the power to execute and deliver, and to perform its obligations under, the Agreement [and the Notes], (iii) has duly taken or caused to be taken all necessary action to authorize the execution, delivery and performance by it of the Agreement [and the Notes] and (iv) has duly executed and delivered the Agreement [and the Notes]; (h) that the execution and delivery by the Company of, and the performance by the Company of its obligations under, the Agreement and the Notes does not and will not (i) breach or violate (A) its Amended and Restated Articles of Incorporation or Bylaws, (B) any agreement or instrument to which the Company or any of its affiliates is a party or by which the Company or any of its affiliates or any of their respective properties may be bound, (C) any authorization, consent, approval or license (or the like) of, or exemption (or the like) from, or any registration or filing (or the like) with, or report or notice (or the like) to, any governmental unit, agency, commission, department or other authority granted to or otherwise applicable to the Company or any of its affiliates or any of their respective properties (each a "Governmental Approval"), (D) any order, decision, judgment or decree that may be applicable to the Company or any of its affiliates or any of their respective properties, or (E) any law (other than the law of the State of New York and the federal law of the United States), or (ii) require any Governmental Approval (other than the PUC Orders, which we assume to have been duly granted and to remain in full force and effect); (h) that the Company is engaged only in the businesses described in its Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission; (i) that there are no agreements, understandings or negotiations between the parties not set forth in the Agreement that would modify the terms thereof or the rights and obligations of the parties thereunder; and (j) for purposes of our opinion in paragraph 1 as it relates to the choice-of-law provisions in the Agreement, that the choice of law of the State of New York as the governing law of the Agreement would not result in a violation of an important public policy of another state or country having

greater contacts with the transactions contemplated by the agreement than the State of New York.

Our opinions are subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, receivership, conservatorship, arrangement, moratorium and other similar laws affecting and relating to the rights of creditors generally; (b) general equitable principles; (c) requirements of reasonableness, good faith, fair dealing and materiality; (d) Article 9 of the Uniform Commercial Code regarding restrictions on assignment or transfer of rights; and (e) additionally in the case of (i) indemnities, a requirement that facts, known to the indemnitee but not the indemnitor, in existence at the time the indemnity becomes effective that would entitle the indemnitee to indemnification be disclosed to the indemnitor, and a requirement that an indemnity provision will not be read to impose obligations upon indemnitors which are neither disclosed at the time of its execution nor reasonably within the scope of its terms and overall intention of the parties at the time of its making, (ii) waivers, Sections 9-602 and 9-603 of the Uniform Commercial Code, and (iii) indemnities, waivers and exculpatory provisions, public policy.

We express no opinion with respect to the following sections of the Agreement: (i) Section 9.02 (cumulative remedies), (ii) provisions relating to rules of evidence or quantum of proof, (iii) Section 9.07 (submission to jurisdiction and waiver of inconvenient forum), insofar as such sections relate to federal courts (except as to the personal jurisdiction thereof), and (choice of venue, i.e., requiring actions to be commenced in a particular court in a particular jurisdiction), and (iv) Section 9.11 (waiver of jury trial), insofar as such section is sought to be enforced in a federal court.

We express no opinion as to the law of any jurisdiction other than the law of the State of New York and the federal law of the United States of America, and in each case, only such law that in our experience is normally applicable to transactions of the type contemplated by the Agreement and excluding (i) any law that is part of a regulatory regime applicable to specific assets or businesses of the lenders and (ii) the statutes and ordinances, the administrative decisions, and the rules and regulations of counties, towns, municipalities and special political subdivisions.

This letter speaks only as of the date hereof. We have no responsibility or obligation to update this letter or to take into account changes in law or facts or any other development of which we may later become aware.

This letter is delivered by us as special counsel for the Company solely for your benefit in connection with the transaction referred to herein and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or entity without our prior written consent.

Very truly yours,

[Date]

To the Administrative Agent and
each of the Lenders party to the
Credit Agreement referred to below

Re: \$300,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

I am Senior Counsel of PPL Services Corporation, an affiliate of PPL Electric Utilities Corporation (the "Borrower"), and have acted as counsel to the Borrower in connection with the \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender and the Lenders party thereto from time to time (the "Agreement"). Capitalized terms used but not defined herein have the meanings assigned to such terms in the Agreement.

I am familiar with the Agreement[, the Notes of the Borrower executed and delivered by the Borrower on the date hereof (the "Notes"),] and other documents executed and delivered by the Borrower in connection with the Agreement. I also have examined such other documents and satisfied myself as to such other matters as I have deemed necessary in order to render this opinion. I have assumed that the Agreement and instruments referred to in this opinion have been duly authorized, executed and delivered by all parties thereto other than the Borrower.

Based on the foregoing, I am of the opinion that:

1. The Borrower is duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has the corporate power to make and perform the Agreement [and the Notes].
2. The execution, delivery and performance by the Borrower of the Agreement [and the Notes] have been duly authorized by the Borrower and do not violate any provision of law or regulation, or any decree, order, writ or judgment applicable to the Borrower, or any provision of the Borrower's Amended and Restated Articles of Incorporation or Bylaws, or result in the breach of or constitute a default under any indenture or other agreement or instrument known to me to which the Borrower is a party.
3. [Each of the] [The] Agreement [and the Notes] has been duly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with [its] [their] terms, except to the extent limited by (a) bankruptcy, insolvency, reorganization or other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles that may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to indemnification, contribution, waivers and exculpatory provisions.
4. Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2011, or in other reports filed under the Securities Exchange Act of 1934 from January 1, 2012 to the date hereof, or otherwise furnished in writing to the Administrative Agent, no litigation, arbitration or administrative proceeding or inquiry is pending, or to my knowledge, threatened, which, if determined adversely to the Borrower, would materially and adversely affect the ability of the Borrower to perform any of its obligations under the Agreement [or the Notes]. To my knowledge, there is no litigation, arbitration or administrative proceeding pending or threatened that questions the validity of the Agreement [or the Notes].
5. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System.
6. There have not been any "reportable events," as that term is defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, which would result in a material liability of the Borrower.
7. The [_____] Order of the Pennsylvania Public Utility Commission (the "PUC") relating to the Agreement is in full force and effect, and no further authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except such authorizations, consents and approvals as have been obtained prior to the date hereof, which authorizations, consents and approvals are in full force and effect.

This opinion is limited to the laws of the Commonwealth of Pennsylvania, the State of New York and the federal laws of the United States of America.

In rendering its opinion to the addressee hereof, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters of Pennsylvania law addressed herein upon this letter as if it were addressed directly to them. Except as aforesaid, without my prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other person or entity for any purpose.

Very truly yours,

Frederick C. Paine

\$3,000,000,000

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

dated as of November 6, 2012

among

PPL ENERGY SUPPLY, LLC ,

THE LENDERS FROM TIME TO TIME PARTY HERETO,

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,

as Administrative Agent, Issuing Lender and Swingline Lender

**WELLS FARGO SECURITIES, LLC,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
RBS SECURITIES INC.,
BARCLAYS BANK PLC,
THE BANK OF NOVA SCOTIA,
and
MITSUBISHI UFJ FINANCIAL GROUP, INC.,**

Joint Lead Arrangers and Joint Bookrunners

**BANK OF AMERICA, N.A.
and
THE ROYAL BANK OF SCOTLAND PLC,
Syndication Agents**

**BARCLAYS BANK PLC,
THE BANK OF NOVA SCOTIA
and
MITSUBISHI UFJ FINANCIAL GROUP, INC.,
Documentation Agents**

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Commitment Appendix

JLA L/C Fronting Sublimits Appendix

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- Exhibit A-1 - Form of Notice of Borrowing
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 - Exhibit E - Form of Notice of Revolving Increase
-

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this “Agreement”) dated as of November 6, 2012 is entered into among PPL ENERGY SUPPLY, LLC, a Delaware limited liability company (the “Borrower”), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent. The parties hereto agree as follows:

RECITALS

WHEREAS, the Borrower is party to that certain \$3,000,000,000 Revolving Credit Agreement dated as of October 19, 2010 among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the “Existing Credit Agreement”); and

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree that the Existing Credit Agreement is hereby amended and restated in its entirety, and do further agree as follows:

ARTICLE I DEFINITIONS

Section 1.01. Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Additional Letter of Credit” means any standby letter of credit issued under this Agreement by an Issuing Lender on or after the Effective Date.

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

“Agent” means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers, the Documentation Agents or each Person that shall become a joint lead arranger pursuant to the terms of the Commitment Letters and “Agents” means all of the foregoing.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Amendment Fee” has the meaning set forth in Section 4.01(j).

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“ Applicable Percentage ” means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower’s Ratings (S&P/Moody’s)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥A from S&P / A2 from Moody’s	0.100%	0.000%	1.000%
Category B	≥A- from S&P / A3 from Moody’s	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from Moody’s	0.175%	0.250%	1.250%
Category D	BBB from S&P / Baa2 from Moody’s	0.200%	0.500%	1.500%
Category E	BBB- from S&P / Baa3 from Moody’s	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody’s	0.350%	0.875%	1.875%

“ Asset Sale ” shall mean any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“ Assignee ” has the meaning set forth in Section 9.06(c).

“ Assignment and Assumption Agreement ” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“ Availability Period ” means the period from and including the Effective Date to but excluding the Termination Date.

“ Bankruptcy Code ” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“ Base Rate ” means for any day a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

“ Base Rate Borrowing ” means a Borrowing comprised of Base Rate Loans.

“ Base Rate Lending Office ” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“ Base Rate Loan ” means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

“ Borrower ” has the meaning set forth in the introductory paragraph hereto.

“ Borrower’s Rating ” means the senior unsecured long-term debt rating of the Borrower from S&P or

Moody's.

“Borrowing” means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London Business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in the Commitment Appendix and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 2.19 or Section 9.06(c).

“Commitment Appendix” means the Appendix attached under this Agreement identified as such.

“Commitment Fee” has the meaning set forth in Section 2.07(a).

“Commitment Letters” means that certain (i) commitment letter dated as of September 24, 2012 among Wells Fargo Securities, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc and (ii) that certain commitment letter dated as of October 2, 2012 among Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each commitment letter addressed to and acknowledged and agreed to by the Borrower.

“Commitment Ratio” shall mean, with respect to any Lender, the percentage equivalent of the ratio which such Lender's Commitment bears to the aggregate amount of all Commitments.

“Consolidated Capitalization” shall mean the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated member's equity (determined in accordance with GAAP) of the common, preference and preferred equityholders of the Borrower and minority interests recorded on the Borrower's consolidated financial statements (excluding from member's equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of member's equity attributable to assets securing Non-Recourse Debt.

“ Consolidated Debt ” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“ Consolidated Subsidiary ” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“ Continuing Lender ” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“ Corporation ” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“ Credit Event ” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“ Debt ” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“ Default ” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“ Defaulting Lender ” means at any time any Lender with respect to which a Lender Default is in effect at such time.

“ Documentation Agents ” means Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank N.A., each in its capacity as a documentation agent in respect of this Agreement.

“ Dollars ” and the sign “\$” means lawful money of the United States of America.

“ Effective Date ” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“ Eligible Assignee ” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; or (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended); provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“ Environmental Laws ” means any and all federal, state and local statutes, laws, regulations, ordinances,

rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“ Environmental Liabilities ” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws.

“ Equity-Linked Securities ” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ ERISA ” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ ERISA Group ” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“ Euro-Dollar Borrowing ” means a Borrowing comprised of Euro-Dollar Loans.

“ Euro-Dollar Lending Office ” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“ Euro-Dollar Loan ” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“ Euro-Dollar Reserve Percentage ” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“ Event of Default ” has the meaning set forth in Section 7.01.

“ Existing Credit Agreement ” has the meaning set forth in the recitals hereto.

“ Existing Debt ” means the Debt outstanding on the Effective Date and listed on Schedule 6.12 hereto.

“ Existing Letters of Credit ” means, collectively the standby letters of credit issued before the Effective Date pursuant to the Existing Credit Agreement.

“ Extending Lenders ” has the meaning set forth in Section 9.15 hereto.

“ FATCA ” means Sections 1471 through 1474 of the Internal Revenue Code and any regulations (whether final, temporary or proposed) that are issued thereunder or official government interpretations thereof and any agreements entered into pursuant to Section 1471(b) of the Code.

“ Federal Funds Rate ” means for any day the rate per annum (rounded upward, if necessary, to the nearest

1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“ Fee Letter ” means the fee letter dated as of September 24, 2012 among the Borrower, Wells Fargo Securities, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc as amended, modified or supplemented from time to time.

“ Foreign Subsidiary ” means a Subsidiary which is not formed under the laws of the United States or any territory thereof.

“ Fronting Fee ” has the meaning set forth in Section 2.07(b).

“ Fronting Sublimit ” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on the JLA L/C Fronting Sublimits Appendix hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“ GAAP ” means United States generally accepted accounting principles applied on a consistent basis.

“ Governmental Authority ” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity and any arbitrator with authority to bind a party at law.

“ Group of Loans ” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“ Guarantee ” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“ Hazardous Substances ” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“ Hybrid Securities ” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“ Indemnitee ” has the meaning set forth in Section 9.03(b).

“ Interest Period ” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of

Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clauses (iii) and (iv) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Issuing Lender” means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity, (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, and (iii) each issuer of an Existing Letter of Credit, subject in each case to the Fronting Sublimit.

“Joint Lead Arrangers” means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

“JLA Issuing Bank” means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc, Barclays Bank PLC, The Bank of Nova Scotia, Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and each other Lender (or Affiliate of a Lender) that shall become (or whose Affiliate shall become) a joint lead arranger pursuant to the terms of the Commitment Letters.

“Lender” means each bank or other lending institution listed in the Commitment Appendix as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to make available any Loan or any reimbursement for a drawing under a Letter of Credit or refunding of a Swingline Loan, in each case, within one Business Day from the date it is obligated to make such amount available under the terms and conditions of this Agreement or (ii) a Lender having notified, in writing, the Administrative Agent and the Borrower that such Lender does not intend to comply with its obligations under Article II following the appointment of a receiver or conservator with respect to such Lender at the direction or request of any regulatory agency or authority.

“Letter of Credit” means an Existing Letter of Credit or an Additional Letter of Credit, and “Letters of Credit” means any combination of the foregoing.

“Letter of Credit Fee” has the meaning set forth in Section 2.07(b).

“Letter of Credit Liabilities” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business

Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

“ Lien ” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“ Loan ” means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan and “Loans” means any combination of the foregoing.

“ Loan Documents ” means this Agreement and the Notes.

“ London Business Day ” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“ London Interbank Offered Rate ” means:

(a) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period.

(b) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank.

“ Lower Mt. Bethel Lease Financing ” means the existing lease financing associated with the Lower Mount Bethel project.

“ Mandatory Letter of Credit Borrowing ” has the meaning set forth in Section 3.09.

“ Margin Stock ” means “margin stock” as such term is defined in Regulation U.

“ Material Adverse Effect ” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“ Material Debt ” means Debt (other than the Notes) of the Borrower and/or one or more of its Restricted Subsidiaries in a principal or face amount exceeding \$40,000,000.

“ Material Plan ” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all

references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” shall mean Debt that is nonrecourse to the Borrower or any Restricted Subsidiary.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” shall mean a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document; and

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document;

together in each case with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Optional Increase” has the meaning set forth in Section 2.19(a).

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its

functions under ERISA.

“ Permitted Business ” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“ Person ” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“ Plan ” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“ Prime Rate ” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“ Quarterly Date ” means the last Business Day of each of March, June, September and December.

“ Rating Agency ” means S&P or Moody’s, and “ Rating Agencies ” means both of them.

“ Register ” has the meaning set forth in Section 9.06(e).

“ Regulation U ” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“ Regulation X ” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“ Reimbursement Obligations ” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“ Replacement Date ” has the meaning set forth in Section 2.08(b).

“ Replacement Lender ” has the meaning set forth in Section 2.08(b).

“ Required Lenders ” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“ Responsible Officer ” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“ Restricted Subsidiary ” means each Subsidiary listed on Schedule 5.11 and each other Subsidiary designated by the Borrower as a “Restricted Subsidiary” in writing to the Administrative Agent, in either case, for so long as such Restricted Subsidiary shall be a direct Wholly Owned Subsidiary of the Borrower or a direct Wholly Owned Subsidiary of a Restricted Subsidiary.

“ Retiring Lender ” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

“ Revolving ” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a

Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“Revolving Outstandings” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) aggregate amount of such Lender’s Letter of Credit Liabilities.

“Revolving Outstandings Excess” has the meaning set forth in Section 2.09.

“Sanctioned Entity” shall mean (i) an agency of the government of, (ii) an organization directly or indirectly controlled by, or (iii) a Person resident in, a country that is subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html>, or as otherwise published from time to time as such program may be applicable to such agency, organization or Person.

“Sanctioned Person” shall mean a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

“SEC” means the Securities and Exchange Commission.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Special Purpose Subsidiary” means any Wholly Owned Subsidiary (regardless of the form of organization) of the Borrower formed solely for the purpose of, and which engages in no other activities except those necessary for, effecting financings related to Synthetic Leases.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Swingline Borrowing” means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of Borrowing with respect thereto.

“Swingline Exposure” means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

“Swingline Lender” means Wells Fargo Bank, in its capacity as Swingline Lender.

“Swingline Loan” means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

“Swingline Sublimit” means the lesser of (a) \$200,000,000 and (b) the aggregate Commitments of all Lenders.

“Swingline Termination Date” means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

“Syndication Agents” means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earliest to occur of (a) November 6, 2017 and (b) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“ Type ”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“ Unfunded Liabilities ” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“ United States ” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“ Voting Stock ” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“ Wells Fargo Bank ” means Wells Fargo Bank, National Association, and its successors.

“ Wells Fargo Securities ” means Wells Fargo Securities, LLC, and its successors and assigns.

“ Wholly Owned Subsidiary ” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01. Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

Section 2.02. Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$5,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

(b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay

Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender's obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender's failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender's Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

Section 2.03. Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04. Notice to Lenders; Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

Section 2.05. Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (a) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (c) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced

by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (a) and (b) above.

Section 2.06. Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause (A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a "Notice of Conversion/Continuation") to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount

of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender's pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07. Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the "Commitment Fee") for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender's Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the "Letter of Credit Fee") for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the "Fronting Fee") in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.08. Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make

Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a “Retiring Lender”), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a “Replacement Lender” and, collectively, the “Replacement Lenders”) reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the “Replacement Date”) following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i) (A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any

subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (to the extent not previously adjusted pursuant to Section 2.20). The right of the Borrower to effect such a termination is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.09. Maturity of Loans; Mandatory Prepayments.

(a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a "Revolving Outstandings Excess"), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

(b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

Section 2.10. Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

Section 2.11. General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12. Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13. Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14. Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the

Borrower notifies the Administrative Agent at least two (2) Domestic Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (i) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (ii) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16. Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office) or shall impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any

event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “change in law” under this Article II regardless of the date enacted, adopted or issued.

Section 2.17. Taxes.

(a) Payments Net of Certain Taxes. Any and all payments by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent that is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as “Taxes”). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17(a)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, “Other Taxes”).

(c) Indemnification. The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this Section 2.17(c). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) Refunds or Credits. If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority

with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a “Non-U.S. Lender”) shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; or (C) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a “bank” within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a “10-percent shareholder” of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a “controlled foreign corporation” that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender or are effectively connected but are not includible in the Non-U.S. Lender’s gross income for United States federal income tax purposes under an income tax treaty to which the United States is a party; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8 ECI, W-8 BEN, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), “FATCA” shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8 BEN, W-8 ECI or W-8 IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such Form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any

Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18. Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19. Increases to the Commitment.

(a) Subject to the terms and conditions of this Agreement, the Borrower may, during the Availability Period by delivering to the Administrative Agent and the Lenders a Notice of Revolving Increase in the form of Exhibit E, request increases to the Lenders' Commitments (each such request, an "Optional Increase"); provided that: (i) the Borrower may not request any increase to the Commitments after the occurrence and during the continuance of a Default; (ii) each Optional Increase shall be in a minimum amount of \$50,000,000 and (iii) the aggregate amount of all Optional Increases shall be no more than \$500,000,000.

(b) Each Lender may, but shall not be obligated to, participate in any Optional Increase, subject to the approval of the Issuing Lenders and the Swingline Lender (such approval not to be unreasonably withheld), and the decision of any Lender to commit to an Optional Increase shall be at such Lender's sole discretion and shall be made in writing. The Borrower may, at its own expense, solicit additional Commitments from third party financial institutions reasonably acceptable to the Administrative Agent, the Swingline Lender and the Issuing Lender. Any such financial institution (if not already a Lender hereunder) shall become a party to this Agreement as a Lender, pursuant to a joinder agreement in form and substance reasonably satisfactory to the Administrative Agent and the Borrower.

(c) As a condition precedent to the Optional Increase, the Borrower shall deliver to the Administrative Agent a certificate of the Borrower dated the effective date of the Optional Increase, signed by a Responsible Officer of the Borrower, certifying that: (i) the resolutions adopted by the Borrower approving or consenting to such Optional Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect and (ii) before and after giving effect to the Optional Increase, (A) the representations and warranties contained in Article V and the other Loan Documents are true and correct in all material respects on and as of the effective date of the Optional Increase, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and (B) that no Default exists, is continuing, or would result from the Optional Increase.

(d) The Revolving Outstandings will be reallocated by the Administrative Agent on the effective date of any Optional Increase among the Lenders in accordance with their revised Commitment Ratios, and the Borrower hereby agrees to pay any and all costs (if any) required pursuant to Section 2.12 incurred by any Lender in connection with the exercise of the Optional Increase.

Section 2.20. Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related

exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

ARTICLE III LETTERS OF CREDIT

Section 3.01. Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

Section 3.02. Letters of Credit.

(a) Existing Letters of Credit. On the Effective Date, each Issuing Lender under the Existing Credit Agreement (as defined therein) that has issued an Existing Letter of Credit shall be deemed, without further action by any party to this Agreement, to have issued such Existing Letter of Credit under this Agreement pursuant to the terms and subject to the conditions of this Article III; provided, that immediately after each Letter of Credit is deemed to have been issued, the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments.

(b) Additional Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any Affiliate of the Borrower (other than PPL Electric Utilities Corporation) that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (B) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03. Method of Issuance of Additional Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of an Additional Letter of Credit prior to 1:00 P.M. (Charlotte, North Carolina time) on the proposed date of the issuance or extension of Additional Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

Section 3.04. Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Additional Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (i) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (ii) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (iii) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (A) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (B) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Additional Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Additional Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Additional Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Additional Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated

hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05. Purchase and Sale of Letter of Credit Participations. Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06. Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07. Reimbursement Obligations. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (ii) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08. Duties of Issuing Lenders to Lenders; Reliance. In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall

first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

Section 3.09. Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings. If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

Section 3.10. Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11. Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

(a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;

(b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;

(c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);

(d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;

(e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or

(g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12. Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13. ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

ARTICLE IV CONDITIONS

Section 4.01. Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by

each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificates. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or the Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the State of Delaware, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Borrower's certificate of formation certified by the Secretary of State of the State of Delaware and (y) the limited liability company agreement of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the managers of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) [Intentionally Omitted]

(g) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, if any, in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions; provided, that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 need not be obtained or provided until the Borrower makes any such election.

(h) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(i) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(j) Amendment Fee. The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the "Amendment Fee") as set forth in the Fee Letter, on or before the Effective Date.

Section 4.02. Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or

receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.06, Section 5.15 and Section 5.16, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01. Status. The Borrower is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and has the limited liability company authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02. Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary limited liability company action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its limited liability company agreement, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party; provided, that any exercise of the option to increase the Commitment as contemplated in Section 2.19 may require further authorization of the Borrower's Board of Managers.

Section 5.03. Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04. Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2011 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst & Young, LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2012 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2011 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the

Notes or the other Loan Documents.

Section 5.05. Rights to Properties. The Borrower and its Restricted Subsidiaries have good and valid fee, leasehold, easement or other right, title or interest in or to all the properties necessary to the conduct of their business as conducted on the Effective Date and as then proposed to be conducted, except to the extent the failure to have such rights or interests would not have a Material Adverse Effect.

Section 5.06. Litigation. Except as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.07. No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.08. ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.09. Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party, except such authorizations, consents and approvals as shall have been obtained prior to the Effective Date and shall be in full force and effect.

Section 5.10. Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.11. Restricted Subsidiaries, Etc. Set forth in Schedule 5.11 hereto is a complete and correct list as of the Effective Date of the Restricted Subsidiaries of the Borrower, together with, for each such Subsidiary, the jurisdiction of organization of such Subsidiary. Except as disclosed in Schedule 5.11 hereto, as of the Effective Date, each such Subsidiary (i) is a Wholly Owned Subsidiary of the Borrower and (ii) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all corporate or other organizational powers to carry on its businesses.

Section 5.12. Tax Returns and Payments. The Borrower and each of its Restricted Subsidiaries has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or its Restricted Subsidiaries, as the case may be, shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.13. Compliance with Laws. To the knowledge of the Borrower or any of its Restricted Subsidiaries, the Borrower and each of its Restricted Subsidiaries is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially

and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.14. No Default. No Default has occurred and is continuing.

Section 5.15. Environmental Matters.

(a) Except (i) as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, or (ii) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 5.15(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.15, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.16. Guarantees. As of the Effective Date, except as set forth in Schedule 5.16 hereto, the Borrower has no Guarantees of any Debt of any Foreign Subsidiary of the Borrower other than such Debt not in excess of \$25,000,000 in the aggregate.

Section 5.17. OFAC. None of the Borrower, any Subsidiary of the Borrower or any Affiliate of the Borrower: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Entities, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. The proceeds of any Loan will not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01. Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website (<http://www.pplweb.com>) or making such information available on IntraLinks, Syndtrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.11 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the

financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, “Borrower Materials”) by posting the Borrower Materials on IntraLinks or another similar electronic system (the “Platform”) and (b) certain of the Lenders may be “public-side” Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a “Public Lender”). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked “PUBLIC” which, at a minimum, shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Borrower Materials “PUBLIC,” the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked “PUBLIC” are permitted to be made available through a portion of the Platform designated “Public Investor;” and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked “PUBLIC” as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated “Public Investor.” “Information” means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02. Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep, and will cause each of its Restricted Subsidiaries to keep, all property useful and necessary in their respective businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower and its Restricted Subsidiaries operate.

Section 6.03. Conduct of Business and Maintenance of Existence. The Borrower will (i) continue, and will cause each of its Restricted Subsidiaries to continue, to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.08, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective limited liability company (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04. Compliance with Laws, Etc. The Borrower will comply, and will cause each of its Restricted Subsidiaries to comply, with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05. Books and Records. The Borrower (i) will keep, and will cause each of its Restricted Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of

the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Affiliates, including for working capital purposes, and for making investments in or loans to Affiliates. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Affiliates. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07. Restriction on Liens. The Borrower will not, nor will it permit any of its Restricted Subsidiaries to, create, incur, assume or suffer to exist any Lien upon or with respect to any property or assets of any kind (real or personal, tangible or intangible) of the Borrower or any such Restricted Subsidiary (including, without limitation, their Voting Stock), except:

- (a) Liens for taxes, assessments or governmental charges or levies not yet due or which are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books;
- (b) Liens imposed by law, such as carriers', landlords', warehousemen's and mechanics' Liens and other similar Liens arising in the ordinary course of business which secure payment of obligations not more than 45 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books;
- (c) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;
- (d) easements (including, without limitation, reciprocal easement agreements and utility agreements), rights-of-way, covenants, consents, reservations, encroachments, variances and other restrictions, charges or encumbrances (whether or not recorded) affecting the use of real property;
- (e) Liens existing on the Effective Date and described in Schedule 6.07 hereto;
- (f) judgment Liens arising from judgments which secure payment of legal obligations that would not constitute a Default under Section 7.01;
- (g) any vendor's Liens, purchase money Liens or any other Lien on any property or asset acquired by the Borrower or any of its Restricted Subsidiaries after the Effective Date existing on any such property or asset at the time of acquisition thereof (and not created in anticipation thereof); provided, that, in any such case no such Lien shall extend to or cover any other asset of the Borrower or such Restricted Subsidiaries, as the case may be;
- (h) Liens, deposits and/or similar arrangements to secure the performance of bids, tenders or contracts (other than contracts for borrowed money), public or statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business by the Borrower or any of its Restricted Subsidiaries, including Liens to secure obligations under agreements for or relating to the purchase and sale of any commodity (including power purchase and sale agreements, any commodity hedge or derivative regardless of whether any such transaction is a “financial” or “physical transaction”) provided, that, with respect to any Lien on electric generating plants of any Restricted Subsidiary to secure obligations under agreements for or relating to the purchase and sale of any commodity, the amount of the outstanding obligations secured by such Lien or Liens shall not, at any time, in the aggregate, exceed \$1.5 billion;
- (i) Liens on assets of the Borrower and its Restricted Subsidiaries arising out of obligations or duties to any municipality or public authority with respect to any franchise, grant, license, permit or certificate;
- (j) rights reserved to or vested in any municipality or public authority to control or regulate any asset

of the Borrower or any of its Restricted Subsidiaries or to use such asset in a manner which does not materially impair the use of such asset for the purposes for which it is held by the Borrower or any of its Restricted Subsidiaries;

(k) irregularities in or deficiencies of title to any asset which do not materially adversely affect the use of such property by the Borrower or any of its Restricted Subsidiaries in the normal course of its business;

(l) any Lien on any property or asset of any corporation or other entity existing at the time such corporation or entity is acquired, merged or consolidated or amalgamated with or into the Borrower or any of its Restricted Subsidiaries and not created in contemplation of such event;

(m) any Lien on any asset securing Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring, constructing or improving such asset; provided, that any such Lien attaches to such asset, solely to extent of the value of the obligation secured by such Lien, concurrently with or within 180 days after the acquisition, construction or improvement thereof;

(n) any Liens in connection with the issuance of tax-exempt industrial development or pollution control bonds or other similar bonds issued pursuant to Section 103(b) of the Internal Revenue Code of 1986, as amended, to finance all or any part of the purchase price of or the cost of constructing, equipping or improving property;

(o) rights of lessees arising under leases entered into by the Borrower or any of its Restricted Subsidiaries as lessor, in the ordinary course of business;

(p) any Liens on or reservations with respect to governmental and other licenses, permits, franchises, consents and allowances; any Liens on patents, patent licenses and other patent rights, patent applications, trade names, trademarks, copyrights, claims, credits, choses in action and other intangible property and general intangibles including, but not limited to, computer software;

(q) any Liens on automobiles, buses, trucks and other similar vehicles and movable equipment; marine equipment; airplanes, helicopters and other flight equipment; and parts, accessories and supplies used in connection with any of the foregoing;

(r) any Liens on furniture and furnishings; and computers and data processing, data storage, data transmission, telecommunications and other facilities, equipment and apparatus, which, in any case, are used primarily for administrative or clerical purposes;

(s) Liens securing letters of credit entered into in the ordinary course of business;

(t) Liens granted on the capital stock of Subsidiaries that are not Restricted Subsidiaries for the purpose of securing the obligations of such Subsidiaries;

(u) Liens in addition to those permitted by clauses (a) through (t) on the property or assets of a Special Purpose Subsidiary arising in connection with the Lower Mt. Bethel Lease Financing or the lease of such property or assets through one or more other lease financings;

(v) Liens by any Wholly Owned Subsidiary of the Borrower or any Restricted Subsidiary for the benefit of the Borrower or any such Restricted Subsidiary;

(w) Liens on property which is the subject of a Capital Lease Obligation designating the Borrower or any of its Restricted Subsidiaries as lessee and all right, title and interest of the Borrower or any of its Restricted Subsidiaries in and to such property and in, to and under such lease agreement, whether or not such lease agreement is intended as a security; provided, that the aggregate fair market value of the obligations subject to such Liens shall not at any time exceed \$500,000,000;

(x) Liens on property which is the subject of one or more leases designating the Borrower or any of its Restricted Subsidiaries as lessee and all right, title and interest of the Borrower or any of its Restricted Subsidiaries in and to such property and in, to and under any such lease agreement, whether or not any such lease agreement is intended as a security;

(y) Liens arising out of the refinancing, extension, renewal or refunding of any Debt or other

obligation secured by any Lien permitted by clauses (a) through (x) of this Section; provided, that such Debt or other obligation is not increased and is not secured by any additional assets;

(z) other Liens on assets or property of the Borrower or any of its Restricted Subsidiaries, so long as the aggregate value of the obligations secured by such Liens does not exceed the greater of \$250,000,000 or 15% of the total consolidated assets of the Borrower and its Consolidated Subsidiaries as of the most recent fiscal quarter of the Borrower for which financial statements are available.

(aa) Liens granted to the Administrative Agent pursuant to Sections 2.09(a)(ii) and 2.20(a)(ii)(B) on cash collateral securing Letter of Credit Liabilities.

Section 6.08. Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (ii) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger. No Restricted Subsidiary will merge or consolidate with any other Person if such Restricted Subsidiary is not the surviving or resulting Person, unless such other Person is (a) the Borrower or a successor of the Borrower permitted hereunder or (b) any other Person which is a Wholly Owned Restricted Subsidiary of the Borrower or a successor of the Borrower permitted hereunder.

Section 6.09. Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not, and shall not permit any of its Restricted Subsidiaries to, consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower's most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower and its Subsidiaries; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower or its Subsidiaries; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower or any Subsidiary in a Permitted Business, (ii) are used by the Borrower or a Subsidiary to repay Debt of the Borrower or such Subsidiary, or (iii) are retained by the Borrower or its Subsidiaries; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower Ratings after giving effect to any such Asset Sale.

Section 6.10. Restrictive Agreements. Except as set forth in Schedule 6.10, the Borrower will not permit any of its Restricted Subsidiaries to enter into or assume any agreement prohibiting or otherwise restricting the ability of any Restricted Subsidiary to pay dividends or other distributions on its respective equity and equity equivalents to the Borrower or any of its Restricted Subsidiaries.

Section 6.11. Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 65%, measured as of the end of each fiscal quarter.

Section 6.12. Indebtedness. The Borrower will not permit any of its Restricted Subsidiaries to incur, create, assume or permit to exist any Debt of such Restricted Subsidiaries except:

- (a) Existing Debt and any extensions, renewals or refinancings thereof;
- (b) Debt owing to the Borrower or a Wholly Owned Restricted Subsidiary;
- (c) any Debt incurred in respect of the Lower Mt. Bethel Lease Financing;
- (d) Non-Recourse Debt; and
- (e) other Debt, the aggregate principal amount of which does not exceed \$500,000,000 at any time.

ARTICLE VII DEFAULTS

Section 7.01. Events of Default. If one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on the Loans and Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in clause (ii) of Section 6.05, or Sections 6.06, 6.08, 6.09, 6.11 or 6.12; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01 (d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or
- (f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or
- (g) the Borrower or any Restricted Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or
- (h) the Borrower or any Restricted Subsidiary of the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or
- (i) an involuntary case or other proceeding shall be commenced against the Borrower or any Restricted Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower or any Restricted Subsidiary under the Bankruptcy Code; or
- (j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in

excess of \$50,000,000; or

(k) the Borrower or any of its Restricted Subsidiaries shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Borrower or any such Restricted Subsidiary that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in clause 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

ARTICLE VIII THE AGENTS

Section 8.01. Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02. Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel

(including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a “notice of default”. If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06. Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07. Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08. Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof),

the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09. Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document.

Section 8.10. Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

ARTICLE IX MISCELLANEOUS

Section 9.01. Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, telecopy, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or telecopy, (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or telecopy numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

PPL Energy Supply, LLC
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151
Facsimile: 610-774-5235

with a copy to:

PPL Energy Supply, LLC
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

if to the Administrative Agent:

Wells Fargo Bank, National Association
1525 West W.T. Harris Boulevard
Mail Code: MAC D1109-019
Charlotte, NC 28262
Attention: Syndication Agency Services
Telephone: 704.590.2706
Telecopier: 704.590.2790
Electronic Mail: agencyservices.requests@wellsfargo.com

with a copy to:

Wells Fargo Bank, National Association
90 S 7th Street, MAC: N9305-070
Minneapolis, MN 55402
Attention: Keith Luettel
Telephone: 612-667-4747
Facsimile: 602-316-0506

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Attention: Jason Kyrwood
Telephone : 212-450-4653
Facsimile: 212-450-5653

Section 9.02. No Waivers; Non-Exclusive Remedies . No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification.

(a) Expenses . The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in

connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an “Indemnitee”) and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee’s own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04. Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by

the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.11(a), 2.09(b) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06. Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.08 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.08 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"). The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an “Assignee”) all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consent shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank. No such assignment shall release the transferor Lender from its obligations hereunder.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower’s agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the “Register”) on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower’s obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this subsection 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of subsection 9.06(c) and this subsection 9.06(e) have been satisfied.

Section 9.07. Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the

nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08. Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents, and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09. Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10. Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by "to the best

knowledge of” or “known to” (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

Section 9.11. WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12. Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender’s or Agent’s Affiliates and their respective directors, officers, employees and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower’s Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a “tombstone” or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13. USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the “Patriot Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14. No Fiduciary Duty. Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the “Lender Parties”), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the “Borrower Parties”). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm’s-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory

services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15. Amendment and Restatement of Existing Credit Agreement. Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the “**Extending Lenders**”) shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder; provided that, for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Extending Lenders shall be redetermined based on the Commitments set forth in the Commitment Appendix and the participations of the Extending Lenders in, and the obligations of the Extending Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in the JLA L/C Fronting Sublimits Appendix.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

PPL ENERGY SUPPLY, LLC

By: /s/ Russell R. Clelland

Name: Russell R. Clelland

Title: Assistant Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION, as
Administrative Agent, Issuing Lender, Swingline Lender and
Lender

By: /s/ Keith Luettel

Name: Keith Luettel

Title: Vice President

BANK OF AMERICA, N.A., as Issuing Lender and Lender

By: /s/ Mike Mason

Name: Mike Mason

Title: Director

THE ROYAL BANK OF SCOTLAND PLC, as Issuing
Lender and Lender

By: /s/ Tyler J. McCarthy

Name: Tyler J. McCarthy

Title: Director

BARCLAYS BANK PLC, as Issuing Lender and Lender

By: /s/ Ronnie Glenn

Name: Ronnie Glenn

Title: Vice President

THE BANK OF NOVA SCOTIA, as Issuing Lender and
Lender

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

THE BANK OF TOKYO-MITSUBISHI UFJ, INC. as
Issuing Lender and Lender

By: s/ Alan Reiter

Name: Alan Reiter

Title: Vice President

UNION BANK, N.A., as Issuing Lender and Lender

By: /s/ Carmelo Restifo

Name: Carmelo Restifo

Title: Director

BNP PARIBAS, as a Lender

By: /s/ Denis O'Meara

Name: Denis O'Meara

Title: Managing Director

BNP PARIBAS, as a Lender

By: /s/ Pasquale A. Perraglia IV

Name: Pasquale A. Perraglia IV

Title: Vice President

CITIBANK, N.A., as a Lender

By: s/ Amit Vasani

Name: Amit Vasani

Title: Vice President

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH, as
a Lender

By: /s/ Christopher Reo Day

Name: Christopher Reo Day

Title: Vice President

By: /s/ Vipul Dhadha

Name: Vipul Dhadha

Title: Associate

GOLDMAN SACHS BANK USA, as a Lender

By: s/ Mark Walton

Name: Mark Walton

Title: Authorized Signatory

J.P. MORGAN CHASE BANK, N.A., as a Lender

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

MORGAN STANLEY BANK, N.A., as a Lender

By: s/ Kelly Chin

Name: Kelly Chin

Title: Authorized Signatory

ROYAL BANK OF CANADA, as a Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

UBS LOAN FINANCE LLC, as a Lender

By: /s/ Irja R. Otsa

Name: Irja R. Otsa

Title: Associated Director

UBS LOAN FINANCE LLC, as a Lender

By: /s/ David Urban

Name: David Urban

Title: Associated Director

CREDIT AGRICOLE CORPORATE AND INVESTMENT
BANK, as a Lender

By: /s/ Dixon Schultz

Name: Dixon Schultz

Title: Managing Director

By: /s/ Sharada Manne

Name: Sharada Manne

Title: Managing Director

KEYBANK NATIONAL ASSOCIATION., as a Lender

By: /s/ Craig A. Hanselman

Name: Craig A. Hanselman

Title: Vice President

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Stephen Giacolone

Name: Stephen Giacolone

Title: Assistant Vice President –G011

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Julia R. Franklin

Name: Julia R. Franklin

Title: Vice President - F014

MUZUHO CORPORATE BANK, LTD., as a Lender

By: /s/ Leon Mo

Name: Leon Mo

Title: Authorized Signatory

SUNTRUST BANK, as a Lender

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

THE BANK OF NEW YORK MELLON, as a Lender

By: /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ John M. Eyerman

Name: John M. Eyerman

Title: Vice President

CANADIAN IMPERIAL BANK OF COMMERCE, New
York Agency, as a Lender

By: /s/ Robert Casey

Name: Robert Casey

Title: Authorized Signatory

By: /s/ Jonathan J. Kim

Name: Jonathan J. Kim

Title: Authorized Signatory

COMPASS BANK, as a Lender

By: /s/ Susana Campuzano

Name: Susana Campuzano

Title: Senior Vice President

PNC BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President PNC Bank, N.A.

SOVEREIGN BANK, N.A., as a Lender

By: /s/ William Maag

Name: William Maag

Title: Senior Vice President

SUMITOMO MITSUI BANKING CORPORATION, as a
Lender

By: /s/ Shugi Yabe

Name: Shugi Yabe

Title: Managing Director

THE NORTHERN TRUST COMPANY, as a Lender

By: /s/ Daniel Boote

Name: Daniel Boote

Title: Senior Vice President

Commitment Appendix

Lender

Revolving Commitment

Wells Fargo Bank, National Association	\$154,285,714.30
Bank of America, N.A.	\$154,285,714.30
The Royal Bank of Scotland plc	\$154,285,714.29
Barclays Bank PLC	\$141,071,428.57
The Bank of Nova Scotia	\$141,071,428.57
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$70,535,714.29
Union Bank, N.A.	\$70,535,714.29
BNP Paribas	\$141,071,428.57
Citibank, N.A.	\$141,071,428.57
Credit Suisse AG, Cayman Islands Branch	\$141,071,428.57
Goldman Sachs Bank USA	\$141,071,428.57
JPMorgan Chase Bank, N.A.	\$141,071,428.57
Morgan Stanley Bank, N.A.	\$141,071,428.57
Royal Bank of Canada	\$141,071,428.57
UBS Loan Finance LLC	\$141,071,428.57
Credit Agricole Corporate & Investment Bank	\$100,714,285.71
KeyBank National Association	\$100,714,285.71
Lloyds Bank	\$100,714,285.71
Mizuho Corporate Bank, Ltd.	\$100,714,285.71
SunTrust Bank	\$100,714,285.71
The Bank of New York Mellon	\$100,714,285.71
U.S. Bank National Association	\$100,714,285.71
Canadian Imperial Bank of Commerce	\$48,928,571.43
Compass Bank	\$48,928,571.43
PNC Bank, National Association	\$48,928,571.43
Sovereign Bank, N.A.	\$48,928,571.43
Sumitomo Mitsui Banking Corporation	\$48,928,571.43
The Northern Trust Company	\$35,714,285.71
Total	\$3,000,000,000.00

JLA L/C Fronting Sublimits Appendix

Issuing Lender	L/C Fronting Sublimit
Wells Fargo Bank, National Association	\$583,333,333.33
Bank of America, N.A.	\$583,333,333.33
The Royal Bank of Scotland plc	\$583,333,333.33
Barclays Bank PLC	\$416,666,666.67
The Bank of Nova Scotia	\$416,666,666.67
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$416,666,666.67
Total	\$3,000,000,000.00

Restricted Subsidiaries ¹

<u>Restricted Subsidiary</u>	<u>Jurisdiction of Organization</u>
PPL Generation, LLC	Delaware
PPL Montana Holdings, LLC	Delaware
PPL Montana, LLC	Delaware
PPL Martins Creek, LLC	Delaware
PPL Brunner Island, LLC	Delaware
PPL Montour, LLC	Delaware
PPL Susquehanna, LLC	Delaware
PPL Holtwood, LLC	Delaware
PPL EnergyPlus, LLC	Pennsylvania
PPL Investment Corporation	Delaware

¹ As of November 6, 2012

Guaranties of Foreign Subsidiary Debt

None.

SCHEDULE 6.07

Existing Liens

Debtor	State	Jurisdiction	Services	Original File Date and Number	Secured Party	Related Filings
PPL Brunner Island, LLC	DE	Secretary of State	UCC/FTL Search-Central	10-10-08 #2008 3433164	Golf Cart Services, Inc.	
PPL EnergyPlus, LLC	PA	Department of State	UCC Search - Central - Direct Access	10-28-09 #2009102806037	Midwest Transmission System Operator, Inc.	
PPL Generation, LLC	DE	Secretary of State	UCC/FTL Search-Central	05-30-07 #2007 2013067	General Electric Capital Corporation	
PPL Montana, LLC	DE	Secretary of State	UCC/FTL Search-Central	07-21-00 #0046682	The Bank of New York, as Assignee of the Secured Party	Continuation 06-03-05 Amendment 11-30-06
PPL Montana, LLC	DE	Secretary of State	UCC/FTL Search-Central	07-21-00 #0046686	The Bank of New York, as Assignee of the Secured Party	Continuation 06-03-05 Amendment 11-30-06
PPL Montana, LLC	DE	Secretary of State	UCC/FTL Search-Central	07-21-00 #0046689	The Bank of New York, as Assignee of the Secured Party	Continuation 06-03-05 Amendment 11-30-06
PPL Montana, LLC	DE	Secretary of State	UCC/FTL Search-Central	07-21-00 #046695	The Bank of New York, as Assignee of the Secured Party	Continuation 06-03-05 Amendment 11-30-06
PPL Montana, LLC	DE	Secretary of State	UCC/FTL Search-Central	09-27-01 #112644 1	Dell Financial Services, L.P.	Continuation 09-06-06
PPL Montana, LLC	MT	US District Court	Pending Suits and Judgments	01-09-03 #03-cv-00001	Margaret A. McGreevey	
PPL Montana, LLC (add'l defendants ABC Corporation, John Does 1-10)	MT	US District Court	Pending Suits and Judgments	03-02-10 #10-cv-00023	Patrick Campbell	

Restrictive Agreements

PPL Montana, LLC and PPL Montana Holdings, LLC: Restrictions on the payment of dividends and similar distributions arising in connection with the pass-through certificates, lessor notes and other lease obligations relating to PPL Montana's leases relating to the Colstrip Facility.

Existing Debt

None.

Form of Notice of Borrowing

Wells Fargo Bank, National Association,
as Administrative Agent
1525 W WT Harris Boulevard
Charlotte, NC 28262
Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Borrowing" pursuant to Section 2.03 of the \$3,000,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Energy Supply, LLC, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

- 1. The date of the Borrowing will be _____, _____. 2
2. The aggregate principal amount of the Borrowing will be _____. 3
3. The Borrowing will consist of [Revolving] [Swingline] Loans.
4. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans. 4
5. The initial Interest Period for the Loans comprising such Borrowing shall be _____. 5

[Insert appropriate delivery instructions, which shall include bank and account number] .

PPL ENERGY SUPPLY, LLC

By: _____
Name:
Title:

2 Must be a Business Day.

3 Revolving Borrowings must be an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Revolving Commitment. Swingline Borrowings must be an aggregate principal amount of \$5,000,000 or any larger integral multiple of \$1,000,000.

4 Applicable for Revolving Loans only.

5 Applicable for Euro-Dollar Loans only. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of "Interest Period").

Form of Notice of Conversion/Continuation

Wells Fargo Bank, National Association,
 as Administrative Agent
 1525 W WT Harris Boulevard
 Charlotte, NC 28262
 Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$3,000,000,000 Amended and Restated Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Energy Supply, LLC, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of ___ months and ending on the Election Date specified below] .

2. The date on which the conversion/continuation selected hereby is to be effective is _____, _____ (the "Election Date").⁶

3. The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$_____.⁷

4. [The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]

5. The Interest Period for such Loans will be _____.⁸

⁶ Must be a Business Day.

⁷ May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not apply, are each \$10,000,000 or any larger integral multiple of \$1,000,000.

⁸ Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of Interest Period).

PPL ENERGY SUPPLY, LLC

By: _____
Name:
Title:

Form of Letter of Credit Request

_____ , _____

[Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$3,000,000,000 Amended and Restated Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Energy Supply, LLC, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

The undersigned hereby requests that _____⁹ issue a Standby Letter of Credit on _____, _____¹⁰ in the aggregate amount of \$_____. [This request is to extend a Letter of Credit previously issued under the Credit Agreement; Letter of Credit No. _____.]

The beneficiary of the requested Standby Letter of Credit will be _____¹¹, and such Standby Letter of Credit will be in support of _____¹² and will have a stated termination date of _____¹³.

Copies of all documentation with respect to the supported transaction are attached hereto.

⁹ Insert name of Issuing Lender.

¹⁰ Must be a Business Day.

¹¹ Insert name and address of beneficiary.

¹² Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

¹³ Insert the last date upon which drafts may be presented (which may not be later than one year after the date of issuance specified above or beyond the fifth Business Day prior to the Termination Date).

PPL ENERGY SUPPLY, LLC

By: _____
Name:
Title:

APPROVED:

[ISSUING LENDER]

By: _____
Name:
Title:

Form of Note

FOR VALUE RECEIVED, the undersigned, PPL ENERGY SUPPLY, LLC, a Delaware limited liability company (the “Borrower”), promises to pay to the order of _____ (hereinafter, together with its successors and assigns, called the “Holder”), at the Administrative Agent’s Office or such other place as the Holder may designate in writing to the Borrower, the principal sum of _____ AND _____/100s DOLLARS (\$_____), or, if less, the principal amount of all Loans advanced by the Holder to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided. Such Loans may be endorsed from time to time on the grid attached hereto, but the failure to make such notations shall not affect the validity of the Borrower’s obligation to repay unpaid principal and interest hereunder.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$3,000,000,000 Amended and Restated Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (as the same may be amended, modified or supplemented from time to time, the “Credit Agreement”) by and among the Borrower, the lenders party thereto (collectively, the “Lenders”) and Wells Fargo Bank, National Association, as administrative agent (the “Administrative Agent”) for itself and on behalf of the Lenders and the Issuing Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, repay, reborrow, continue and convert the Holder’s Loans (or portion thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Holder, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Holder in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Holder not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

All parties now or hereafter liable with respect to this Note, whether the Borrower, any guarantor, endorser or any other Person or entity, hereby waive presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest.

No delay or omission on the part of the Holder or any holder hereof in exercising its rights under this Note, or delay or omission on the part of the Holder, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Holder or any holder hereof, nor shall any waiver by the Holder, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, or any holder hereof, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

The Borrower promises to pay all reasonable costs of collection, including reasonable attorneys’ fees, should this

Note be collected by or through an attorney-at-law or under advice therefrom.

This Note evidences the Holder's Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representative as of the day and year first above written.

PPL ENERGY SUPPLY, LLC

By: _____
Name:
Title:

Form of Assignment and Assumption Agreement

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the] [each] ¹⁴ Assignor identified on the Schedules hereto as “Assignor” [or “Assignors” (collectively, the “Assignors” and each] an “Assignor”) and [the] [each] ¹⁵ Assignee identified on the Schedules hereto as “Assignee” or “Assignees” (collectively, the “Assignees” and each an “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees] ¹⁶ hereunder are several and not joint.] ¹⁷ Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor’s] [the respective Assignors’] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor: *See Schedule attached hereto*
2. Assignee: *See Schedule attached hereto*
3. Borrower: PPL Energy Supply, LLC
4. Administrative Agent: Wells Fargo Bank, National Association, as the administrative agent under the Credit Agreement
5. Credit Agreement: The \$3,000,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 by and among PPL Energy Supply, LLC, as Borrower, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified)
6. Assigned Interest: *See Schedule attached hereto*
- [7. Trade Date: _____] ¹⁸

¹⁴ For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

¹⁵ For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

¹⁶ Select as appropriate.

¹⁷ Include bracketed language if there are either multiple Assignors or multiple Assignees.

¹⁸ To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Effective Date: _____, 20____

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____

Title:

ASSIGNEE

See Schedule attached hereto

[Consented to and] ¹⁹ Accepted:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, [Issuing Lender] and Swingline Lender

By _____
Title:

[Consented to:] ²⁰

PPL ENERGY SUPPLY, LLC

By _____
Title:

[Consented to]:

[Issuing Lender] ²¹ ,
as Issuing Lender

By _____
Title:

[Consented to]:

[JOINT LEAD ARRANGERS] ²²

WELLS FARGO BANK, N.A.

By: _____
Title:

BANK OF AMERICA, N.A.

By: _____
Title:

¹⁹ To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

²⁰ To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

²¹ Add all Issuing Lender signature blocks.

²² To be added if assignment is made before Effective Date.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

Assigned Interests:

Aggregate Amount of Commitment/ Loans for all Lenders ²³	Amount of Commitment/ Loans Assigned ²⁴	Percentage Assigned of Commitment/ Loans ²⁵	CUSIP Number
\$	\$	%	

[NAME OF ASSIGNEE] ²⁶

[and is an Affiliate of [*identify Lender*]] ²⁷

²³ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

²⁴ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

²⁵ Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

²⁶ Add additional signature blocks, as needed.

²⁷ Select as applicable.

ANNEX 1 to Assignment and Assumption

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT DATED AS OF
NOVEMBER 6, 2012
BY AND AMONG
PPL ENERGY SUPPLY, LLC, AS BORROWER, THE LENDERS PARTY THERETO
AND WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

Forms of Opinions of Counsel for the Borrower

[Date]

To the Administrative Agent and
each of the Lenders party to the Revolving
Credit Agreement referred to below

Re: PPL Energy Supply, Corporation
\$300,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

We have acted as special counsel to PPL Energy Supply, LLC, a Delaware limited liability company (the “Company”), in connection with the negotiation, execution and delivery of the \$3,000,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender, and the other Lenders from time to time party thereto (such Revolving Credit Agreement as so amended, the “Agreement”). This letter is being delivered to you at the request of the Company pursuant to Section 4.01(e) of the Agreement.

In preparing this letter, we have reviewed the Agreement[, and the Notes of the Company executed and delivered by the Company on the date hereof (the “Notes”),] and the other documents executed and delivered by the Company in connection with the Agreement. In addition, we have reviewed the Certificate of Formation of the Company filed with the office of the Secretary of State of the State of Delaware on November 14, 2000, the Company’s limited liability company agreement dated March 20, 2001 and certified by an Assistant Secretary of the Company as of the date hereof, and the records of the Company’s proceedings relating to the authorization of the Agreement.

Subject to the assumptions, qualifications and other limitations set forth below, it is our opinion that:

1. The Company is a limited liability company validly existing and, based solely upon a certificate issued by the Secretary of State of the State of Delaware dated November __, 2012, in good standing under the Delaware Limited Liability Company Act.
2. The Company has (a) the limited liability company power to execute and deliver, and to perform its obligations under, the Agreement and (b) duly taken or caused to be taken all necessary limited liability company action to authorize the execution, delivery and performance by it of the Agreement [and the Notes].
3. The Agreement [and the Notes] has[ve] been duly executed and delivered by the Company.
4. The Agreement constitutes a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms.
5. [The Notes constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms.]
6. The Company is not an “investment company” within the meaning of the Investment Company Act of 1940, as amended.
7. The borrowings under the Agreement and the use of proceeds thereof as contemplated by the Agreement do not violate Regulation U or X of the Board of Governors of the Federal Reserve System.

In rendering our opinions, we have (a) without independent verification, relied, with respect to factual matters, statements and conclusions, on certificates, notifications and statements, whether written or oral, of governmental officials and individuals identified to us as officers and representatives of the Company and on the representations made by the

Company in the Agreement and other documents delivered to you in connection therewith and (b) reviewed originals, or copies of such agreements, documents and records as we have considered relevant and necessary as a basis for our opinions. [In rendering the opinions set forth in paragraphs 1 through 3 above, we note that any exercise by the Company of the option to increase the Commitments as contemplated in Section 2.19 of the Agreement may require additional authorization by the Company's Board of Managers. We note that, as counsel to the Company, we do not represent it generally and there may be facts relating to the Company of which we have no knowledge.]

We have assumed (a) the accuracy and completeness of all certificates, agreements, documents, records and other materials submitted to us; (b) the authenticity of original certificates, agreements, documents, records and other materials submitted to us; (c) the conformity with the originals of any copies submitted to us; (d) the genuineness of all signatures; (e) the legal capacity of all natural persons; (f) that the Agreement constitutes the valid, legally binding and enforceable agreement of the parties thereto under all applicable law (other than, in the case of the Company, the law of the State of New York); (g) that the execution and delivery by the Company of, and the performance by the Company of its obligations under, the Agreement and the Notes does not and will not (i) breach or violate (A) any agreement or instrument to which the Company or any of its affiliates is a party or by which the Company or any of its affiliates or any of their respective properties may be bound, (B) any authorization, consent, approval or license (or the like) of, or exemption (or the like) from, or any registration or filing (or the like) with, or report or notice (or the like) to, any governmental unit, agency, commission, department or other authority granted to or otherwise applicable to the Company or any of its affiliates or any of their respective properties (each a "Governmental Approval"), (C) any order, decision, judgment or decree that may be applicable to the Company or any of its affiliates or any of their respective properties, or (D) any law (other than the law of the State of New York and the federal law of the United States), or (ii) require any Governmental Approval; (h) that the Company is engaged only in the businesses described in its Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission; (i) that there are no agreements, understandings or negotiations between the parties not set forth in the Agreement that would modify the terms thereof or the rights and obligations of the parties thereunder; and (j) for purposes of our opinion in paragraph 4 as it relates to the choice-of-law provisions in the Agreement, that the choice of law of the State of New York as the governing law of the Agreement would not result in a violation of an important public policy of another state or country having greater contacts with the transactions contemplated by the agreement than the State of New York.

Our opinions are subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, receivership, conservatorship, arrangement, moratorium and other similar laws affecting and relating to the rights of creditors generally; (b) general equitable principles; (c) requirements of reasonableness, good faith, fair dealing and materiality; (d) Article 9 of the Uniform Commercial Code regarding restrictions on assignment or transfer of rights; and (e) additionally in the case of (i) indemnities, a requirement that facts, known to the indemnitee but not the indemnitor, in existence at the time the indemnity becomes effective that would entitle the indemnitee to indemnification be disclosed to the indemnitor, and a requirement that an indemnity provision will not be read to impose obligations upon indemnitors which are neither disclosed at the time of its execution nor reasonably within the scope of its terms and overall intention of the parties at the time of its making, (ii) waivers, Sections 9-602 and 9-603 of the Uniform Commercial Code, and (iii) indemnities, waivers and exculpatory provisions, public policy.

We express no opinion with respect to the following sections of the Agreement: (i) Section 9.02 (cumulative remedies), (ii) provisions relating to rules of evidence or quantum of proof, (iii) Section 9.07 (submission to jurisdiction and waiver of inconvenient forum), insofar as such sections relate to federal courts (except as to the personal jurisdiction thereof), and (choice of venue, i.e., requiring actions to be commenced in a particular court in a particular jurisdiction), and (iv) Section 9.11 (waiver of jury trial), insofar as such section is sought to be enforced in a federal court.

We express no opinion as to the law of any jurisdiction other than the law of the State of New York and the federal law of the United States of America, and, with respect to our opinions in paragraphs 1 through 3, the Delaware Limited Liability Company Act, and in each case, only such law that in our experience is normally applicable to transactions of the type contemplated by the Agreement and excluding (i) any law that is part of a regulatory regime applicable to specific assets or businesses of the lenders and (ii) the statutes and ordinances, the administrative decisions, and the rules and regulations of counties, towns, municipalities and special political subdivisions.

This letter speaks only as of the date hereof. We have no responsibility or obligation to update this letter or to take into account changes in law or facts or any other development of which we may later become aware.

This letter is delivered by us as special counsel for the Company solely for your benefit in connection with the transaction

referred to herein and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or entity without our prior written consent.

Very truly yours,

[Date]

To the Administrative Agent and
each of the Lenders party to the
Credit Agreement referred to below

Re: \$3,000,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

I am Senior Counsel of PPL Services Corporation, an affiliate of PPL Energy Supply, LLC (the "Borrower"), and have acted as counsel to the Borrower in connection with the \$3,000,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender and the other Lenders from time to time party thereto (the "Agreement"). Capitalized terms used but not defined herein have the meaning assigned to such terms in the Agreement.

I am familiar with the Agreement [and the Notes of the Borrower executed and delivered by the Borrower on the date hereof (the "Notes"),] and the other documents executed and delivered by the Borrower in connection with the Agreement. I have also examined such other documents and satisfied myself as to such other matters as I have deemed necessary in order to render this opinion. I have assumed that the Agreement and instruments referred to in this opinion have been duly authorized, executed and delivered by all parties thereto other than the Borrower.

Based on the foregoing, I am of the opinion that:

1. The execution, delivery and performance by the Borrower of the Agreement [and the Notes] have been duly authorized by the Borrower and do not violate any provision of law or regulation or any decree, order, writ or judgment applicable to the Borrower, or any provision of its limited liability company agreement, or result in the breach of or constitute a default under any indenture or other agreement or instrument known to me to which it is a party.

2. [Each of] the Agreement [and the Notes] has been duly executed and delivered by the Borrower, and constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except to the extent limited by (a) bankruptcy, insolvency, reorganization or other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles that may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to indemnification, contribution, waivers and exculpatory provisions.

3. Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2011, or in other reports filed under the Securities Exchange Act of 1934 from January 1, 2012 to the date hereof, or otherwise furnished in writing to the Administrative Agent, no litigation, arbitration or administrative proceeding or inquiry is pending or, to my knowledge, threatened which, if determined adversely to the Borrower, would materially and adversely affect the ability of the Borrower to perform any of its obligations under the Agreement [or the Notes]. To my knowledge, there is no litigation, arbitration or administrative proceeding pending or threatened that questions the validity of the Agreement [or the Notes].

4. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System.

5. There have not been any "reportable events," as that term is defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, which would result in a material liability of the Borrower.

6. No authorization, consent or approval of any Governmental Authority of the United States of America or the State of New York is required for the execution, delivery or performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except such authorizations, consents and approvals as have been obtained prior to the date hereof, which authorizations, consents and approvals are in full force and effect.

This opinion is limited to the laws of the State of New York, the Delaware Limited Liability Company Act and the federal laws of the United States of America.

Without my prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other person or entity for any purpose.

Very truly yours,

Frederick C. Paine

Form of Notice of Revolving Increase

Dated as of: _____

PPL ENERGY SUPPLY, LLC (the “**Borrower**”), in connection with the \$3,000,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders party thereto from time to time (the “**Credit Agreement**”), hereby certifies that:

1. The Borrower has obtained an agreement from certain financial institutions to increase their Revolving Commitments in the aggregate amount of _____ (\$_____) ²⁸ (the “**Commitment Increase**”).

2. All of the representations and warranties of the Borrower made under the Credit Agreement (including, without limitation, all representations and warranties with respect to the Borrower’s Subsidiaries) and the other Loan Documents are as of the date hereof, and will be as of the effective date of the Commitment Increase, true and correct in all material respects except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date.

3. There does not exist, as of this date, and there will not exist after giving effect to the Commitment Increase, any Default or Event of Default under the Credit Agreement.

4. All necessary governmental, regulatory and third party approvals, if required, have been obtained or made, are in full force and effect and are not subject to any pending or, to the knowledge of the Borrower, threatened reversal or cancellation.

5. Attached hereto as Annex A are resolutions adopted by the Borrower authorizing such Commitment Increase, and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect.

Capitalized terms used in this Notice of Revolving Increase and not otherwise defined herein are used as defined in the Credit Agreement.

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²⁸ Each Optional Commitment Increase shall be in a minimum amount of \$50,000,000.

IN WITNESS WHEREOF, the Borrower, acting through an authorized signatory, has signed this Notice of Revolving Increase as of the day and year first above written.

PPL ENERGY SUPPLY, LLC

By: _____

Name:

Title:

Annex A to Exhibit E

\$400,000,000

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

dated as of November 6, 2012

among

KENTUCKY UTILITIES COMPANY,

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, Issuing Lender and Swingline Lender**

**WELLS FARGO SECURITIES, LLC,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, RBS SECURITIES INC.,
BARCLAYS BANK PLC,
THE BANK OF NOVA SCOTIA
and
MITSUBISHI UFJ FINANCIAL GROUP, INC.,
Joint Lead Arrangers and Joint Bookrunners**

**BANK OF AMERICA, N.A.
and
THE ROYAL BANK OF SCOTLAND PLC,
Syndication Agents**

**BARCLAYS BANK PLC,
THE BANK OF NOVA SCOTIA
and
MITSUBISHI UFJ FINANCIAL GROUP, INC.,
Documentation Agents**

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Exhibit D	-	Forms of Opinion of Counsel for the Borrower
Exhibit E	-	Form of Notice of Revolving Increase

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this “Agreement”) dated as of November 6, 2012 is entered into among KENTUCKY UTILITIES COMPANY, a Kentucky corporation and a Virginia corporation (the “Borrower”), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent. The parties hereto agree as follows:

RECITALS

WHEREAS, the Borrower is a party to that certain \$400,000,000 Revolving Credit Agreement dated as of November 1, 2010, among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the “Existing Credit Agreement”); and

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, decrease the fronting sublimit for letters of credit and extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree that the Existing Credit Agreement is hereby amended and restated in its entirety, and do further agree as follows:

**ARTICLE I
DEFINITIONS**

Section 1.01. Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

“Agent” means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers, the Documentation Agents or each Person that shall become a joint lead arranger pursuant to the terms of the Commitment Letters and “Agents” means all of the foregoing.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Amendment Fee” has the meaning set forth in Section 4.01(i).

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“Applicable Percentage” means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower’s Ratings (S&P/Moody’s)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A from S&P / A2 from Moody’s	0.100%	0.000%	1.000%
Category B	≥ A- from S&P / A3 from Moody’s	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from	0.175%	0.250%	1.250%

	Moody's			
Category D	BBB from S&P / Baa2 from Moody's	0.200%	0.500%	1.500%
Category E	BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody's	0.350%	0.875%	1.875%

“Asset Sale” shall mean any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

“Base Rate Borrowing” means a Borrowing comprised of Base Rate Loans.

“Base Rate Lending Office” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“Base Rate Loan” means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrower's Rating” means the senior secured long-term debt rating of the Borrower from S&P or Moody's.

“Borrowing” means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London Business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in the Commitment Appendix and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 2.19 or Section 9.06(c).

“Commitment Appendix” means the Appendix attached under this Agreement identified as such.

“Commitment Fee” has the meaning set forth in Section 2.07(a).

“Commitment Letters” means (i) that certain commitment letter dated as of September 24, 2012 among Wells Fargo Securities,

LLC, Wells Fargo Bank, National Association, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc and (ii) that certain commitment letter dated as of October 2, 2012 among Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each commitment letter addressed to and acknowledged and agreed to by the Borrower.

“Commitment Ratio” shall mean, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“Consolidated Capitalization” shall mean the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowner’s equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Continuing Lender” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Credit Event” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time.

“Documentation Agents” means Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank N.A., each in its capacity as a documentation agent in respect of this Agreement.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; or

(iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended); provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“Existing Credit Agreement” has the meaning set forth in the recitals hereto.

“Extending Lenders” has the meaning set forth in Section 9.15 hereto.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code and any regulations (whether final, temporary or proposed) that are issued thereunder or official government interpretations thereof and any agreements entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter” means the fee letter dated as of September 24, 2012 among the Borrower, Wells Fargo Securities, LLC, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc., and The Royal Bank of Scotland plc, as amended, modified or supplemented from time to time.

“FERC” means the Federal Energy Regulatory Commission.

“Fronting Fee” has the meaning set forth in Section 2.07(b).

“Fronting Sublimit” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on the JLA L/C Fronting Sublimits Appendix hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Interest Period” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clauses (iii) and (iv) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Issuing Lender” means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity and (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, subject in each case to the Fronting Sublimit.

“Joint Lead Arrangers” means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo Mitsubishi UFJ, Ltd. and Union Bank, N.A., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

“JLA Issuing Bank” means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc, Barclays Bank PLC, The Bank of Nova Scotia, Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and each other Lender (or Affiliate of a Lender) that shall become (or whose Affiliate shall become) a joint lead arranger pursuant to the terms of the Commitment Letters.

“KPSC” means the Kentucky Public Service Commission.

“Lender” means each bank or other lending institution listed in the Commitment Appendix as having a Commitment, each

Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to make available any Loan or any reimbursement for a drawing under a Letter of Credit or refunding of a Swingline Loan, in each case, within one Business Day from the date it is obligated to make such amount available under the terms and conditions of this Agreement or (ii) a Lender having notified, in writing, the Administrative Agent and the Borrower that such Lender does not intend to comply with its obligations under Article II following the appointment of a receiver or conservator with respect to such Lender at the direction or request of any regulatory agency or authority.

“Letter of Credit” means each letter of credit issued pursuant to Section 3.02 by an Issuing Lender.

“Letter of Credit Fee” has the meaning set forth in Section 2.07(b).

“Letter of Credit Liabilities” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“London Interbank Offered Rate” means:

(a) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period.

(b) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” shall mean Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” shall mean a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document; and

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document;

together in each case with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Optional Increase” has the meaning set forth in Section 2.19(a).

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed

to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“Replacement Date” has the meaning set forth in Section 2.08(b).

“Replacement Lender” has the meaning set forth in Section 2.08(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

“Revolving” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“Revolving Outstandings” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) aggregate amount of such Lender’s Letter of Credit Liabilities.

“Revolving Outstandings Excess” has the meaning set forth in Section 2.09.

“Sanctioned Entity” shall mean (i) an agency of the government of, (ii) an organization directly or indirectly controlled by, or (iii) a Person resident in, a country that is subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html>, or as otherwise published from time to time as such program may be applicable to such agency, organization or Person.

“Sanctioned Person” shall mean a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

“SEC” means the Securities and Exchange Commission.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“ Swingline Borrowing ” means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of Borrowing with respect thereto.

“ Swingline Exposure ” means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

“ Swingline Lender ” means Wells Fargo Bank, in its capacity as Swingline Lender.

“ Swingline Loan ” means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

“ Swingline Sublimit ” means the lesser of (a) \$20,000,000 and (b) the aggregate Commitments of all Lenders.

“ Swingline Termination Date ” means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

“ Syndication Agents ” means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

“ Synthetic Lease ” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“ Taxes ” has the meaning set forth in Section 2.17(a).

“ Termination Date ” means the earliest to occur of (a) November 6, 2017 and (b) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“ TRA ” means the Tennessee Regulatory Authority.

“ Type ”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“ Unfunded Liabilities ” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“ United States ” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“ Voting Stock ” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“ VSCC ” means the Virginia State Corporation Commission.

“ Wells Fargo Bank ” means Wells Fargo Bank, National Association, and its successors.

“ Wells Fargo Securities ” means Wells Fargo Securities, LLC, and its successors and assigns.

“ Wholly Owned Subsidiary ” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01. Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

Section 2.02. Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

(b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender's obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender's failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender's Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

Section 2.03. Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04. Notice to Lenders; Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

Section 2.05. Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (a) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (c) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (a) and (b) above.

Section 2.06. Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for

such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause(A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a “Notice of Conversion/Continuation”) to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender’s pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07. Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the “Commitment Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender’s Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the “Letter of Credit Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the “Fronting Fee”) in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later,

on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.08. Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06 (c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender (s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (to the extent not previously adjusted pursuant to Section 2.20). The right of the Borrower to effect such a termination is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.09. Maturity of Loans; Mandatory Prepayments.

(a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a "Revolving Outstandings Excess"), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

(b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

Section 2.10. Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

Section 2.11. General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the

Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12. Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13. Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14. Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Domestic Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (i) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (ii) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16. Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office) or shall impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.17. Taxes.

(a) Payments Net of Certain Taxes. Any and all payments by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent that is a "United States person" within the meaning of Section 7701 (a)(30) of the Internal Revenue Code, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17 (a)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "Other Taxes").

(c) Indemnification. The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this Section 2.17(c). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) Refunds or Credits. If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that

is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a “Non-U.S. Lender”) shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; or (C) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a “bank” within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a “10-percent shareholder” of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a “controlled foreign corporation” that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender or are effectively connected but are not includible in the Non-U.S. Lender’s gross income for United States federal income tax purposes under an income tax treaty to which the United States is a party; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8 ECI, W-8 BEN, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), “FATCA” shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8 BEN, W-8 ECI or W-8 IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such Form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18. Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days’ prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19. Increases to the Commitment.

(a) Subject to the terms and conditions of this Agreement, the Borrower may, during the Availability Period by delivering to the Administrative Agent and the Lenders a Notice of Revolving Increase in the form of Exhibit E, request increases to the Lenders' Commitments (each such request, an "Optional Increase"); provided that: (i) the Borrower may not request any increase to the Commitments after the occurrence and during the continuance of a Default; (ii) each Optional Increase shall be in a minimum amount of \$50,000,000 and (iii) the aggregate amount of all Optional Increases shall be no more than \$100,000,000.

(b) Each Lender may, but shall not be obligated to, participate in any Optional Increase, subject to the approval of the Issuing Lenders and the Swingline Lender (such approval not to be unreasonably withheld), and the decision of any Lender to commit to an Optional Increase shall be at such Lender's sole discretion and shall be made in writing. The Borrower may, at its own expense, solicit additional Commitments from third party financial institutions reasonably acceptable to the Administrative Agent, the Swingline Lender and the Issuing Lender. Any such financial institution (if not already a Lender hereunder) shall become a party to this Agreement as a Lender, pursuant to a joinder agreement in form and substance reasonably satisfactory to the Administrative Agent and the Borrower.

(c) As a condition precedent to the Optional Increase, the Borrower shall deliver to the Administrative Agent a certificate of the Borrower dated the effective date of the Optional Increase, signed by a Responsible Officer of the Borrower, certifying that: (i) the resolutions adopted by the Borrower approving or consenting to such Optional Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect, (ii) before and after giving effect to the Optional Increase, (A) the representations and warranties contained in Article V and the other Loan Documents are true and correct in all material respects on and as of the effective date of the Optional Increase, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and (B) that no Default exists, is continuing, or would result from the Optional Increase and (iii) all necessary governmental, regulatory and third party approvals, including, without limitation, any KPSC, TRA, VSCC and/or FERC approval required to approve the Optional Increase, are attached thereto and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Optional Increase.

(d) The Revolving Outstandings will be reallocated by the Administrative Agent on the effective date of any Optional Increase among the Lenders in accordance with their revised Commitment Ratios, and the Borrower hereby agrees to pay any and all costs (if any) required pursuant to Section 2.12 incurred by any Lender in connection with the exercise of the Optional Increase.

Section 2.20. Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b)

shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

ARTICLE III LETTERS OF CREDIT

Section 3.01. Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

Section 3.02. Letters of Credit.

(a) Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any of its Subsidiaries that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate amount of Letter of Credit Liabilities shall not exceed \$200,000,000, (B) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03. Method of Issuance of Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of a Letter of Credit prior to 1:00 P.M. (Charlotte, North Carolina time) on the proposed date of the issuance or extension of Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

Section 3.04. Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (i) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (ii) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (iii) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (A) the aggregate amount of Letter of Credit Liabilities shall not exceed \$200,000,000, (B) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05. Purchase and Sale of Letter of Credit Participations. Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest

in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06. Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07. Reimbursement Obligations. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (ii) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08. Duties of Issuing Lenders to Lenders; Reliance. In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

Section 3.09. Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings. If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such

other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

Section 3.10. Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11. Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;
- (e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or
- (g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12. Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13. ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in

such Letter of Credit.

ARTICLE IV CONDITIONS

Section 4.01. Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

- (a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.
- (b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.
- (c) Officers' Certificates. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or any Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.
- (d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky, dated as of a recent date, as to the good standing of the Borrower, (ii) a certificate of the Secretary of State of the Commonwealth of Virginia, dated as of a recent date, as to the good standing of the Borrower and (iii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto are true, correct and complete copies of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and the Secretary of State of the Commonwealth of Virginia and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.
- (e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.
- (f) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the orders of the KPSC (the "KPSC Order"), TRA (the "TRA Order"), VSCC (the "VSCC Order") and any required approvals of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions; provided that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 need not be obtained or provided until the Borrower makes any such election.
- (g) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.
- (h) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.
- (i) Amendment Fee. The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the "Amendment Fee") as set forth in the Fee Letter, on or before the Effective Date.

Section 4.02. Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

- (a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;
- (b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and
- (c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section

5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01. Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and the Commonwealth of Virginia and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02. Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party; provided, that any exercise of the option to increase the Commitment as contemplated in Section 2.19 may require further authorization of the Borrower's Board of Directors, or approvals of the KPSC, TRA, VSCC and/or FERC.

Section 5.03. Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04. Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2011 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by PricewaterhouseCoopers LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2012 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2011 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05. Litigation. Except as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.05 (b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06. No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07. ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08. Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the KPSC Order, TRA Order and VSCC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect; provided, that any exercise of the option to increase the Commitment as contemplated in Section 2.19 may require additional approvals of the KPSC, TRA, VSCC and/or FERC.

Section 5.09. Investment Company Act. The Borrower is not an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

Section 5.10. Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11. Compliance with Laws. To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12. No Default. No Default has occurred and is continuing.

Section 5.13. Environmental Matters.

(a) Except (i) as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.04(b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, or (ii) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower’s or any of its Subsidiaries’ knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower’s or any of its Subsidiaries’ knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower’s or any of its Subsidiaries’ knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower’s or any of its Subsidiaries’ knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (“CERCLA”), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.04(b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Borrower’s or any of its Subsidiaries’ knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms “the Borrower” and “Subsidiary” shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.14. OFAC. None of the Borrower, any Subsidiary of the Borrower or any Affiliate of the Borrower: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Entities, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. The proceeds of any Loan will not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01. Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website or PPL Corporation's website (<http://www.pplweb.com>) or making such information available on IntraLinks, Syndtrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly, when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any

Borrower Materials that are not marked “PUBLIC” as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated “Public Investor.” “ Information ” means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02. Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03. Conduct of Business and Maintenance of Existence. The Borrower will (i) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04. Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05. Books and Records. The Borrower (i) will keep, and will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Subsidiaries, including for working capital purposes and for making investments in or loans to Subsidiaries. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Subsidiaries including to support issuances of tax-exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07. Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (ii) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08. Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower’s most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower Ratings after giving effect to any such Asset Sale.

Section 6.09. Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to

Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

ARTICLE VII DEFAULTS

Section 7.01. Events of Default. If one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on the Loans and Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in clause (ii) of Section 6.05, or Sections 6.06, 6.07, 6.08 or 6.09; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or
- (f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or
- (g) the Borrower shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or
- (h) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or
- (i) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower under the Bankruptcy Code; or
- (j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or
- (k) the Borrower shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or
- (l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in clause 7.01(h) or 7.01(i) above with respect to the

Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

ARTICLE VIII THE AGENTS

Section 8.01. Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02. Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, teletype or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06. Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07. Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained

in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08. Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09. Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document.

Section 8.10. Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

ARTICLE IX MISCELLANEOUS

Section 9.01. Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype, (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: Treasurer
Telephone: 502-627-4956

Facsimile: 502-627-4742

with a copies to:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: General Counsel
Telephone: 502-627-3450
Facsimile: 502-627-3367

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

PPL Services Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151
Facsimile: 610-774-5235

if to the Administrative Agent:

Wells Fargo Bank, National Association
1525 West W.T. Harris Boulevard
Mail Code: MAC D1109-019
Charlotte, NC 28262
Attention: Syndication Agency Services
Telephone: 704.590.2706
Telecopier: 704.590.2790
Electronic Mail: agencyervices.requests@wellsfargo.com

with a copy to:

Wells Fargo Bank, National Association
90 S 7th Street, MAC: N9305-070
Minneapolis, MN 55402
Attention: Keith Luettel
Telephone: 612-667-4747
Facsimile: 602-316-0506

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Attention: Jason Kyrwood
Telephone: 212-450-4653
Facsimile: 212-450-5653

Section 9.02. No Waivers; Non-Exclusive Remedies . No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification .

(a) Expenses . The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the

Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an “Indemnitee”) and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee’s own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04. Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.11(a), 2.09(b) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06. Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a “Participant”) participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender’s rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant’s participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant’s participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant’s participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant’s interest in the Loans or other obligations under the Loan Documents (the “Participant Register”). The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an “Assignee”) all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed; provided, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consent shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank. No such assignment shall release the transferor Lender from its obligations hereunder.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower’s agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the “Register”) on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower’s obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this subsection 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a

material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of subsection 9.06(c) and this subsection 9.06(e) have been satisfied.

Section 9.07. Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08. Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09. Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10. Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

Section 9.11. WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12. Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this

Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender's or Agent's Affiliates and their respective directors, officers, employees and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower's Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13. USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14. No Fiduciary Duty. Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the "Lender Parties"), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Borrower Parties"). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15. Amendment and Restatement of Existing Credit Agreement. Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the "**Extending Lenders**") shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder; provided that, for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Extending Lenders shall be redetermined based on the Commitments set forth in the Commitment Appendix and the participations of the Extending Lenders in, and the obligations of the Extending Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in the JLA L/C Fronting Sublimits Appendix.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Administrative Agent, Issuing
Lender, Swingline Lender and Lender

By: /s/ Keith Luettel

Name: Keith Luettel

Title: Vice President

BANK OF AMERICA, N.A., as Issuing Lender and
Lender

By: /s/ Mike Mason

Name: Mike Mason

Title: Director

THE ROYAL BANK OF SCOTLAND PLC, as
Issuing Lender and Lender

By: /s/ Tyler J. McCarthy
Name: Tyler J McCarthy
Title: Director

BARCLAYS BANK PLC, as Issuing Lender and
Lender

By: /s/ Ronnie Glenn
Name: Ronnie Glenn
Title: Vice President

THE BANK OF NOVA SCOTIA, as
Issuing Lender and Lender

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

THE BANK OF TOKYO-MITSUBISHI UFJ, INC.
as Issuing Lender and Lender

By: /s/ Alan Reiter
Name: Alan Reiter
Title: Vice President

UNION BANK, N.A., as a Lender

By: /s/ Carmelo Restifo

Name: Carmelo Restifo

Title: Director

BNP PARIBAS, as a Lender

By: /s/ Denis O'Meara

Name: Denis O'Meara

Title: Managing Director

BNP PARIBAS, as a Lender

By: /s/ Pasquale A. Perraglia IV

Name: Pasquale A. Perraglia IV

Title: Vice President

CITIBANK, N.A., as a Lender

By: /s/ Amit Vasani

Name: Amit Vasani

Title: Vice President

CREDIT SUISSE AG, CAYMAN ISLANDS
BRANCH, as a Lender

By: /s/ Christopher Reo Day
Name: Christopher Reo Day
Title: Vice President

By: /s/ Vipul Dhadha
Name: Vipul Dhadha
Title: Associate

GOLDMAN SACHS BANK USA, as a Lender

By: /s/ Mark Walton

Name: Mark Walton

Title: Authorized Signatory

J.P. MORGAN CHASE BANK, N.A., as a Lender

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

MORGAN STANLEY BANK, N.A., as a Lender

By: /s/ Kelly Chin

Name: Kelly Chin

Title: Authorized Signatory

ROYAL BANK OF CANADA, as a Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

UBS LOAN FINANCE LLC, as a Lender

By: /s/ Irja R. Otsa

Name: Irja R. Otsa

Title: Associate Director

UBS LOAN FINANCE LLC, as a Lender

By: /s/ David Urban

Name: David Urban

Title: Associate Director

CREDIT AGRICOLE CORPORATE AND
INVESTMENT BANK, as a Lender

By: /s/ Dixon Schultz

Name: Dixon Schultz

Title: Managing Director

By: /s/ Sharada Manne

Name: Sharada Manne

Title: Managing Director

KEYBANK NATIONAL ASSOCIATION, as a
Lender

By: /s/ Craig A. Hanselman
Name: Craig A. Hanselman
Title: Vice President

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Stephen Giacolone

Name: Stephen Giacolone

Title: Assistant Vice President –G011

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Julia R. Franklin

Name: Julia R. Franklin

Title: Vice President –F014

MIZUHO CORPORATE BANK, LTD., as a
Lender

By: /s/ Leon Mo
Name: Leon Mo
Title: Authorized Signatory

SUNTRUST BANK, as a Lender

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

THE BANK OF NEW YORK MELLON, as a
Lender

By: /s/ Mark W. Rogers
Name: Mark W. Rogers
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION, as a
Lender

By: /s/ John M. Eyerman
Name: John M. Eyerman
Title: Vice President

CANADIAN IMPERIAL BANK OF
COMMERCE, New York Agency, as a Lender

By: /s/ Robert Casey
Name: Robert Casey
Title: Authorized Signatory

By: /s/ Jonathan J. Kim
Name: Jonathan J. Kim
Title: Authorized Signatory

COMPASS BANK, as a Lender

By: /s/ Susana Campuzano
Name: Susana Campuzano
Title: Senior Vice President

PNC BANK, NATIONAL ASSOCIATION, as a
Lender

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President PNC Bank, N.A.

SOVEREIGN BANK, N.A., as a Lender

By: /s/ William Maag

Name: William Maag

Title: Senior Vice President

SUMITOMO MITSUI BANKING
CORPORATION, as a Lender

By: /s/ Shugi Yabe

Name: Shugi Yabe

Title: Managing Director

THE NORTHERN TRUST COMPANY, as a

By: /s/ Daniel Boote
Name: Daniel Boote
Title: Senior Vice President

Commitment Appendix

Lender

Revolving Commitment

Wells Fargo Bank, National Association	\$20,571,428.58
Bank of America, N.A.	\$20,571,428.57
The Royal Bank of Scotland plc	\$20,571,428.58
Barclays Bank PLC	\$18,809,523.81
The Bank of Nova Scotia	\$18,809,523.81
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$9,404,761.90
Union Bank, N.A.	\$9,404,761.90
BNP Paribas	\$18,809,523.81
Citibank, N.A.	\$18,809,523.81
Credit Suisse AG, Cayman Islands Branch	\$18,809,523.81
Goldman Sachs Bank USA	\$18,809,523.81
JPMorgan Chase Bank, N.A.	\$18,809,523.81
Morgan Stanley Bank, N.A.	\$18,809,523.81
Royal Bank of Canada	\$18,809,523.81
UBS Loan Finance LLC	\$18,809,523.81
Credit Agricole Corporate & Investment Bank	\$13,428,571.43
KeyBank National Association	\$13,428,571.43
Lloyds Bank	\$13,428,571.43
Mizuho Corporate Bank, Ltd.	\$13,428,571.43
SunTrust Bank	\$13,428,571.43
The Bank of New York Mellon	\$13,428,571.43
U.S. Bank National Association	\$13,428,571.43
Canadian Imperial Bank of Commerce	\$6,523,809.52
Compass Bank	\$6,523,809.52
PNC Bank, National Association	\$6,523,809.52
Sovereign Bank, N.A.	\$6,523,809.52
Sumitomo Mitsui Banking Corporation	\$6,523,809.52
The Northern Trust Company	\$4,761,904.76
Total	\$400,000,000.00

JLA L/C Fronting Sublimits Appendix

Issuing Lender	L/C Fronting Sublimit
Wells Fargo Bank, National Association	\$38,888,888.89
Bank of America, N.A.	\$38,888,888.89
The Royal Bank of Scotland plc	\$38,888,888.89
Barclays Bank PLC	\$27,777,777.78
The Bank of Nova Scotia	\$27,777,777.78
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$27,777,777.78
Total	\$200,000,000.00

Form of Notice of Borrowing

Wells Fargo Bank, National Association,
as Administrative Agent
1525 W WT Harris Boulevard
Charlotte, NC 28262
Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Borrowing" pursuant to Section 2.03 of the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Kentucky Utilities Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

- 1. The date of the Borrowing will be _____, _____. 1
2. The aggregate principal amount of the Borrowing will be _____. 2
3. The Borrowing will consist of [Revolving] [Swingline] Loans.
4. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans. 3
5. The initial Interest Period for the Loans comprising such Borrowing shall be _____. 4

[Insert appropriate delivery instructions, which shall include bank and account number] .

1 Must be a Business Day.
2 Revolving Borrowings must be an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Revolving Commitment. Swingline Borrowings must be an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000.
3 Applicable for Revolving Loans only.
4 Applicable for Euro-Dollar Loans only. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of "Interest Period").

KENTUCKY UTILITIES COMPANY

By: _____

Name:

Title:

Form of Notice of Conversion/Continuation

_____ , _____
 Wells Fargo Bank, National Association,
 as Administrative Agent
 1525 W WT Harris Boulevard
 Charlotte, NC 28262
 Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Kentucky Utilities Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of ____ months and ending on the Election Date specified below] .
2. The date on which the conversion/continuation selected hereby is to be effective is _____, _____ (the "Election Date ").⁵
3. The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$_____.⁶
4. [The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]
5. The Interest Period for such Loans will be _____.⁷

⁵ Must be a Business Day.

⁶ May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not apply, are each \$10,000,000 or any larger integral multiple of \$1,000,000.

⁷ Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of Interest Period).

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:

Form of Letter of Credit Request

_____, ____

[Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Kentucky Utilities Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

The undersigned hereby requests that _____⁸ issue a [Standby] Letter of Credit on _____, _____⁹ in the aggregate amount of \$_____. [This request is to extend a Letter of Credit previously issued under the Credit Agreement; Letter of Credit No. _____.]

The beneficiary of the requested Standby Letter of Credit will be _____¹⁰, and such Standby Letter of Credit will be in support of _____¹¹ and will have a stated termination date of _____¹².

Copies of all documentation with respect to the supported transaction are attached hereto.

⁸ Insert name of Issuing Lender.

⁹ Must be a Business Day.

¹⁰ Insert name and address of beneficiary.

¹¹ Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

¹² Insert the last date upon which drafts may be presented (which may not be later than one year after the date of issuance specified above or beyond the fifth Business Day prior to the Termination Date).

KENTUCKY UTILITIES COMPANY

By: _____

Name:

Title:

APPROVED:

[ISSUING LENDER]

By: _____

Name:

Title:



Form of Note

FOR VALUE RECEIVED, the undersigned, KENTUCKY UTILITIES COMPANY, a Kentucky corporation and Virginia corporation (the "Borrower"), promises to pay to the order of _____ (hereinafter, together with its successors and assigns, called the "Holder"), at the Administrative Agent's Office or such other place as the Holder may designate in writing to the Borrower, the principal sum of _____ AND _____/100s DOLLARS (\$_____), or, if less, the principal amount of all Loans advanced by the Holder to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided. Such Loans may be endorsed from time to time on the grid attached hereto, but the failure to make such notations shall not affect the validity of the Borrower's obligation to repay unpaid principal and interest hereunder.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (as the same may be amended, modified or supplemented from time to time, the "Credit Agreement") by and among the Borrower, the lenders party thereto (collectively, the "Lenders") and Wells Fargo Bank, National Association, as administrative agent (the "Administrative Agent") for itself and on behalf of the Lenders and the Issuing Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, repay, reborrow, continue and convert the Holder's Loans (or portion thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Holder, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Holder in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Holder not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

All parties now or hereafter liable with respect to this Note, whether the Borrower, any guarantor, endorser or any other Person or entity, hereby waive presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest.

No delay or omission on the part of the Holder or any holder hereof in exercising its rights under this Note, or delay or omission on the part of the Holder, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Holder or any holder hereof, nor shall any waiver by the Holder, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, or any holder hereof, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

The Borrower promises to pay all reasonable costs of collection, including reasonable attorneys' fees, should this Note be collected by or through an attorney-at-law or under advice therefrom.

This Note evidences the Holder's Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representative as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:

Form of Assignment and Assumption Agreement

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the] [each] ¹³ Assignor identified on the Schedules hereto as “Assignor” [or “Assignors” (collectively, the “Assignors” and each] an “Assignor”) and [the] [each] ¹⁴ Assignee identified on the Schedules hereto as “Assignee” or “Assignees” (collectively, the “Assignees” and each an “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees] ¹⁵ hereunder are several and not joint.] ¹⁶ Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor’s] [the respective Assignors’] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor: *See Schedule attached hereto*
2. Assignee: *See Schedule attached hereto*
3. Borrower: Kentucky Utilities Company
4. Administrative Agent: Wells Fargo Bank, National Association, as the administrative agent under the Credit Agreement
5. Credit Agreement: The \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 by and among Kentucky Utilities Company, as Borrower, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified)
6. Assigned Interest: *See Schedule attached hereto*
- [7. Trade Date: _____] ¹⁷

¹³ For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

¹⁴ For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

¹⁵ Select as appropriate.

¹⁶ Include bracketed language if there are either multiple Assignors or multiple Assignees.

¹⁷ To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.
Effective Date: _____, 20____

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____
Title:

ASSIGNEE

See Schedule attached hereto

[Consented to and] ¹⁸ Accepted:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, [Issuing Lender] and Swingline Lender

By _____
Title:

[Consented to:] ¹⁹

KENTUCKY UTILITIES COMPANY

By _____
Title:

[Consented to]:

[Issuing Lender] ²⁰,
as Issuing Lender

By _____
Title:

[Consented to]:

[JOINT LEAD ARRANGERS] ²¹

WELLS FARGO BANK, N.A.

By: _____
Title:

BANK OF AMERICA, N.A.

By: _____
Title:

¹⁸ To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

¹⁹ To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

²⁰ Add all Issuing Lender signature blocks.

²¹ To be added if assignment is made before Effective Date.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

Assigned Interests:

Aggregate Amount of Commitment/ Loans for all Lenders ²²	Amount of Commitment/ Loans Assigned ²³	Percentage Assigned of Commitment/ Loans ²⁴	CUSIP Number
\$	\$	%	

[NAME OF ASSIGNEE] ²⁵

[and is an Affiliate of [*identify Lender*]] ²⁶

²² Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

²³ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

²⁴ Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

²⁵ Add additional signature blocks, as needed.

²⁶ Select as applicable.

ANNEX 1 to Assignment and Assumption

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT DATED AS OF NOVEMBER 6, 2012
BY AND AMONG
KENTUCKY UTILITIES COMPANY, AS BORROWER,
THE LENDERS PARTY THERETO
AND WELLS FARGO BANK, NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1. Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

Forms of Opinions of Counsel for the Borrower

[Date]

To the Administrative Agent and
each of the Lenders party to the Revolving
Credit Agreement referred to below

Re: Kentucky Utilities Company
\$400,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

We have acted as special counsel to Kentucky Utilities Company, a Kentucky and Virginia corporation (the "Company"), in connection with the negotiation, execution and delivery of the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender, and the other Lenders from time to time party thereto (such Revolving Credit Agreement as so amended, the "Agreement"). This letter is being delivered to you at the request of the Company pursuant to Section 4.01(e) of the Agreement.

In preparing this letter, we have reviewed the Agreement[, and the Notes of the Company executed and delivered by the Company on the date hereof (the "Notes"),] and the other documents executed and delivered by the Company in connection with the Agreement. We have also reviewed the Orders of the Kentucky Public Service Commission ("KPSC") dated September 30, 2010, October 11, 2011 and _____, 2012 (Case Nos. 2010-00205, 2011-0038 and 2012-_____), in connection with the Agreement (the "KPSC Orders") the Orders of the Virginia State Corporation Commission (the "VSCC") dated October 19, 2010 (No. PUE-2010-00061), and _____, and the Orders of the Tennessee Regulatory Authority ("TRA"), dated _____ (the "TRA Orders").

Subject to the assumptions, qualifications and other limitations set forth below, it is our opinion that:

1. The Agreement constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms.
2. [The Notes constitute the valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms.]
3. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.
4. The borrowings under the Agreement and the use of proceeds thereof as contemplated by the Agreement do not violate Regulation U or X of the Board of Governors of the Federal Reserve System.

In rendering our opinions, we have (a) without independent verification, relied, with respect to factual matters, statements and conclusions, on certificates, notifications and statements, whether written or oral, of governmental officials and individuals identified to us as officers and representatives of the Company and on the representations made by the Company in the Agreement and other documents delivered to you in connection therewith and (b) reviewed originals, or copies of such agreements, documents and records as we have considered relevant and necessary as a basis for our opinions. In rendering the opinions set forth above, we note that any exercise by the Company of the option to increase the Commitments as contemplated in Section 2.19 of the Agreement may require additional authorization by the Company's Board of Managers, the KPSC, the VSCC, the TRA and/or the Federal Energy Regulatory Commission. We note that, as counsel to the Company, we do not represent it generally and there may be facts relating to the Company of which we have no knowledge.

We have assumed (a) the accuracy and completeness of all certificates, agreements, documents, records and other materials submitted to us; (b) the authenticity of original certificates, agreements, documents, records and other materials submitted to us; (c) the conformity with the originals of any copies submitted to us; (d) the genuineness of all signatures; (e) the legal capacity of all natural persons; (f) that the Agreement constitutes the valid, legally binding and enforceable agreement of the parties thereto under all applicable law (other than, in the case of the Company, the law of the State of New York); (g) that the Company (i) is duly organized, validly existing and in good standing under the law of its jurisdictions of organization, (ii) has the power to execute and deliver, and to perform its obligations under, the Agreement [and the Notes], (iii) has duly taken or caused to be taken all necessary action to authorize the execution, delivery and performance by it of the Agreement [and the Notes] and (iv) has duly executed and delivered the Agreement [and the Notes]; (h) that the execution and delivery by the Company of, and the performance by the Company of its obligations under, the Agreement and the Notes does not and will not (i) breach or violate (A) its Amended and Restated Articles of Incorporation or Bylaws, (B) any agreement or instrument to which the Company or any of its affiliates is a party or by which the Company or any of its affiliates or any of their respective properties may be bound, (C) any authorization, consent, approval or license (or the like) of, or exemption (or the like) from, or any registration or filing (or the like) with, or report or notice (or the like) to, any governmental unit, agency, commission, department or other authority granted to or otherwise applicable to the Company or any of its affiliates or any of their respective properties (each a "Governmental Approval"), (D) any order, decision, judgment or decree that may be applicable to the Company or

any of its affiliates or any of their respective properties, or (E) any law (other than the law of the State of New York and the federal law of the United States), or (ii) require any Governmental Approval (other than the KPSC Orders, the VSCC Orders and the TRA Orders, which we assume to have been duly granted and to remain in full force and effect); (h) that the Company is engaged only in the businesses described in its Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission; (i) that there are no agreements, understandings or negotiations between the parties not set forth in the Agreement that would modify the terms thereof or the rights and obligations of the parties thereunder; and (j) for purposes of our opinion in paragraph 1 as it relates to the choice-of-law provisions in the Agreement, that the choice of law of the State of New York as the governing law of the Agreement would not result in a violation of an important public policy of another state or country having greater contacts with the transactions contemplated by the agreement than the State of New York.

Our opinions are subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, receivership, conservatorship, arrangement, moratorium and other similar laws affecting and relating to the rights of creditors generally; (b) general equitable principles; (c) requirements of reasonableness, good faith, fair dealing and materiality; (d) Article 9 of the Uniform Commercial Code regarding restrictions on assignment or transfer of rights; and (e) additionally in the case of (i) indemnities, a requirement that facts, known to the indemnitee but not the indemnitor, in existence at the time the indemnity becomes effective that would entitle the indemnitee to indemnification be disclosed to the indemnitor, and a requirement that an indemnity provision will not be read to impose obligations upon indemnitors which are neither disclosed at the time of its execution nor reasonably within the scope of its terms and overall intention of the parties at the time of its making, (ii) waivers, Sections 9-602 and 9-603 of the Uniform Commercial Code, and (iii) indemnities, waivers and exculpatory provisions, public policy.

We express no opinion with respect to the following sections of the Agreement: (i) Section 9.02 (cumulative remedies), (ii) provisions relating to rules of evidence or quantum of proof, (iii) Section 9.07 (submission to jurisdiction and waiver of inconvenient forum), insofar as such sections relate to federal courts (except as to the personal jurisdiction thereof), and (choice of venue, i.e., requiring actions to be commenced in a particular court in a particular jurisdiction), and (iv) Section 9.11 (waiver of jury trial), insofar as such section is sought to be enforced in a federal court.

We express no opinion as to the law of any jurisdiction other than the law of the State of New York and the federal law of the United States of America, and in each case, only such law that in our experience is normally applicable to transactions of the type contemplated by the Agreement and excluding (i) any law that is part of a regulatory regime applicable to specific assets or businesses of the lenders and (ii) the statutes and ordinances, the administrative decisions, and the rules and regulations of counties, towns, municipalities and special political subdivisions.

This letter speaks only as of the date hereof. We have no responsibility or obligation to update this letter or to take into account changes in law or facts or any other development of which we may later become aware.

This letter is delivered by us as special counsel for the Company solely for your benefit in connection with the transaction referred to herein and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or entity without our prior written consent.

Very truly yours,

To the Administrative Agent
and each of the Lenders party to
the Credit Agreement referred to below

Re: \$400,000,000 Amended and Restated Revolving Credit Agreement
Ladies and Gentlemen:

I am Vice President and Deputy General Counsel – Legal and Environmental Affairs of Kentucky Utilities Company (the “Borrower”), and have acted as counsel to the Borrower in connection with the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender and the Lenders party thereto from time to time (the “Agreement”). Capitalized terms used but not defined herein have the meanings assigned to such terms in the Agreement.

I am familiar with the Agreement[, the Notes of the Borrower executed and delivered by the Borrower on the date hereof (the “Notes”),] and other documents executed and delivered by the Borrower in connection with the Agreement. I also have examined such other documents and satisfied myself as to such other matters as I have deemed necessary in order to render this opinion.

In rendering this opinion, I have assumed: (a) the genuineness of the signatures on all documents and instruments (other than the signatures of officers of the Borrower), the authenticity of all documents submitted as originals, the conformity to originals of all documents submitted as photostatic or certified copies, and the accuracy and completeness of all corporate records made available to me by the Borrower; (b) the due execution and delivery of the Agreement by the Lenders party thereto; and (c) that the Agreement constitutes the legal, valid and binding obligation of the Lenders party thereto.

Based on the foregoing, I am of the opinion that:

1. The Borrower is duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Kentucky and the Commonwealth of Virginia, and has the corporate power to make and perform the Agreement [and the Notes].
2. The execution, delivery and performance by the Borrower of the Agreement [and the Notes] have been duly authorized by the Borrower and do not violate any provision of law or regulation, or any decree, order, writ or judgment applicable to the Borrower, or any provision of the Borrower’s certificate of incorporation, by-laws or board or shareholder resolutions, or result in the breach of or constitute a default under any indenture or other agreement or instrument known to me to which the Borrower is a party.
3. [Each of] [T][t]Agreement [and the Notes] has been duly executed and delivered by the Borrower.
4. Except as disclosed in or contemplated by the Agreement or the Borrower’s financial statements referred to in Sections 5.04(a) or 5.04(b) of the Agreement, or otherwise furnished in writing to the Administrative Agent and the Lenders, no litigation, arbitration or administrative proceeding or inquiry is pending, or to my knowledge, threatened, which would reasonably be expected to materially adversely affect the ability of the Borrower to perform any of its obligations under the Agreement [or the Notes]. To my knowledge, there is no litigation, arbitration or administrative proceeding pending or threatened that questions the validity of the Agreement [or the Notes].
5. There have not been any “reportable events,” as that term is defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, which would result in a material liability of the Borrower.
6. Each of the _____, 20__ and the _____, 2012 Orders of the Kentucky Public Service Commission (the “KPSC”), the _____, 20__ and the _____, 2012 Orders of the Virginia State Corporation Commission (the “VSCC”) and the _____, 20__ Order of the Tennessee Regulatory Authority (the “TRA”), relating to the Agreement, is in full force and effect, and no further authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except such authorizations, consents and approvals as have been obtained prior to the date hereof, which authorizations, consents and approvals are in full force and effect.

[In rendering the opinions set forth in paragraphs 1 through 3 and 6 above, I note that any exercise by the Borrower of the option to increase the Revolving Commitment as contemplated in Section 2.19 of the Agreement may require additional authorization by the Borrower’s Board of Directors and further approval of the KPSC, TSCC, TRA and/or FERC.]

I am licensed to practice law only in the Commonwealth of Kentucky and, accordingly, for purposes of my opinions in paragraphs 1 through 3 and 6 above (with respect to Virginia and Tennessee law), I have relied upon the opinion of [_____] and the opinion of [_____] (copies of which are attached), which opinions are in form and substance satisfactory to me and I believe that you and I are justified in relying thereon.

In rendering its opinion to the addressee hereof, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters of Kentucky law addressed herein upon this letter as if it were addressed directly to them. Except as aforesaid, without my prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other person or entity for any purpose.

Very truly yours,

[Form of Virginia Opinions]

1. The Company is duly incorporated, validly existing and in good standing as a corporation under the laws of the Commonwealth of Virginia and has corporate power to execute and deliver, and to carry out and perform its obligations under, the Agreement [and the Notes].
 2. The execution, delivery and performance by the Company of the Agreement [and the Notes] have been duly authorized by the Company.
 3. The Company's entrance into its obligations in connection with the Agreement has been authorized by an order duly entered by the Virginia State Corporation Commission ("VSCC"), which order is in full force and effect, and no further authorization, consent or approval of any Governmental Authority of the Commonwealth of Virginia is required for the execution, delivery and performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except for such authorizations, consents and approvals as have been obtained prior to the date hereof and which are in full force and effect [and except that further approval of the VSCC may/would be required in connection with any exercise by the Borrower of the option to increase the Revolving Commitment as contemplated by Section 2.19 of the Agreement].
-

[Form of Tennessee Opinion]

1. The Company is qualified to do business as a foreign corporation in the State of Tennessee.

2. The Company's entrance into its obligations in connection with the Agreement has been authorized by [an] order[s] duly entered by the Tennessee Regulatory Authority ("TRA"), which Order(s) is/are in full force and effect, and no further authorization, consent or approval of any Governmental Authority of the State of Tennessee is required for the execution, delivery and performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except for such authorizations, consents and approvals as have been obtained prior to the date hereof and which are in full force and effect, [and except that further approval of the TRA may/would be required in connection with any exercise by the Borrower of the option to increase the Revolving Commitment as contemplated by Section 2.19 of the Agreement].

Form of Notice of Revolving Increase

Dated as of: _____

KENTUCKY UTILITIES COMPANY (the "Borrower"), in connection with the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders party thereto from time to time (the "Credit Agreement"), hereby certifies that:

1. The Borrower has obtained an agreement from certain financial institutions to increase their Revolving Commitments in the aggregate amount of _____ (\$ _____) ²⁷ (the "Commitment Increase").

2. All of the representations and warranties of the Borrower made under the Credit Agreement (including, without limitation, all representations and warranties with respect to the Borrower's Subsidiaries) and the other Loan Documents are as of the date hereof, and will be as of the effective date of the Commitment Increase, true and correct in all material respects except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date.

3. There does not exist, as of this date, and there will not exist after giving effect to the Commitment Increase, any Default or Event of Default under the Credit Agreement.

4. All necessary governmental, regulatory and third party approvals, if required, have been obtained or made, are in full force and effect and are not subject to any pending or, to the knowledge of the Borrower, threatened reversal or cancellation.

5. Attached hereto as Annex A are resolutions adopted by the Borrower authorizing such Commitment Increase, and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect.

Capitalized terms used in this Notice of Revolving Increase and not otherwise defined herein are used as defined in the Credit Agreement.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

²⁷ Each Optional Commitment Increase shall be in a minimum amount of \$50,000,000.

IN WITNESS WHEREOF, the Borrower, acting through an authorized signatory, has signed this Notice of Revolving Increase as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:

Annex A to Exhibit E

\$500,000,000

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

dated as of November 6, 2012

among

**LOUISVILLE GAS AND ELECTRIC COMPANY,
THE LENDERS FROM TIME TO TIME PARTY HERETO**

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, Issuing Lender and Swingline Lender**

**WELLS FARGO SECURITIES, LLC,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, RBS SECURITIES INC.,
BARCLAYS BANK PLC,
THE BANK OF NOVA SCOTIA**

and

**mitsubishi ufj financial group, inc.,
Joint Lead Arrangers and Joint Bookrunners**

**BANK OF AMERICA, N.A.
and
THE ROYAL BANK OF SCOTLAND PLC,
Syndication Agents**

**BARCLAYS BANK PLC,
THE BANK OF NOVA SCOTIA
and
mitsubishi ufj financial group, inc.,
Documentation Agents**

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Appendices:

Commitment Appendix
JLA L/C Fronting Sublimits Appendix

Exhibits:

- Exhibit A-1 - Form of Notice of Borrowing
 - Exhibit A-2 - Form of Notice of Conversion/Continuation
 - Exhibit A-3 - Form of Letter of Credit Request
 - Exhibit B - Form of Note
 - Exhibit C - Form of Assignment and Assumption Agreement
 - Exhibit D - Forms of Opinion of Counsel for the Borrower
-

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this “Agreement”) dated as of November 6, 2012 is entered into among LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the “Borrower”), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent. The parties hereto agree as follows:

RECITALS

WHEREAS, the Borrower is party to that certain \$400,000,000 Revolving Credit Agreement dated as of November 1, 2010, among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the “Existing Credit Agreement”); and

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, increase the aggregate principal amount of the commitments, decrease the fronting sublimit for letters of credit issued hereunder and extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree that the Existing Credit Agreement is hereby amended and restated in its entirety, and do further agree as follows:

ARTICLE I DEFINITIONS

Section 1.01. Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

“Agent” means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers, the Documentation Agents or each Person that shall become a joint lead arranger pursuant to the terms of the Commitment Letters and “Agents” means all of the foregoing.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Amendment Fee” has the meaning set forth in Section 4.01(i).

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“Applicable Percentage” means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower’s Ratings (S&P / Moody’s)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A from S&P / A2 from Moody’s	0.100%	0.000%	1.000%
Category B	≥ A- from S&P / A3 from Moody’s	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from	0.175%	0.250%	1.250%

	Moody's			
Category D	BBB from S&P / Baa2 from Moody's	0.200%	0.500%	1.500%
Category E	BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody's	0.350%	0.875%	1.875%

“Asset Sale” shall mean any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

“Base Rate Borrowing” means a Borrowing comprised of Base Rate Loans.

“Base Rate Lending Office” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“Base Rate Loan” means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrower's Rating” means the senior secured long-term debt rating of the Borrower from S&P or Moody's.

“Borrowing” means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London Business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in the Commitment Appendix and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 9.06(c).

“Commitment Appendix” means the Appendix attached under this Agreement identified as such.

“Commitment Fee” has the meaning set forth in Section 2.07(a).

“Commitment Letters” means (i) that certain commitment letter dated as of September 24, 2012 among Wells Fargo Securities,

LLC, Wells Fargo Bank, National Association, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc and (ii) that certain commitment letter dated as of October 2, 2012 among Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each commitment letter addressed to and acknowledged and agreed to by the Borrower.

“ Commitment Ratio ” shall mean, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“ Consolidated Capitalization ” shall mean the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowner’s equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“ Consolidated Debt ” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“ Consolidated Subsidiary ” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“ Continuing Lender ” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“ Corporation ” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“ Credit Event ” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“ Debt ” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“ Default ” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“ Defaulting Lender ” means at any time any Lender with respect to which a Lender Default is in effect at such time.

“ Documentation Agents ” means Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank N.A., each in its capacity as a documentation agent in respect of this Agreement.

“ Dollars ” and the sign “\$” means lawful money of the United States of America.

“ Effective Date ” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“ Eligible Assignee ” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; or

(iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended); provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“Existing Credit Agreement” has the meaning set forth in the recitals hereto.

“Extending Lenders” has the meaning set forth in Section 9.15 hereto.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code and any regulations (whether final, temporary or proposed) that are issued thereunder or official government interpretations thereof and any agreements entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter” means the fee letter dated as of September 24, 2012 among the Borrower, Wells Fargo Securities, LLC, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc., and The Royal Bank of Scotland plc, as amended, modified or supplemented from time to time.

“FERC” means the Federal Energy Regulatory Commission.

“Fronting Fee” has the meaning set forth in Section 2.07(b).

“Fronting Sublimit” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on the JLA L/C Fronting Sublimits Appendix hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Interest Period” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clauses (iii) and (iv) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Issuing Lender” means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity and (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, subject in each case to the Fronting Sublimit.

“Joint Lead Arrangers” means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo Mitsubishi UFJ, Ltd. and Union Bank, N.A., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

“JLA Issuing Bank” means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc, Barclays Bank PLC, The Bank of Nova Scotia, Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and each other Lender (or Affiliate of a Lender) that shall become (or whose Affiliate shall become) a joint lead arranger pursuant to the terms of the Commitment Letters.

“KPSC” means the Kentucky Public Service Commission.

“Lender” means each bank or other lending institution listed in the Commitment Appendix as having a Commitment, each

Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to make available any Loan or any reimbursement for a drawing under a Letter of Credit or refunding of a Swingline Loan, in each case, within one Business Day from the date it is obligated to make such amount available under the terms and conditions of this Agreement or (ii) a Lender having notified, in writing, the Administrative Agent and the Borrower that such Lender does not intend to comply with its obligations under Article II following the appointment of a receiver or conservator with respect to such Lender at the direction or request of any regulatory agency or authority.

“Letter of Credit” means each letter of credit issued pursuant to Section 3.02 by an Issuing Lender.

“Letter of Credit Fee” has the meaning set forth in Section 2.07(b).

“Letter of Credit Liabilities” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“London Interbank Offered Rate” means:

(a) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period.

(b) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” shall mean Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” shall mean a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document; and

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document;

together in each case with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(e).

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was

at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

Act of 1934.
“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

regulation.
“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor

regulation.
“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor

regulation.
“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“Replacement Date” has the meaning set forth in Section 2.08(b).

“Replacement Lender” has the meaning set forth in Section 2.08(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

“Revolving” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“Revolving Outstandings” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) aggregate amount of such Lender’s Letter of Credit Liabilities.

“Revolving Outstandings Excess” has the meaning set forth in Section 2.09.

“Sanctioned Entity” shall mean (i) an agency of the government of, (ii) an organization directly or indirectly controlled by, or (iii) a Person resident in, a country that is subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html>, or as otherwise published from time to time as such program may be applicable to such agency, organization or Person.

“Sanctioned Person” shall mean a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

“SEC” means the Securities and Exchange Commission.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Swingline Borrowing” means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of

Borrowing with respect thereto.

“ Swingline Exposure ” means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

“ Swingline Lender ” means Wells Fargo Bank, in its capacity as Swingline Lender.

“ Swingline Loan ” means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

“ Swingline Sublimit ” means the lesser of (a) \$20,000,000 and (b) the aggregate Commitments of all Lenders.

“ Swingline Termination Date ” means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

“ Syndication Agents ” means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

“ Synthetic Lease ” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“ Taxes ” has the meaning set forth in Section 2.17(a).

“ Termination Date ” means the earliest to occur of (a) November 6, 2017 and (b) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“ Type ”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“ Unfunded Liabilities ” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“ United States ” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“ Voting Stock ” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“ Wells Fargo Bank ” means Wells Fargo Bank, National Association, and its successors.

“ Wells Fargo Securities ” means Wells Fargo Securities, LLC, and its successors and assigns.

“ Wholly Owned Subsidiary ” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01. Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, repay, Revolving Loans and reborrow under this Section 2.01.

Section 2.02. Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$2,000,000 or any larger integral multiple of

\$500,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

(b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender's obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender's failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender's Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

Section 2.03. Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04. Notice to Lenders; Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate

Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

Section 2.05. Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (a) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (c) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (a) and (b) above.

Section 2.06. Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue

principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause(A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a “Notice of Conversion/Continuation”) to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender’s pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07. Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the “Commitment Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender’s Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the “Letter of Credit Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the “Fronting Fee”) in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.08. Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business

Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect

thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (to the extent not previously adjusted pursuant to Section 2.20). The right of the Borrower to effect such a termination is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.09. Maturity of Loans; Mandatory Prepayments.

(a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a “Revolving Outstandings Excess”), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

(b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

Section 2.10. Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day’s notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days’ notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender’s ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

Section 2.11. General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such

amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12. Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13. Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14. Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Domestic Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (i) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (ii) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16. Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office) or shall impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or

administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.17. Taxes.

(a) Payments Net of Certain Taxes. Any and all payments by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17 (a)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "Other Taxes").

(c) Indemnification. The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this Section 2.17(c). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) Refunds or Credits. If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by

the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a "Non-U.S. Lender") shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; or (C) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a "10-percent shareholder" of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a "controlled foreign corporation" that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender or are effectively connected but are not includible in the Non-U.S. Lender's gross income for United States federal income tax purposes under an income tax treaty to which the United States is a party; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8 ECI, W-8 BEN, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8 BEN, W-8 ECI or W-8 IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such Form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18. Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar

Loans of the other Lenders.

Section 2.19. [Reserved.]

Section 2.20. Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

ARTICLE III LETTERS OF CREDIT

Section 3.01. Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

Section 3.02. Letters of Credit.

(a) Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any of its Subsidiaries that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$250,000,000, (B) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03. Method of Issuance of Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of a Letter of Credit prior to 1:00 P.M. (Charlotte, North Carolina time) on the proposed date of the issuance or extension of Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

Section 3.04. Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (i) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (ii) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (iii) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (A) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$250,000,000, (B) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05. Purchase and Sale of Letter of Credit Participations. Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06. Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07. Reimbursement Obligations. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (ii) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08. Duties of Issuing Lenders to Lenders: Reliance. In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender

under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

Section 3.09. Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings. If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

Section 3.10. Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11. Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with

this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;

(e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or

(g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12. Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13. ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

ARTICLE IV CONDITIONS

Section 4.01. Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificates. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or any Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the order of the KPSC (the "KPSC Order") and any required approvals of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions.

(g) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(h) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(i) Amendment Fee. The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the "Amendment Fee") as set forth in the Fee Letter on or before the Effective Date.

Section 4.02. Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01. Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02. Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party.

Section 5.03. Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04. Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2011 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by PricewaterhouseCoopers LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated

Subsidiaries as of June 30, 2012 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2011 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05. Litigation. Except as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.05 (b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06. No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07. ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08. Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the KPSC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect.

Section 5.09. Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.10. Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11. Compliance with Laws. To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12. No Default. No Default has occurred and is continuing.

Section 5.13. Environmental Matters.

(a) Except (i) as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.04(b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, or (ii) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released

(and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.04(b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.14. OFAC. None of the Borrower, any Subsidiary of the Borrower or any Affiliate of the Borrower: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Entities, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. The proceeds of any Loan will not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01. Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website or PPL Corporation's website (<http://www.pplweb.com>) or making such information available on IntraLinks, Syndtrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly, when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any “reportable event” (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, “Borrower Materials”) by posting the Borrower Materials on IntraLinks or another similar electronic system (the “Platform”) and (b) certain of the Lenders may be “public-side” Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a “Public Lender”). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked “PUBLIC” which, at a minimum, shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Borrower Materials “PUBLIC,” the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked “PUBLIC” are permitted to be made available through a portion of the Platform designated “Public Investor;” and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked “PUBLIC” as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated “Public Investor.” “Information” means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02. Maintenance of Property; Insurance .

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03. Conduct of Business and Maintenance of Existence. The Borrower will (i) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04. Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05. Books and Records. The Borrower (i) will keep, and will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to

keep such matters confidential.

Section 6.06. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Subsidiaries, including for working capital purposes and for making investments in or loans to Subsidiaries. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Subsidiaries including to support issuances of tax-exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07. Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (ii) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08. Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower's most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower Ratings after giving effect to any such Asset Sale.

Section 6.09. Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

ARTICLE VII DEFAULTS

Section 7.01. Events of Default. If one or more of the following events (each an "Event of Default") shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on the Loans and Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in clause (ii) of Section 6.05, or Sections 6.06, 6.07, 6.08 or 6.09; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or
- (f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or
- (g) the Borrower shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or
- (h) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(i) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismitted and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower under the Bankruptcy Code; or

(j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(k) the Borrower shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in clause 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

ARTICLE VIII THE AGENTS

Section 8.01. Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02. Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining

from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06. Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07. Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08. Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09. Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring

Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document.

Section 8.10. Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

ARTICLE IX MISCELLANEOUS

Section 9.01. Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype, (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202
Attention: Treasurer
Telephone: 502-627-4956
Facsimile: 502-627-4742

with copies to:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202
Attention: General Counsel
Telephone: 502-627-3450
Facsimile: 502-627-3367

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

PPL Services Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151
Facsimile: 610-774-5235

if to the Administrative Agent:

Wells Fargo Bank, National Association
1525 West W.T. Harris Boulevard
Mail Code: MAC D1109-019
Charlotte, NC 28262
Attention: Syndication Agency Services
Telephone: 704.590.2706
Telecopier: 704.590.2790
Electronic Mail: agencyservices.requests@wellsfargo.com

with a copy to:

Wells Fargo Bank, National Association
90 S 7th Street, MAC: N9305-070

Minneapolis, MN 55402
Attention: Keith Luettel
Telephone: 612-667-4747
Facsimile: 602-316-0506

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Attention: Jason Kyrwood
Telephone : 212-450-4653
Facsimile: 212-450-5653

Section 9.02. No Waivers; Non-Exclusive Remedies. No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an “Indemnitee”) and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee’s own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04. Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other

Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.11(a), 2.09(b) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06. Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"). The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consent shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such

Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank. No such assignment shall release the transferor Lender from its obligations hereunder.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this subsection 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08 (b), unless, with respect to any Notes held by such Lender, the requirements of subsection 9.06(c) and this subsection 9.06(e) have been satisfied.

Section 9.07. Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08. Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09. Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10. Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit",

“Schedule” or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word “will” shall be construed to have the same meaning as the word “shall”. The term “including” shall be construed to have the same meaning as the phrase “including without limitation”.

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person’s successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by “to the best knowledge of” or “known to” (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

Section 9.11. WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12. Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender’s or Agent’s Affiliates and their respective directors, officers, employees and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower’s Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a “tombstone” or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13. USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the “Patriot Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14. No Fiduciary Duty. Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the “Lender Parties”), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the “Borrower Parties”). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm’s-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15. Amendment and Restatement of Existing Credit Agreement. Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the “ **Extending Lenders** ”) shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder; provided that, for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Extending Lenders shall be redetermined based on the Commitments set forth in the Commitment Appendix and the participations of the Extending Lenders in, and the obligations of the Extending Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in the JLA L/C Fronting Sublimits Appendix.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

WELLS FARGO BANK, NATIONAL
as Administrative Agent, Issuing
Lender, Swingline Lender and Lender

By: /s/ Keith Luettel
Name: Keith Luettel
Title: Vice President

BANK OF AMERICA, N.A., as Issuing
Lender and Lender

By: /s/ Mike Mason
Name: Mike Mason
Title: Director

THE ROYAL BANK OF SCOTLAND
PLC, as Issuing Lender and Lender

By: /s/ Tyler J. McCarthy
Name: Tyler J McCarthy
Title: Director

BARCLAYS BANK PLC, as Issuing
Lender and Lender

By: /s/ Ronnie Glenn
Name: Ronnie Glenn
Title: Vice President

THE BANK OF NOVA SCOTIA, as
Issuing Lender and Lender

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

THE BANK OF TOKYO-MITSUBISHI UFJ, INC.
as Issuing Lender and Lender

By: /s/ Alan Reiter
Name: Alan Reiter
Title: Vice President

UNION BANK, N.A., as a Lender

By: /s/ Carmelo Restifo

Name: Carmelo Restifo

Title: Director

BNP PARIBAS, as a Lender

By: /s/ Denis O'Meara

Name: Denis O'Meara

Title: Managing Director

BNP PARIBAS, as a Lender

By: /s/ Pasquale A. Perraglia IV

Name: Pasquale A. Perraglia IV

Title: Vice President

CITIBANK, N.A., as a Lender

By: /s/ Amit Vasani

Name: Amit Vasani

Title: Vice President

CREDIT SUISSE AG, CAYMAN ISLANDS
BRANCH, as a Lender

By: /s/ Christopher Reo Day
Name: Christopher Reo Day
Title: Vice President

By: /s/ Vipul Dhadda
Name: Vipul Dhadda
Title: Associate

GOLDMAN SACHS BANK USA, as a Lender

By: /s/ Mark Walton

Name: Mark Walton

Title: Authorized Signatory

J.P. MORGAN CHASE BANK, N.A., as a Lender

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

MORGAN STANLEY BANK, N.A., as a Lender

By: /s/ Kelly Chin

Name: Kelly Chin

Title: Authorized Signatory

ROYAL BANK OF CANADA, as a Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

UBS LOAN FINANCE LLC, as a Lender

By: /s/ Irja R. Otsa

Name: Irja R. Otsa

Title: Associate Director

UBS LOAN FINANCE LLC, as a Lender

By: /s/ David Urban

Name: David Urban

Title: Associate Director

CREDIT AGRICOLE CORPORATE AND
INVESTMENT BANK, as a Lender

By: /s/ Dixon Schultz
Name: Dixon Schultz
Title: Managing Director

By: /s/ Sharada Manne
Name: Sharada Manne
Title: Managing Director

KEYBANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Craig A. Hanselman

Name: Craig A. Hanselman

Title: Vice President

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Stephen Giacolone

Name: Stephen Giacolone

Title: Assistant Vice President –G011

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Julia R. Franklin

Name: Julia R. Franklin

Title: Vice President –F014

MIZUHO CORPORATE BANK, LTD., as a Lender

By: /s/ Leon Mo

Name: Leon Mo

Title: Authorized Signatory

SUNTRUST BANK, as a Lender

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

THE BANK OF NEW YORK MELLON, as a
Lender

By: /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

U.S. BANK NATIONAL ASSOCIATION, as a
Lender

By: /s/ John M. Eyerman

Name: John M. Eyerman

Title: Vice President

CANADIAN IMPERIAL BANK OF
COMMERCE, New York Agency, as a Lender

By: /s/ Robert Casey
Name: Robert Casey
Title: Authorized Signatory

By: /s/ Jonathan J. Kim
Name: Jonathan J. Kim
Title: Authorized Signatory

COMPASS BANK, as a Lender

By: /s/ Susana Campuzano
Name: Susana Campuzano
Title: Senior Vice President

PNC BANK, NATIONAL ASSOCIATION, as a
Lender

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President PNC Bank, N.A.

SOVEREIGN BANK, N.A., as a Lender

By: /s/ William Maag

Name: William Maag

Title: Senior Vice President

SUMITOMO MITSUI BANKING
CORPORATION, as a Lender

By: /s/ Shugi Yabe
Name: Shugi Yabe
Title: Managing Director

THE NORTHERN TRUST COMPANY, as a
Lender

By: /s/ Daniel Boote
Name: Daniel Boote
Title: Senior Vice President

Commitment Appendix

Lender	Revolving Commitment
Wells Fargo Bank, National Association	\$25,714,285.70
Bank of America, N.A.	\$25,714,285.70
The Royal Bank of Scotland plc	\$25,714,285.70
Barclays Bank PLC	\$23,511,904.76
The Bank of Nova Scotia	\$23,511,904.76
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$11,755,952.38
Union Bank, N.A.	\$11,755,952.38
BNP Paribas	\$23,511,904.76
Citibank, N.A.	\$23,511,904.76
Credit Suisse AG, Cayman Islands Branch	\$23,511,904.76
Goldman Sachs Bank USA	\$23,511,904.76
JPMorgan Chase Bank, N.A.	\$23,511,904.76
Morgan Stanley Bank, N.A.	\$23,511,904.76
Royal Bank of Canada	\$23,511,904.76
UBS Loan Finance LLC	\$23,511,904.76
Credit Agricole Corporate & Investment Bank	\$16,785,714.29
KeyBank National Association	\$16,785,714.29
Lloyds Bank	\$16,785,714.29
Mizuho Corporate Bank, Ltd.	\$16,785,714.29
SunTrust Bank	\$16,785,714.29
The Bank of New York Mellon	\$16,785,714.29
U.S. Bank National Association	\$16,785,714.29
Canadian Imperial Bank of Commerce	\$8,154,761.91
Compass Bank	\$8,154,761.91
PNC Bank, National Association	\$8,154,761.91
Sovereign Bank, N.A.	\$8,154,761.91
Sumitomo Mitsui Banking Corporation	\$8,154,761.91
The Northern Trust Company	\$5,952,380.96
Total	\$500,000,000.00

JLA L/C Fronting Sublimits Appendix

Issuing Lender	L/C Fronting Sublimit
Wells Fargo Bank, National Association	\$48,611,111.11
Bank of America, N.A.	\$48,611,111.11
The Royal Bank of Scotland plc	\$48,611,111.11
Barclays Bank PLC	\$34,722,222.22
The Bank of Nova Scotia	\$34,722,222.22
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$34,722,222.22
Total	\$250,000,000.00

Form of Notice of Borrowing

Wells Fargo Bank, National Association,
 as Administrative Agent
 1525 W WT Harris Boulevard
 Charlotte, NC 28262
 Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Borrowing" pursuant to Section 2.03 of the \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Louisville Gas and Electric Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The date of the Borrowing will be _____, _____.¹
2. The aggregate principal amount of the Borrowing will be _____.²
3. The Borrowing will consist of [Revolving] [Swingline] Loans.
4. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans.³
5. The initial Interest Period for the Loans comprising such Borrowing shall be _____.⁴

[Insert appropriate delivery instructions, which shall include bank and account number] .

¹ Must be a Business Day.

² Revolving Borrowings must be an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Revolving Commitment. Swingline Borrowings must be an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000.

³ Applicable for Revolving Loans only.

⁴ Applicable for Euro-Dollar Loans only. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of "Interest Period").

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

Form of Notice of Conversion/Continuation

_____, ____
 Wells Fargo Bank, National Association,
 as Administrative Agent
 1525 W WT Harris Boulevard
 Charlotte, NC 28262
 Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Louisville Gas and Electric Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of ___ months and ending on the Election Date specified below] .

2. The date on which the conversion/continuation selected hereby is to be effective is _____, _____ (the "Election Date ").⁵

3. The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$_____.⁶

4. [The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]

5. The Interest Period for such Loans will be _____.⁷

LOUISVILLE GAS AND ELECTRIC COMPANY

⁵ Must be a Business Day.

⁶ May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not apply, are each \$10,000,000 or any larger integral multiple of \$1,000,000.

⁷ Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of Interest Period).

By: _____
Name:
Title:



Form of Letter of Credit Request

_____, ____

[Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Louisville Gas and Electric Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

The undersigned hereby requests that _____⁸ issue a [Standby] Letter of Credit on _____, _____⁹ in the aggregate amount of \$_____. [This request is to extend a Letter of Credit previously issued under the Credit Agreement; Letter of Credit No. _____.]

The beneficiary of the requested Standby Letter of Credit will be _____¹⁰, and such Standby Letter of Credit will be in support of _____¹¹ and will have a stated termination date of _____¹².

Copies of all documentation with respect to the supported transaction are attached hereto.

⁸ Insert name of Issuing Lender.

⁹ Must be a Business Day.

¹⁰ Insert name and address of beneficiary.

¹¹ Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

¹² Insert the last date upon which drafts may be presented (which may not be later than one year after the date of issuance specified above or beyond the fifth Business Day prior to the Termination Date).

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

APPROVED:

[ISSUING LENDER]

By: _____
Name:
Title:

Form of Note

FOR VALUE RECEIVED, the undersigned, LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the “Borrower”), promises to pay to the order of _____ (hereinafter, together with its successors and assigns, called the “Holder”), at the Administrative Agent’s Office or such other place as the Holder may designate in writing to the Borrower, the principal sum of _____ AND _____/100s DOLLARS (\$_____), or, if less, the principal amount of all Loans advanced by the Holder to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided. Such Loans may be endorsed from time to time on the grid attached hereto, but the failure to make such notations shall not affect the validity of the Borrower’s obligation to repay unpaid principal and interest hereunder.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (as the same may be amended, modified or supplemented from time to time, the “Credit Agreement”) by and among the Borrower, the lenders party thereto (collectively, the “Lenders”) and Wells Fargo Bank, National Association, as administrative agent (the “Administrative Agent”) for itself and on behalf of the Lenders and the Issuing Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, repay, reborrow, continue and convert the Holder’s Loans (or portion thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Holder, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Holder in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Holder not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

All parties now or hereafter liable with respect to this Note, whether the Borrower, any guarantor, endorser or any other Person or entity, hereby waive presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest.

No delay or omission on the part of the Holder or any holder hereof in exercising its rights under this Note, or delay or omission on the part of the Holder, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Holder or any holder hereof, nor shall any waiver by the Holder, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, or any holder hereof, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

The Borrower promises to pay all reasonable costs of collection, including reasonable attorneys’ fees, should this Note be collected by or through an attorney-at-law or under advice therefrom.

This Note evidences the Holder’s Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representative as of the day and year first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

LOANS AND PAYMENTS OF PRINCIPAL

Date	Amount of Loan	Type	Amount of Principal Repaid	Notation Made By



Form of Assignment and Assumption Agreement

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the] [each] ¹³ Assignor identified on the Schedules hereto as “Assignor” [or “Assignors” (collectively, the “Assignors” and each] an “Assignor”) and [the] [each] ¹⁴ Assignee identified on the Schedules hereto as “Assignee” or “Assignees” (collectively, the “Assignees” and each an “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees] ¹⁵ hereunder are several and not joint.] ¹⁶ Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor’s] [the respective Assignors’] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor: *See Schedule attached hereto*
2. Assignee: *See Schedule attached hereto*
3. Borrower: Louisville Gas and Electric Company
4. Administrative Agent: Wells Fargo Bank, National Association, as the administrative agent under the Credit Agreement
5. Credit Agreement: The \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, by and among Louisville Gas and Electric Company, as Borrower, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified)
6. Assigned Interest: *See Schedule attached hereto*
- [7. Trade Date: _____] ¹

¹³ For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

¹⁴ For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

¹⁵ Select as appropriate.

¹⁶ Include bracketed language if there are either multiple Assignors or multiple Assignees.

¹⁷ To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.



Effective Date: _____, 20____

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____

Title:



ASSIGNEE

See Schedule attached hereto

[Consented to and] ¹⁸ Accepted:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, [Issuing Lender] and Swingline Lender

By _____
Title:

[Consented to:] ¹⁹

LOUISVILLE GAS AND ELECTRIC COMPANY

By _____
Title:

[Consented to]:

[Issuing Lender] ²⁰,
as Issuing Lender

By _____
Title:

[Consented to]:

[JOINT LEAD ARRANGERS] ²¹

WELLS FARGO BANK, N.A.

By: _____
Title:

BANK OF AMERICA, N.A.

By: _____
Title:

¹⁸ To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

¹⁹

To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

²⁰ Add all Issuing Lender signature blocks.

²¹ To be added if assignment is made before Effective Date.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

Assigned Interests:

Aggregate Amount of Commitment/ Loans for all Lenders ²²	Amount of Commitment/ Loans Assigned ²³	Percentage Assigned of Commitment/ Loans ²⁴	CUSIP Number
\$	\$	%	

[NAME OF ASSIGNEE] ²⁵

[and is an Affiliate of [*identify Lender*]] ²⁶

²² Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

²³ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

²⁴ Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

²⁵ Add additional signature blocks, as needed.

²⁶ Select as applicable.

ANNEX 1 to Assignment and Assumption

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT DATED AS OF NOVEMBER 6, 2012
BY AND AMONG
LOUISVILLE GAS AND ELECTRIC COMPANY, AS BORROWER,
THE LENDERS PARTY THERETO
AND WELLS FARGO BANK, NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

Forms of Opinions of Counsel for the Borrower

[Date]

To the Administrative Agent and
each of the Lenders party to the Revolving
Credit Agreement referred to below

Re: Louisville Gas and Electric Company
\$500,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

We have acted as special counsel to Louisville Gas and Electric Company, a Kentucky corporation (the "Company"), in connection with the negotiation, execution and delivery of the \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender, and the other Lenders from time to time party thereto (such Revolving Credit Agreement as so amended, the "Agreement"). This letter is being delivered to you at the request of the Company pursuant to Section 4.01(e) of the Agreement.

In preparing this letter, we have reviewed the Agreement[, and the Notes of the Company executed and delivered by the Company on the date hereof (the "Notes"),] and the other documents executed and delivered by the Company in connection with the Agreement. We have also reviewed the Orders of the Kentucky Public Service Commission ("KPSC") dated September 30, 2010, October 11, 2011 and _____, 2012 (Case Nos. 2010-00205, 2011-0038 and 2012-_____), in connection with the Agreement (the "KPSC Orders").

Subject to the assumptions, qualifications and other limitations set forth below, it is our opinion that:

1. The Agreement constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms.
2. [The Notes constitute the valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms.]
3. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.
4. The borrowings under the Agreement and the use of proceeds thereof as contemplated by the Agreement do not violate Regulation U or X of the Board of Governors of the Federal Reserve System.

In rendering our opinions, we have (a) without independent verification, relied, with respect to factual matters, statements and conclusions, on certificates, notifications and statements, whether written or oral, of governmental officials and individuals identified to us as officers and representatives of the Company and on the representations made by the Company in the Agreement and other documents delivered to you in connection therewith and (b) reviewed originals, or copies of such agreements, documents and records as we have considered relevant and necessary as a basis for our opinions. We note that, as counsel to the Company, we do not represent it generally and there may be facts relating to the Company of which we have no knowledge.

We have assumed (a) the accuracy and completeness of all certificates, agreements, documents, records and other materials submitted to us; (b) the authenticity of original certificates, agreements, documents, records and other materials submitted to us; (c) the conformity with the originals of any copies submitted to us; (d) the genuineness of all signatures; (e) the legal capacity of all natural persons; (f) that the Agreement constitutes the valid, legally binding and enforceable agreement of the parties thereto under all applicable law (other than, in the case of the Company, the law of the State of New York); (g) that the Company (i) is duly organized, validly existing and in good standing under the law of its jurisdiction of organization, (ii) has the power to execute and deliver, and to perform its obligations under, the Agreement [and the Notes], (iii) has duly taken or caused to be taken all necessary action to authorize the execution, delivery and performance by it of the Agreement [and the Notes] and (iv) has duly executed and delivered the Agreement [and the Notes]; (h) that the execution and delivery by the Company of, and the performance by the Company of its obligations under, the Agreement and the Notes does not and will not (i) breach or violate (A) its Amended and Restated Articles of Incorporation or Bylaws, (B) any agreement or instrument to which the Company or any of its affiliates is a party or by which the Company or any of its affiliates or any of their respective properties may be bound, (C) any authorization, consent, approval or license (or the like) of, or exemption (or the like) from, or any registration or filing (or the like) with, or report or notice (or the like) to, any governmental unit, agency, commission, department or other authority granted to or otherwise applicable to the Company or any of its affiliates or any of their respective properties (each a "Governmental Approval"), (D) any order, decision, judgment or decree that may be applicable to the Company or any of its affiliates or any of their respective properties, or (E) any law (other than the law of the State of New York and the federal law of the United States), or (ii) require any Governmental Approval (other than the KPSC Orders, which we assume to have been duly granted and to remain in full force and effect); (h) that the Company is engaged only in the businesses described in its Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission; (i) that there are no agreements, understandings or negotiations between the parties not set forth in the Agreement that would modify the terms thereof or the rights and obligations of the parties thereunder; and (j) for purposes of our opinion in paragraph 1 as it relates to the choice-of-law provisions in the Agreement, that the choice of law of the State of New

York as the governing law of the Agreement would not result in a violation of an important public policy of another state or country having greater contacts with the transactions contemplated by the agreement than the State of New York.

Our opinions are subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, receivership, conservatorship, arrangement, moratorium and other similar laws affecting and relating to the rights of creditors generally; (b) general equitable principles; (c) requirements of reasonableness, good faith, fair dealing and materiality; (d) Article 9 of the Uniform Commercial Code regarding restrictions on assignment or transfer of rights; and (e) additionally in the case of (i) indemnities, a requirement that facts, known to the indemnitee but not the indemnitor, in existence at the time the indemnity becomes effective that would entitle the indemnitee to indemnification be disclosed to the indemnitor, and a requirement that an indemnity provision will not be read to impose obligations upon indemnitors which are neither disclosed at the time of its execution nor reasonably within the scope of its terms and overall intention of the parties at the time of its making, (ii) waivers, Sections 9-602 and 9-603 of the Uniform Commercial Code, and (iii) indemnities, waivers and exculpatory provisions, public policy.

We express no opinion with respect to the following sections of the Agreement: (i) Section 9.02 (cumulative remedies), (ii) provisions relating to rules of evidence or quantum of proof, (iii) Section 9.07 (submission to jurisdiction and waiver of inconvenient forum), insofar as such sections relate to federal courts (except as to the personal jurisdiction thereof), and (choice of venue, i.e., requiring actions to be commenced in a particular court in a particular jurisdiction), and (iv) Section 9.11 (waiver of jury trial), insofar as such section is sought to be enforced in a federal court.

We express no opinion as to the law of any jurisdiction other than the law of the State of New York and the federal law of the United States of America, and in each case, only such law that in our experience is normally applicable to transactions of the type contemplated by the Agreement and excluding (i) any law that is part of a regulatory regime applicable to specific assets or businesses of the lenders and (ii) the statutes and ordinances, the administrative decisions, and the rules and regulations of counties, towns, municipalities and special political subdivisions.

This letter speaks only as of the date hereof. We have no responsibility or obligation to update this letter or to take into account changes in law or facts or any other development of which we may later become aware.

This letter is delivered by us as special counsel for the Company solely for your benefit in connection with the transaction referred to herein and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or entity without our prior written consent.

Very truly yours,

To the Administrative Agent
and each of the Lenders party to
the Credit Agreement referred to below

Re: \$500,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

I am Vice President and Deputy General Counsel – Legal and Environmental Affairs of Louisville Gas and Electric Company (the “Borrower”), and have acted as counsel to the Borrower in connection with the \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender and the Lenders party thereto from time to time (the “Agreement”). Capitalized terms used but not defined herein have the meanings assigned to such terms in the Agreement.

I am familiar with the Agreement[, the Notes of the Borrower executed and delivered by the Borrower on the date hereof (the “Notes”),] and other documents executed and delivered by the Borrower in connection with the Agreement. I also have examined such other documents and satisfied myself as to such other matters as I have deemed necessary in order to render this opinion.

In rendering this opinion, I have assumed: (a) the genuineness of the signatures on all documents and instruments (other than the signatures of officers of the Borrower), the authenticity of all documents submitted as originals, the conformity to originals of all documents submitted as photostatic or certified copies, and the accuracy and completeness of all corporate records made available to me by the Borrower; (b) the due execution and delivery of the Agreement by the Lenders party thereto; and (c) that the Agreement constitutes the legal, valid and binding obligation of the Lenders party thereto.

Based on the foregoing, I am of the opinion that:

1. The Borrower is duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Kentucky, and has the corporate power to make and perform the Agreement [and the Notes].

2. The execution, delivery and performance by the Borrower of the Agreement [and the Notes] have been duly authorized by the Borrower and do not violate any provision of law or regulation, or any decree, order, writ or judgment applicable to the Borrower, or any provision of the Borrower’s certificate of incorporation, by-laws or board or shareholder resolutions, or result in the breach of or constitute a default under any indenture or other agreement or instrument known to me to which the Borrower is a party.

3. [Each of] [T][t]Agreement [and the Notes] has been duly executed and delivered by the Borrower.

4. Except as disclosed in or contemplated by the Agreement or the Borrower’s financial statements referred to in Sections 5.04(a) or 5.04(b) of the Agreement, or otherwise furnished in writing to the Administrative Agent and the Lenders, no litigation, arbitration or administrative proceeding or inquiry is pending, or to my knowledge, threatened, which would reasonably be expected to materially adversely affect the ability of the Borrower to perform any of its obligations under the Agreement [or the Notes]. To my knowledge, there is no litigation, arbitration or administrative proceeding pending or threatened that questions the validity of the Agreement [or the Notes].

5. There have not been any “reportable events,” as that term is defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, which would result in a material liability of the Borrower.

6. The _____, 20__ and the _____, 2012 Orders of the Kentucky Public Service Commission (the “KPSC”) relating to the Agreement is in full force and effect, and no further authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except such authorizations, consents and approvals as have been obtained prior to the date hereof, which authorizations, consents and approvals are in full force and effect.

In rendering its opinion to the addressee hereof, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters of Kentucky law addressed herein upon this letter as if it were addressed directly to them. Except as aforesaid, without my prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other person or entity for any purpose.

Very truly yours,

CLIFFORD
CHANCE

Clifford Chance LLP

Execution Version

DATED ___ DECEMBER 2012

PPL WW HOLDINGS LTD.
AS THE COMPANY

LLOYDS TSB BANK PLC
AND
MIZUHO CORPORATE BANK, LTD.
AS JOINT COORDINATORS AND BOOKRUNNERS

BARCLAYS BANK PLC,
COMMONWEALTH BANK OF AUSTRALIA,
HSBC BANK PLC
LLOYDS TSB BANK PLC,
MIZUHO CORPORATE BANK, LTD.,
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.
AND
THE ROYAL BANK OF SCOTLAND PLC
AS MANDATED LEAD ARRANGERS

AND

MIZUHO CORPORATE BANK, LTD.
AS FACILITY AGENT

£210,000,000 MULTICURRENCY REVOLVING
FACILITY AGREEMENT

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THIS AGREEMENT is dated _____ December 2012

BETWEEN :

- (1) **PPL WW HOLDINGS LTD.** (registered number 04267536) (the "**Company**");
- (2) **LLOYDS TSB BANK PLC** and **MIZUHO CORPORATE BANK, LTD.** as joint coordinators and bookrunners (the "**Coordinators**");
- (3) **BARCLAYS BANK PLC, COMMONWEALTH BANK OF AUSTRALIA, HSBC BANK PLC, LLOYDS TSB BANK PLC, MIZUHO CORPORATE BANK, LTD., THE BANK OF TOKYO-MITSUBISHI UFJ, LTD. AND THE ROYAL BANK OF SCOTLAND PLC** as mandated lead arrangers (whether acting individually or together the "**Arranger**");
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the "**Original Lenders**"); and
- (5) **MIZUHO CORPORATE BANK, LTD.** as facility agent (the "**Facility Agent**").

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

" **Acceptable Bank** " means a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody's Investor Services Limited or a comparable rating from an internationally recognised credit rating agency.

" **Acceptable Jurisdiction** " means:

- (a) the United States of America;
- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of AA or higher by Standard & Poor's Rating Services or Aa2 or higher from Moody's Investor Services Limited or AA or higher from Fitch Ratings Ltd.

" **Act** " means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

" **Administrative Party** " means the Arranger or the Facility Agent.

" **Affiliate** " means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term "**Affiliate**" shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty's Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty's Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

" **Agent's Spot Rate of Exchange** " means the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with the Base Currency at or about 11.00 a.m. on a particular day.

" **Applicable Accounting Principles** " means those accounting principles, standards and practices generally accepted in the United

Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

" **Authority** " means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

" **Available Commitment** " means a Lender's Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date,

other than that Lender's participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date.

" **Available Facility** " means the aggregate for the time being of each Lender's Available Commitment.

" **Availability Period** " means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

" **Balancing and Settlement Code** " means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

" **Balancing and Settlement Code Framework Agreement** " means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which a Distribution Company is a party and by which the Balancing and Settlement Code is made binding upon that Distribution Company.

" **Base Currency** " means Sterling.

" **Base Currency Amount** " means, in relation to a Loan, the amount specified in the Request delivered by the Borrower for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request) adjusted to reflect any repayment or prepayment of the Loan.

" **Basel III** " means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systematically important banks contained in "Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III".

" **Borrower** " means the Company or any person which becomes the Borrower after the date of this Agreement in accordance with Clause 28.1 (*Assignments and transfers by the Borrower*).

" **Break Costs** " means the amount (if any), calculated in accordance with Clause 25.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

" **Business Day** " means a day (other than a Saturday or a Sunday) on which commercial banks are open in London, and:

- (a) (in relation to any date for payment or purchase of a currency other than euro) the principal financial centre of the country of

that currency; or

(b) (in relation to any date for payment or purchase of euro) any TARGET Day.

" **Commitment** " means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading "Commitment" in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and
- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

" **Compliance Certificate** " means a certificate substantially in the form of Schedule 6 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

" **Confidential Information** " means all information relating to each of the Company and its Subsidiaries, PPL WEM Holdings plc and its Subsidiaries, PPL Corporation and any of its Subsidiaries which directly or indirectly holds shares in the Company or PPL WEM Holdings plc, and the directors, officers and employees of any of them (the " **Extended Group** "), the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Extended Group or any of its advisers; or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Extended Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 29 (*Confidentiality and disclosure of information*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Extended Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

" **Confidentiality Undertaking** " means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Borrower and the Facility Agent.

" **Contribution Notice** " means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

" **CTA 2009** " means the Corporation Tax Act 2009.

" **CTA 2010** " means the Corporation Tax Act 2010.

" **Debt Purchase Transaction** " means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;

- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any Commitment or amount outstanding under this Agreement.

" **Default** " means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

" **Defaulting Lender** " means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within five Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

" **Disruption Event** " means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:
 - (i) from performing its payment obligations under the Finance Documents; or
 - (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

" **Distribution Certificate** " means a distribution certificate substantially in the form of Schedule 11 (*Form of Distribution Certificate*).

" **Distribution Companies** " means Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc and any other distribution company which is licensed by OFGEM or any successor regulatory body as a distribution network operator

and owned (whether directly or indirectly) by the Borrower from time to time including Western Power Distribution (West Midlands) plc and Western Power Distribution (East Midlands) plc if owned (whether directly or indirectly) by the Borrower.

" **Drawdown Date** " means each date on which a Loan is made.

" **Environment** " means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

" **Environmental Claim** " means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

" **Environmental Law** " means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

" **EURIBOR** " means, in relation to any Loan in euro:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the Interest Period of that Loan) the Reference Bank Rate,

as of the Specified Time on the Rate Fixing Day for euro and for a period comparable to the Interest Period of that Loan, and if any such rate is below zero EURIBOR will be deemed to be zero.

" **Existing RCF** " means a £150,000,000 revolving credit facility agreement dated 24 January 2007 and entered into *inter alia* between the Company, Lloyds TSB Bank plc as facility agent and the other financial institutions listed therein.

" **Event of Default** " means an event specified as such in this Agreement.

" **Facility** " means the multicurrency revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

" **Facility Office** " means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days' notice,

as the office(s) through which it will perform its obligations under this Agreement.

" **Fee Letter** " means any letter entered into by reference to the Facility between one or more Administrative Parties and the Borrower setting out the amount of certain fees referred to in the Agreement.

" **Final Maturity Date** " means the fourth anniversary of the date of this Agreement.

" **Finance Document** " means:

- (a) this Agreement;
- (b) a Fee Letter;
- (c) a Transfer Certificate; or
- (d) any other document designated as such by the Facility Agent and the Borrower.

" **Finance Party** " means a Lender or an Administrative Party.

" **Financial Indebtedness** " means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

" **Financial Support Direction** " means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

" **Group** " means the Borrower and its Subsidiaries.

" **Holding Company** " means in relation to a person, any other person in respect of which it is a Subsidiary.

" **Impaired Agent** " means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of "Defaulting

Lender"; or

(d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

(i) its failure to pay is caused by:

(A) administrative or technical error; or

(B) a Disruption Event,

and payment is made within five Business Days of its due date; or

(ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

" **Increase Confirmation** " means a confirmation substantially in the form set out in Schedule 7 (*Form of Increase Confirmation*).

" **Increase Lender** " has the meaning given to that term in Clause 2.2 (*Increase*).

" **Increased Cost** " means:

(a) an additional or increased cost;

(b) a reduction in the rate of return under a Finance Document or on a Finance Party's (or its Affiliate's) overall capital; or

(c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

" **Information Package** " means the information package in the form approved by the Company concerning the Group which was prepared in relation to this transaction and distributed via debtdomain to selected financial institutions on 31 October 2012 and which is entitled: "PPL WW Holdings Ltd Refinance Lender Information Pack".

" **Insolvency Event** " in relation to a Finance Party means that the Finance Party:

(a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);

(b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;

(c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;

(d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;

(e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:

(i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its

winding up or liquidation; or

- (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

" **ITA** " means the Income Tax Act 2007.

" **Legal Reservations** " means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Borrower is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

" **Lender** " means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 28 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

" **LIBOR** " means for a Term of any Loan or overdue amount:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the relevant currency or Interest Period of that Loan) the Reference Bank Rate,

as of the Specified Time on the Rate Fixing Day for the currency of that Loan and for a period comparable to the Interest Period of that Loan, and if any such rate is below zero LIBOR will be deemed to be zero.

" **Licence** " means:

- (a) each electricity distribution licence made and treated as granted to a Distribution Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 (or any equivalent legislation which supersedes the Utilities Act) which permit a Distribution Company to distribute electricity in the area it is certified to operate in.

" **LMA** " means the Loan Market Association.

" **Loan** " means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

" **Majority Lenders** " means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate $66 \frac{2}{3}$ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate $66 \frac{2}{3}$ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated $66 \frac{2}{3}$ per cent. or more of the Total Commitments immediately before the reduction.

" **Mandatory Cost** " means the cost of complying with certain regulatory requirements, expressed as a percentage rate per annum and calculated by the Facility Agent under Schedule 4 (*Calculation of the Mandatory Cost*).

" **Margin** " means, **provided that**:

- (a) at least one of Moody's Investor Services Limited (" **Moody's** ") and Standard & Poor's Ratings Services (" **Standard & Poor's** ") has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Borrower; and
- (b) no Event of Default is outstanding,

the rate set out in the table below:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than or equal to Ba1	Less than or equal to BB+	2.50%
Baa3	BBB-	1.80%
Baa2	BBB	1.60%
Baa1 or higher	BBB+ or higher	1.40%

If the current Moody's and Standard & Poor's ratings in respect of the Borrower imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Borrower, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Borrower, or if an Event of Default is outstanding, the applicable Margin shall be 2.50% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Borrower is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Borrower or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Borrower to the Facility Agent (acting reasonably)) or waived.

" **Material Adverse Effect** " means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Borrower to perform its payment obligations under the Finance Documents or its obligations under Clauses 19.3 (*Interest Cover*) or 19.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

" **Maturity Date** " means the last day of the Term of a Loan.

" **Measurement Date** " means the last day of a Measurement Period, being 31 March or 30 September.

" **Measurement Period** " means each period of twelve months ending on 31 March or 30 September.

" **New Lender** " has the meaning given to that term in sub-clause 28.2.1 of Clause 28.2 (*Assignments and transfers by Lenders*).

" **OFGEM** " means the Office of Gas and Electricity Markets.

" **Original Financial Statements** " means the audited consolidated financial statements of the Company and each of Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc for the year ended 31 March 2012.

" **Optional Currency** " means a currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

" **Participating Member State** " means any member state of the European Union that has the euro as its lawful currency in accordance with the legislation of the European Union relating to Economic and Monetary Union.

" **Party** " means a party to this Agreement.

" **Pensions Regulator** " means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

" **Permitted Acquisition** " means the acquisition by any member of the Group of an entity:

- (a) which carries out a Permitted Business;
- (b) which is incorporated or established in England or the European Union; and
- (c) the Borrower has delivered to the Facility Agent not later than three Business Days before the relevant member of the Group legally commits to make such acquisition a certificate signed by two directors of the Borrower to which is attached a copy of the latest audited accounts (or if not available, management accounts) of the target entity giving calculations showing in reasonable detail that the Borrower would have remained in compliance with its obligations under Clause 19 (*Financial Covenants*) if the covenant tests had been recalculated for the most recently ended Measurement Period consolidating the financial statements of the target entity (consolidated if it has Subsidiaries) with the financial statements of the Group for such period on a pro forma basis and as if the consideration (including associated costs and expenses) for the proposed acquisition had been paid at the start of that Measurement Period.

" **Permitted Business** " means a business that:

- (a) possesses characteristics similar to the regulated business of a distribution network operator, as carried out by any of the Distribution Companies (a " **DNO Business** ");
- (b) provides facilities for and connected with a DNO Business;
- (c) is complementary or ancillary to the operation of a DNO Business or any other business already conducted by an entity within

the Group;

(d) provides services to any member of the Group which are currently provided by third parties,

or any other business approved or consented to by the Facility Agent.

" **Permitted Reorganisation** " means any amalgamation, demerger, merger, corporate reconstruction, reorganisation or transfer of assets and assumption of liabilities between the Company and PPL WEM Holdings plc (the **Reorganisation**) if:

(a) after the Reorganisation has occurred:

- (i) the Company retains all of the rights and obligations under the Finance Documents in its capacity as Borrower; or
- (ii) if the Company ceases to be the Borrower under the Finance Documents, the new Borrower is a limited liability company incorporated in England and Wales and tax resident in the United Kingdom (or another jurisdiction agreed by all the Lenders) and assumes all of the rights and obligations of the Company in its capacity as Borrower under the Finance Documents,

(in each case, the **New Borrower**), and in each case:

- (A) the New Borrower owns the entire issued share capital (whether directly or indirectly) of the Distribution Companies held by the Company and PPL WEM Holdings plc immediately prior to such Reorganisation; and
 - (B) the entire issued share capital of the New Borrower is held (directly or indirectly) by PPL Corporation;
- (b) the Facility Agent has received a legal opinion issued by an internationally recognised law firm and addressed to the Finance Parties in relation to the obligations of the New Borrower under the Finance Documents in form and substance satisfactory to the Facility Agent;
- (c) such Reorganisation is not otherwise materially adverse to the interests of the Finance Parties under the Finance Documents; and
- (d) the Facility Agent has received in form and substance satisfactory to the Facility Agent all documentation and other evidence reasonably requested by the Facility Agent (for itself or on behalf of any Lender or any prospective new Lender) in order for the Facility Agent or such Lender or any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations where the New Borrower is not the Company.

" **PPL Group** " means PPL Corporation and any of its Subsidiaries.

" **Pro Rata Share** " means:

- (a) for the purpose of determining a Lender's share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

" **PUHCA** " means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

" **Rate Fixing Day** " means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;

(b) (if the currency is euro) two TARGET Days before the first day of that period; or

(c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Rate Fixing Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Rate Fixing Day will be the last of those days).

" **Reference Banks** " means Lloyds TSB Bank plc, Mizuho Corporate Bank, Ltd. and The Royal Bank of Scotland plc and any other bank or financial institution appointed as such by the Facility Agent (after consultation with the Borrower) under this Agreement.

" **Reference Bank Rate** " means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

(a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or

(b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market,

in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

" **Related Fund** " in relation to a fund (the " **first fund** "), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

" **Relevant Interbank Market** " means, in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

" **Repeating Representations** " means the representations which are deemed to be repeated under this Agreement.

" **Representative** " means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

" **Request** " means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

" **Rollover Loan** " means one or more Loans:

(a) made or to be made on the same day that a maturing Loan is due to be repaid;

(b) the aggregate amount of which is equal to or less than the maturing Loan;

(c) in the same currency as the maturing loan (unless it arose as a result of operation of Clause 6.2 (*Unavailability of currency*));
and

(d) made or to be made to the Borrower for the purpose of refinancing a maturing Loan.

" **Screen Rate** " means:

(a) in relation to LIBOR, the London inter-bank offered rate for the relevant currency and period displayed on the appropriate page (being currently Reuters screen page LIBOR01 or LIBOR02) on the information service which publishes that rate; and

(b) in relation to EURIBOR, the percentage rate per annum determined by the Banking Federation of the European Union (or any successor) for the relevant period displayed on the appropriate page (being currently Reuters screen page EURIBOR01) on the information service which publishes that rate,

displayed on the appropriate page of the Reuters screen. If the agreed page is replaced or service ceases to be available, the Facility Agent may specify another page or service displaying the appropriate rate after consultation with the Borrower and the Lenders.

" **Secretary of State** " means the Secretary of State for Business, Innovation and Skills.

" **Security Interest** " means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

" **Specified Time** " means a time determined in accordance with Schedule 8 (*Timetable*).

" **Subordination Deed** " means a document substantially in the form set out in Schedule 10 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

" **Subsidiary** " means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

" **TARGET 2** " means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises single shared platform and which was launched on 19 November 2007.

" **TARGET Day** " means any day on which TARGET 2 is open for the settlement of payments in euro.

" **Tax** " means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

" **Term** " means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

" **Total Commitments** " means the aggregate of the Commitments, being £210,000,000 at the date of this Agreement.

" **Transfer Certificate** " means a certificate, substantially in the form of Schedule 5 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Borrower.

" **Transfer Date** " means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

" **U.K.** " means the United Kingdom.

" **Unpaid Sum** " means any sum due and payable but unpaid by the Borrower under the Finance Documents.

" **VAT** " means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2.1 The following definitions have the meanings given to them in Clause 19 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;
- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
- (b) **assets** includes present and future properties, revenues and rights of every description;
- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
- (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
- (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
- (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
- (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
- (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
- (j) a currency is a reference to the lawful currency for the time being of the relevant country;
- (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
- (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any

subordinate legislation;

- (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
- (n) a person includes its successors in title, permitted assigns and permitted transferees;
- (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
- (p) a time of day is a reference to London time.

1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:

- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
- (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
- (c) notwithstanding paragraph (a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.

1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.

1.2.5 Unless the contrary intention appears:

- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
- (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
- (c) any obligation of the Borrower under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Borrower is or may be outstanding under the Finance Documents.

1.2.6 The headings in this Agreement do not affect its interpretation.

1.3 **Currency symbols and definitions**

1.3.1 "\$", "USD" and "dollars" denote the lawful currency of the United States of America.

1.3.2 "€", "EUR" and "euro" denote the single currency of the Participating Member States.

1.3.3 "£", "GBP" and "Sterling" denote the lawful currency of the United Kingdom"

2. **THE FACILITY**

2.1 **The Facility**

Subject to the terms of this Agreement, the Lenders make available to the Borrower a multicurrency revolving credit facility in an aggregate amount equal to the Total Commitments.

2.2 **Increase**

2.2.1 The Borrower may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 8.6.4 of Clause 8.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with Clause 8.1 (*Mandatory prepayment – illegality*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an " **Increase Lender** ") selected by the Borrower (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;
- (d) the Borrower and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Borrower and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (e) each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (f) the Commitments of the other Lenders shall continue in full force and effect; and
- (g) any increase in the Total Commitments shall take effect on the date specified by the Borrower in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.

2.2.2 An increase in the Total Commitments will only be effective on:

- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
- (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Borrower and the Increase Lender.

2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.

2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Borrower shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Borrower shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.

2.2.5 The Borrower may pay to the Increase Lender a fee in the amount and at the times agreed between the Borrower and the Increase Lender in a letter between the Borrower and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.

2.2.6 Clause 28.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:

- (a) an "Existing Lender" were references to all the Lenders immediately prior to the relevant increase;
- (b) the "New Lender" were references to that "Increase Lender"; and
- (c) a "re-transfer" and "re-assignment" were references to respectively a " **transfer** " and " **assignment** ".

2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

2.3 **Nature of a Finance Party's rights and obligations**

Unless otherwise agreed by all the Finance Parties:

- 2.3.1 the obligations of a Finance Party under the Finance Documents are several;
- 2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;
- 2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
- 2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;
- 2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and
- 2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. **PURPOSE**

3.1 **Purpose**

The Borrower shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group (in relation to each of the Distribution Companies, in compliance with its Licence) including, but not limited to, the refinancing of the Existing RCF.

3.2 **No obligation to monitor**

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. **CONDITIONS PRECEDENT**

4.1 **Conditions precedent documents**

A Request may not be given until the Facility Agent has notified the Borrower and the Lenders that it has received (or waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Borrower and the Lenders upon being so satisfied.

4.2 **Further conditions precedent**

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

- 4.2.1 the Repeating Representations are correct in all material respects; and
- 4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

4.3 **Conditions relating to Optional Currencies**

4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:

- (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Rate Fixing Day and the Drawdown Date for that Loan; and
- (b) it is dollars, euro or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.

4.3.2 If the Facility Agent has received a written request from the Borrower for a currency to be approved under paragraph 4.3.1(b) above, the Facility Agent will confirm to the Borrower by the Specified Time:

- (a) whether or not the Lenders have granted their approval; and
- (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.

4.4 **Maximum number**

- (a) Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 10 Loans outstanding.
- (b) Any Loan made by a single Lender under Clause 6.2 (*Unavailability of a currency*) shall not be taken into account in this Clause 4.4.

5. **UTILISATION**

5.1 **Giving of Requests**

5.1.1 The Borrower may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.

5.1.2 Each Request is irrevocable.

5.2 **Completion of Requests**

A Request for a Loan will not be regarded as having been duly completed unless:

- 5.2.1 the Drawdown Date is a Business Day falling within the Availability Period;
- 5.2.2 the currency and amount of the Request comply with Clause 5.3 (*Currency and Amount*), and;
- 5.2.3 the proposed Term complies with this Agreement.

Only one Loan may be requested in a Request.

5.3 **Currency and amount**

5.3.1 The currency specified in a Request must be the Base Currency or an Optional Currency.

5.3.2 The amount of the proposed Loan must be:

- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility; or
- (b) if the currency selected is dollars, a minimum of \$5,000,000 and an integral multiple of \$1,000,000 or, if less, the Available Facility; or

- (c) if the currency selected is euro, a minimum of EUR5,000,000 and an integral multiple of EUR1,000,000 or, if less, the Available Facility; or
- (d) if the currency selected is an Optional Currency, the minimum amount (and, if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of Clause 4.3.2 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility; and
- (e) in any event such that its Base Currency Amount is less than or equal to the Available Facility.

5.4 **Advance of Loan**

- 5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.
- 5.4.2 The amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.
- 5.4.3 No Lender is obliged to participate in a Loan if as a result:
 - (a) its share in the aggregate Base Currency Amount of the Loans would exceed its Commitment; or
 - (b) the aggregate Base Currency Amount of the Loans would exceed the Total Commitments.
- 5.4.4 If the conditions set out in this Agreement have been met, and subject to Clause 7.2 (*Cashless Rollover*), each Lender must make its share in the Loan available to the Facility Agent for the Borrower by no later than 2.00 pm on the Drawdown Date.
- 5.4.5 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount of each Loan, the amount of its participation in that Loan, and, if different, the amount of that participation to be made available in accordance with 15.2 (*Funds*) in each case by the Specified Time.

6. **OPTIONAL CURRENCIES**

6.1 **Selection of currency**

The Borrower shall select the currency of a Loan in a Request.

6.2 **Unavailability of a currency**

If before the Specified Time on any Rate Fixing Day:

- 6.2.1 a Lender notifies the Facility Agent that the Optional Currency requested is not readily available to it in the amount required; or
- 6.2.2 a Lender notifies the Facility Agent that compliance with its obligation to participate in a Loan in the proposed Optional Currency would contravene a law or regulation applicable to it,

the Facility Agent will give notice to the Borrower to that effect by the Specified Time on that day. In this event, any Lender that gives notice pursuant to this Clause 6.2 will be required to participate in the Loan in the Base Currency (in an amount equal to that Lender's Pro Rata Share of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's Pro Rata Share of the Base Currency Amount of the Rollover Loan that is due to be made) and its participation will be treated as a separate Loan denominated in the Base Currency during that Term.

6.3 **Participation in a Loan**

Each Lender's participation in a Loan will be determined in accordance with sub-clause 5.4.2 of Clause 5.4 (*Advance of Loan*).

7. **REPAYMENT**

7.1 Repayment of Loans

7.1.1 The Borrower must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.

7.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 7.1.1 above may be re-borrowed.

7.2 Cashless Rollover

7.2.1 Without prejudice to the Borrower's obligation under Clause 7.1 above, if:

- (a) one or more Loans are to be made available to the Borrower:
 - (i) on the same day that a maturing Loan is due to be repaid by the Borrower;
 - (ii) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 6.2 (*Unavailability of a currency*)); and
 - (iii) in whole or in part for the purpose of refinancing the maturing Loan, and
- (b) the proportion borne by each Lender's participation in the maturing Loan to the amount of that maturing Loan is the same as the proportion borne by that Lender's participation in the new Loans to the aggregate amount of those new Loans,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (a) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
 - (i) the Borrower will only be required to pay an amount in cash in the relevant currency equal to that excess; and
 - (ii) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Borrower in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (b) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
 - (i) the Borrower will not be required to make any payment in cash; and
 - (ii) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been made available and applied by the Borrower in or towards repayment of that Lender's participation in the maturing Loan.

8. PREPAYMENT AND CANCELLATION

8.1 Mandatory prepayment - illegality

8.1.1 A Lender must notify the Borrower promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.

8.1.2 After notification under sub-clause 8.1.1 above:

- (a) the Borrower must repay or prepay the share of that Lender in each Loan made to it on the date specified in sub-clause 8.1.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.

8.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:

- (a) the Business Day following receipt by the Borrower of notice from the Lender under sub-clause 8.1.1 above; or
- (b) if later, the latest date allowed by the relevant law.

8.2 **Mandatory prepayment - change of control**

If the Borrower becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Borrower (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 1122 of the CTA 2010) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

- 8.2.1 within five days of such date, the Borrower shall give notice of such change of control to the Facility Agent;
- 8.2.2 the Lenders and the Borrower shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;
- 8.2.3 if no such agreement is reached within the said period of 45 days then:
 - (a) any Lender may on 10 days' notice to the Facility Agent and to the Borrower require the repayment of its share in each Loan and cancel its Commitment; and
 - (b) the Majority Lenders may on 10 days' notice to the Borrower require repayment in full of all outstanding Loans and cancel the Total Commitments; and
- 8.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 8.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 8.2.3.

There shall be no change of control as a result of the Permitted Reorganisation (including, for the avoidance of doubt, as a result of the ownership arrangements specified in paragraph (a)(ii)(B) of the definition of Permitted Reorganisation).

8.3 **Voluntary prepayment**

- 8.3.1 The Borrower may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.
- 8.3.2 A prepayment of part of a Loan must be by an amount that reduces the Base Currency Amount of the Loan by a minimum amount of £5,000,000 and an integral multiple of £1,000,000.

8.4 **Automatic cancellation**

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

8.5 **Voluntary cancellation**

- 8.5.1 The Borrower may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.
- 8.5.2 Partial cancellation of the Total Commitments must be by an amount that reduces the Base Currency Amount of the Loan by a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 8.5.3 Any cancellation in part shall be applied against the Commitment of each Lender *pro rata*.

8.6 **Involuntary prepayment and cancellation**

8.6.1 If the Borrower is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Borrower may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.

8.6.2 After notification under sub-clause 8.6.1 above:

- (a) the Borrower must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 8.6.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.

8.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Borrower in its notification.

8.6.4

- (a) If any Lender becomes a Defaulting Lender, the Borrower may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent five Business Days' notice of cancellation of the Available Commitment of that Lender.
- (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
- (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

8.7 **Re-borrowing of Loans**

Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

8.8 **Miscellaneous provisions**

8.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.

8.8.2 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.

8.8.3 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.

8.8.4 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.

8.8.5 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

9. **INTEREST**

9.1 **Calculation of interest**

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

9.1.1 Margin;

9.1.2 LIBOR, or in relation to any Loan in euro, EURIBOR; and

9.1.3 Mandatory Cost.

9.2 **Payment of interest**

Except where it is provided to the contrary in this Agreement, the Borrower must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

9.3 **Interest on overdue amounts**

9.3.1 If the Borrower fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.

9.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan. For this purpose, the Facility Agent may (acting reasonably):

- (a) select successive Terms of any duration of up to three months; and
- (b) determine the appropriate Rate Fixing Day for that Term.

9.3.3 Notwithstanding sub-clause 9.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 9.3.2 above.

9.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

9.4 **Notification of rates of interest**

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

10. **TERMS**

10.1 **Selection**

10.1.1 Each Loan has one Term only.

10.1.2 The Borrower must select the Term for a Loan in the relevant Request.

10.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or any other period agreed between the Borrower and the Lenders in relation to the relevant Loan.

10.1.4 A Term for a Loan shall start on the Drawdown Date for that Loan.

10.2 **No overrunning the Final Maturity Date**

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

10.3 **Other adjustments**

10.3.1 The Facility Agent and the Borrower may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.

10.3.2 Subject to sub-clause 10.3.3 below, if two or more Terms in respect of Loans denominated in the same currency end on the same date, those Loans will, unless the Borrower specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.

10.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Borrower requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the amounts specified in that Request, having an aggregate amount equal to the amount of and in the same currency as the Loan immediately before its division.

10.4 **Notification**

The Facility Agent must notify the Borrower and the Lenders of the duration of each Term promptly after ascertaining its duration.

11. **MARKET DISRUPTION**

11.1 **Failure of a Reference Bank to supply a rate**

If LIBOR, or if applicable EURIBOR is to be calculated by reference to the Reference Banks but a Reference Bank does not supply a rate by 12.00 noon on a Rate Fixing Day, the applicable LIBOR will, subject as provided below, be calculated on the basis of the rates of the remaining Reference Banks.

11.2 **Market disruption**

11.2.1 In this Clause, each of the following events is a **market disruption event** :

- (a) LIBOR, or if applicable, EURIBOR is to be calculated by reference to the Reference Banks but no, or only one, Reference Bank supplies a rate by 12.00 noon on the Rate Fixing Day; or
- (b) the Facility Agent receives by close of business on the Rate Fixing Day notification from Lenders whose shares in the relevant Loan exceed 50 per cent. of that Loan that such Lenders are unable to obtain matching deposits in the Relevant Interbank Market or the rate at which they can do so is in excess of LIBOR, or if applicable, EURIBOR for the relevant Term.

11.2.2 The Facility Agent must promptly notify the Borrower and the Lenders of a market disruption event.

11.2.3 After notification under sub-clause 11.2.2 above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin;
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select; and
- (c) Mandatory Cost.

11.3 **Alternative basis of interest or funding**

11.3.1 If a market disruption event occurs and the Facility Agent or the Borrower so requires, the Borrower and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

11.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

12. TAX GROSS-UP AND INDEMNITIES

12.1 Definitions

12.1.1 In this Agreement:

" **Qualifying Lender** " means:

(a) a Lender which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:

(i) a Lender:

(A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance or would be within such charge as respects such payment apart from section 18A of the CTA 2009; or

(B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made, and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

(ii) a Lender which is:

(A) a company resident in the United Kingdom for United Kingdom tax purposes;

(B) a partnership each member of which is:

(1) a company so resident in the United Kingdom; or

(2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or

(C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company; or

(iii) a Treaty Lender; or

(b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.

" **Tax Confirmation** " means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.

" **Tax Credit** " means a credit against, relief or remission for, or repayment of any Tax.

" **Tax Deduction** " means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

" **Tax Payment** " means either the increase in a payment made by the Borrower to a Finance Party under Clause 12.2 (*Tax gross-up*) or a payment under Clause 12.3 (*Tax indemnity*).

" **Treaty Lender** " means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
 - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Borrower and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

" **Treaty State** " means a jurisdiction having a double taxation agreement (a " **Treaty** ") with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

" **UK Non-Bank Lender** " means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement, Transfer Certificate or Increase Confirmation which it executes on becoming a Party.

12.1.2 Unless a contrary indication appears, in this Clause 12 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

12.2 **Tax gross-up**

12.2.1 The Borrower shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

12.2.2 The Borrower shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a

Lender it shall notify the Borrower.

12.2.3 If a Tax Deduction is required by law to be made by the Borrower, the amount of the payment due from the Borrower shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

12.2.4 A payment shall not be increased under sub-clause 12.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

(a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or

(b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:

(i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a " **Direction** ") under section 931 of the ITA which relates to the payment and that Lender has received from the Borrower a certified copy of that Direction; and

(ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or

(c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:

(i) the relevant Lender has not given a Tax Confirmation to the Borrower; and

(ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Borrower on the basis that the Tax Confirmation would have enabled the Borrower to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or

(d) the relevant Lender is a Treaty Lender and the Borrower making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 12.2.7 below.

12.2.5 If the Borrower is required to make a Tax Deduction, the Borrower shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

12.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Borrower making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

12.2.7

(a) Subject to paragraph (b) below, a Treaty Lender and the Borrower which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Borrower to obtain authorisation to make that payment without a Tax Deduction.

(b) Nothing in paragraph (a) above shall require a Treaty Lender to:

(i) register under the HMRC DT Treaty Passport scheme;

(ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or

- (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 12.2.9 below or sub-clause 12.6.1 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Borrower making that payment has not complied with its obligations under sub-clause 12.2.10 below or sub-clause 12.6.2 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*).

12.2.8 A UK Non-Bank Lender shall promptly notify the Borrower and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.

12.2.9 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Borrower) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).

12.2.10 Where a Lender includes the indication described in sub-clause 12.2.9 above in Schedule 1 (*Original Parties*), the Borrower shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing **provided that** the Borrower shall not be liable in respect of any non-compliance with its obligations under this sub-clause 12.2.10 where such non-compliance is due to circumstances beyond the control of the Borrower (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Borrower, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).

12.2.11 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with sub-clause 12.2.9 or sub-clause 12.6.1 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*) will reasonably promptly notify the Facility Agent and the Borrower if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.

12.2.12 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 12.2.9 above or sub-clause 12.6.1 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*), the Borrower shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

12.3 Tax indemnity

12.3.1 Except as provided below, the Borrower must indemnify a Finance Party, within three Business Days of demand, against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.

12.3.2 Sub-clause 12.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:

- (a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
- (b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.

12.3.3 Sub-clause 12.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:

- (a) is compensated for by an increased payment under Clause 12.2 (*Tax gross-up*); or
- (b) would have been compensated for by an increased payment under Clause 12.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 12.2 (*Tax gross-up*) applied.

12.3.4 A Finance Party making, or intending to make, a claim under sub-clause 12.3.1 above must promptly notify the Borrower of the

event which will give, or has given, rise to the claim.

12.4 **Tax Credit**

If the Borrower makes a Tax Payment and the relevant Finance Party determines that:

- (a) a Tax Credit is attributable to an increased payment of which that Tax Payment forms part, to that Tax Payment or to a Tax Deduction in consequence of which that Tax Payment was required; and
- (b) that Finance Party has obtained and utilised that Tax Credit,

then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, the Finance Party shall pay an amount to the Borrower which that Finance Party determines will leave it (after that payment) in the same after Tax position as it would have been in had the Tax Payment not been required to be made by the Company.

12.5 **Lender Status Confirmation**

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Borrower, which of the following categories it falls in:

12.5.1 not a Qualifying Lender;

12.5.2 a Qualifying Lender (other than a Treaty Lender); or

12.5.3 a Treaty Lender.

If a New Lender or Increase Lender fails to indicate its status in accordance with this Clause 12.5 then such New Lender or Increase Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Borrower). For the avoidance of doubt, a Transfer Certificate, assignment agreement or Increase Confirmation shall not be invalidated by any failure of a Lender to comply with this Clause 12.5.

12.6 **HMRC DT Treaty Passport scheme confirmation**

12.6.1 A New Lender or Increase Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Borrower) in the assignment agreement, Transfer Certificate or Increase Confirmation (as applicable) which it executes by including its scheme reference number and its jurisdiction of tax residence in that assignment agreement, Transfer Certificate or Increase Confirmation.

12.6.2 Where a New Lender or Increase Lender includes the indication described in sub-clause 12.6.1 above in the relevant assignment agreement, Transfer Certificate or Increase Confirmation (as applicable) the Borrower shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date or the date on which such assignment or increase takes effect and shall promptly provide the Lender with a copy of that filing.

12.7 **Stamp taxes**

The Borrower shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

12.8 **VAT**

12.8.1 All amounts expressed to be payable under a Finance Document by any Party to a Finance Party which (in whole or in part)

constitute the consideration for any supply for VAT purposes are deemed to be exclusive of any VAT which is chargeable on that supply and, accordingly, subject to sub-clause 12.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document and such Finance Party is required to account to the relevant tax authority for the VAT, that Party must pay to such Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of the VAT (and such Finance Party must promptly provide an appropriate VAT invoice to that Party).

12.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the "**Supplier**") to any other Finance Party (the "**Recipient**") under a Finance Document, and any Party other than the Recipient (the "**Relevant Party**") is required by the terms of any Finance Document to pay an amount equal to the consideration for that supply to the Supplier (rather than being required to reimburse or indemnify the Recipient in respect of that consideration):

- (a) (where the Supplier is the person required to account to the relevant tax authority for the VAT) the Relevant Party must also pay to the Supplier (at the same time as paying that amount) an additional amount equal to the amount of the VAT. The Recipient must (where this paragraph (a) applies) promptly pay to the Relevant Party an amount equal to any credit or repayment the Recipient receives from the relevant tax authority which the Recipient reasonably determines relates to the VAT chargeable on that supply; and
- (b) (where the Recipient is the person required to account to the relevant tax authority for the VAT) the Relevant Party must promptly, following demand from the Recipient pay to the Recipient an amount equal to the VAT chargeable on that supply but only to the extent that the Recipient reasonably determines that it is not entitled to credit or repayment from the relevant tax authority in respect of that VAT.

12.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.

12.8.4 Any reference in this Clause 12.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term "representative member" to have the same meaning as in the Value Added Tax Act 1994).

12.8.5 In relation to any supply made by a Finance Party to any Party under a Finance Document if reasonably requested by such Finance Party that Party must promptly provide such Finance Party with details of that Party's VAT registration and such other information as is reasonably requested in connection with such Finance Party's VAT reporting requirements in relation to such supply.

13. **INCREASED COSTS**

13.1 **Increased Costs**

Except as provided below in this Clause, the Borrower must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 13.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;
- 13.1.2 compliance with any law or regulation made after the date of this Agreement; or
- 13.1.3 the implementation or application of, or compliance with, Basel III or any law or regulation that implements or applies Basel III.

13.2 **Exceptions**

The Borrower need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 13.2.1 compensated for under another Clause or would have been but for an exception to that Clause;

13.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates; or

13.2.3 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation.

13.3 **Claims**

A Finance Party intending to make a claim for an Increased Cost must notify the Borrower promptly of the circumstances giving rise to, and the amount of, the claim.

14. **MITIGATION**

14.1 **Mitigation**

14.1.1 Each Finance Party must, in consultation with the Borrower (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:

- (a) any Tax Payment or Increased Cost being payable to that Finance Party;
- (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
- (d) the occurrence of any market disruption event,

including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.

14.1.2 A Finance Party is not obliged to take any step under this Clause 14 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

14.1.3 Each Finance Party must promptly notify the Borrower of any circumstances as described in paragraphs (a) to (d) of sub-clause 14.1.1 of this Clause 14.1.

14.1.4 The Borrower must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 14.1.

14.1.5 This Clause does not in any way limit the obligations of the Borrower under the Finance Documents.

14.2 **Substitution**

Notwithstanding Clause 14.1 (*Mitigation*), if any circumstances arise which result in:

- 14.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 14.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- 14.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
- 14.2.4 the occurrence of any market disruption event,

then the Borrower, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 28 (*Changes to the*

Parties) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a "**Replacement Finance Party** ") selected by the Borrower, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party's participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 28.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that** :

14.2.5 the Borrower shall have paid to the Finance Party (or, if applicable, its Affiliate) all amounts accrued and owing to such Finance Party (or, if applicable, its Affiliate) hereunder;

14.2.6 the Borrower shall have no right to replace the Facility Agent;

14.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Borrower to find a Replacement Finance Party;

14.2.8 the transfer must take place no later than 14 days after the notice referred to above; and

14.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents.

Notwithstanding the above, the Borrower shall not be entitled to require a novation under this Clause 14.2 with respect to any Finance Party if:

14.2.10 the relevant Finance Party shall have mitigated the effect of the relevant event or circumstance as provided in sub-clause 14.1.1 of Clause 14.1 (*Mitigation*), and the novation would have no greater or further mitigating effect; or

14.2.11 the relevant event or circumstances are applicable to all Finance Parties.

14.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

14.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or

14.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

15. **PAYMENTS**

15.1 **Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents must be made to the Facility Agent to its account at such office or bank in the principal financial centre of the country of that currency or, in relation to euro, in a principal centre in a Participating Member State or London as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

15.2 **Funds**

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

15.3 **Distribution**

- 15.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank in the principal financial centre of the country of that currency or, in relation to euro, in a principal centre in a Participating Member State or London as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.
- 15.3.2 The Facility Agent may apply any amount received by it for the Borrower in or towards payment (as soon as practicable after receipt) of any amount due from the Borrower under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.
- 15.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

15.4 **Currency of account**

- 15.4.1 Subject to sub-clauses 15.4.2 and 15.4.5 below, the Base Currency is the currency of account and payment for any sum due from the Borrower under any Finance Document.
- 15.4.2 A repayment of a Loan or Unpaid Sum or a part of a Loan or Unpaid Sum shall be made in the currency in which that Loan or Unpaid Sum is denominated on its due date.
- 15.4.3 Each payment of interest shall be made in the currency in which the sum in respect of which the interest is payable was denominated when that interest accrued.
- 15.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.
- 15.4.5 Any amount expressed to be payable in a currency other than the Base Currency shall be paid in that other currency.

15.5 **No set-off or counterclaim**

All payments made by the Borrower under the Finance Documents must be made without set-off or counterclaim.

15.6 **Business Days**

- 15.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.
- 15.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

15.7 **Impaired Agent**

- 15.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Borrower or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 15.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Borrower or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
- 15.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that

trust account *pro rata* to their respective entitlements.

15.7.3 A Party which has made a payment in accordance with this Clause 15.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.

15.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 22.14 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 15.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 15.3 (*Distribution*).

15.7.5 For the purposes of this Clause 15.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

15.8 **Partial payments**

15.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Borrower under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Borrower under the Finance Documents in the following order:

- (a) **first** , in or towards payment *pro rata* of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;
- (b) **secondly** , in or towards payment *pro rata* of any accrued interest or fee due but unpaid under this Agreement;
- (c) **thirdly** , in or towards payment *pro rata* of any principal amount due but unpaid under this Agreement; and
- (d) **fourthly** , in or towards payment *pro rata* of any other sum due but unpaid under the Finance Documents.

15.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 15.8.1 of this Clause 15.8.

15.8.3 This Clause will override any appropriation made by the Borrower.

15.9 **Timing of payments**

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

16. **PERMITTED REORGANISATION**

Nothing in this Agreement shall restrict or prevent in any way the Borrower or any other member of the Group from undertaking any Permitted Reorganisation.

17. **REPRESENTATIONS**

17.1 **Representations**

The representations set out in this Clause are made by the Borrower to each Finance Party.

17.2 **Status**

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

17.3 **Powers and authority**

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

17.4 **Legal validity**

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

17.5 **Non-conflict**

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

17.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

17.5.2 its constitutional documents.

17.6 **No default**

17.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

17.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

17.7 **Authorisations**

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

17.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

17.7.2 to make the Finance Documents admissible in evidence in England and Wales,

have been obtained or effected (as appropriate) and are in full force and effect.

17.8 **Financial statements**

Its and each of the Distribution Companies' audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

17.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

17.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up,

except, in each case, as disclosed to the contrary in those financial statements.

17.9 **No material adverse change**

Other than as disclosed in writing to the Arranger prior to the date of this Agreement, there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

17.10 **Litigation**

No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely

determined, are reasonably likely to have a Material Adverse Effect.

17.11 **Winding Up**

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

17.12 **Non-Violation of other Agreements:**

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

17.13 **Governing Law and Enforcement**

17.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

17.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

17.14 **Deduction of Tax**

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

17.14.1 a Qualifying Lender:

- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
- (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
- (c) falling within paragraph (b) of the definition of Qualifying Lender; or

17.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

17.15 **No filing or stamp taxes**

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

17.16 **No misleading information**

17.16.1 Any factual information provided by any member of the Group for the purposes of the Information Package was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.

17.16.2 The financial projections contained in the Information Package have been prepared on the basis of recent historical information and on the basis of reasonable assumptions.

17.16.3 Nothing has occurred or been omitted from the Information Package and no information has been given or withheld that results in the information contained in the Information Package being untrue or misleading in any material respect.

17.17 **Pari Passu ranking**

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

17.18 **Licence**

Each Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of any Licence.

17.19 **Anti-corruption law**

Each member of the Group has conducted its businesses in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance with such laws.

17.20 **Sanctions**

No member of the Group or, to the knowledge of the Borrower, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "**Person**") currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of Sanctions. The Borrower represents and covenants for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Burma/Myanmar, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

17.21 **Times for making representations**

17.21.1 The representations set out in this Clause are made by the Borrower on the date of this Agreement.

17.21.2 The representations in Clauses 17.2 to 17.6.1 (inclusive) and Clauses 17.7, 17.8, 17.10, 17.12, 17.13, 17.17 and 17.19 are deemed to be repeated by the Borrower on the date of each Request and the first day of each Term.

17.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

18. **INFORMATION COVENANTS**

18.1 **Financial statements**

18.1.1 The Borrower must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

(a) its and each of the Distribution Companies' audited consolidated financial statements for each of their financial years; and

(b) its interim consolidated financial statements for the first half-year of each of its financial years.

18.1.2 All financial statements must be supplied as soon as they are available and:

(a) in the case of the Borrower's and each of the Distribution Companies' audited consolidated financial statements, within 180 days; and

(b) in the case of the Borrower's interim financial statements, within 90 days,

of the end of the relevant financial period.

18.2 **Form of Financial Statement**

If any financial statement delivered or to be delivered to the Facility Agent under Clause 18.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

18.2.1 the Borrower and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Borrower, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 19 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

18.2.2 if amendments are agreed by the Borrower and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

18.2.3 if such amendments are not so agreed within 25 days, the Borrower shall:

(a) within 30 days after the end of that 25 day period; and

(b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 18.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

18.3 **Compliance Certificate**

18.3.1 The Borrower must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.

18.3.2 Each Compliance Certificate must be signed by two directors of the Borrower.

18.4 **Information - miscellaneous**

The Borrower must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

18.4.1 copies of all documents despatched by the Borrower to its creditors generally (or any class of them) at the same time as they are despatched;

18.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;

18.4.3 promptly, details of the loss of any Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of any Licence;

18.4.4 promptly, details of any modification of an authorisation or other material regulatory notices received by any Distribution Company from OFGEM or any other government agency;

18.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which any Distribution Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);

18.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);

18.4.7 within five Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Borrower;

18.4.8 the Borrower shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Borrower),

actuarial reports in relation to all pension schemes mentioned in sub-clause 20.15.2 of Clause 20.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Borrower is at that time a participating employer and to those reports which have been provided to the Borrower; and

18.4.9 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

18.5 **Notification of Default**

18.5.1 The Borrower must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.

18.5.2 Promptly on request by the Facility Agent, the Borrower must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

18.6 **Use of websites**

18.6.1 Except as provided below, the Borrower may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:

- (a) the Facility Agent and the Lender agree;
- (b) the Borrower and the Facility Agent designate an electronic website for this purpose;
- (c) the Borrower notifies the Facility Agent of the address of and password for the website; and
- (d) the information posted is in a format agreed between the Borrower and the Facility Agent.

The Facility Agent must supply each relevant Lender with the address of and password for the website.

18.6.2 Notwithstanding the above, the Borrower must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:

- (a) any Lender not agreeing to receive information via the website; and
- (b) any other Lender within ten Business Days of request by that Lender.

18.6.3 The Borrower must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

- (a) the website cannot be accessed;
- (b) the website or any information on the website is infected by any electronic virus or similar software;
- (c) the password for the website is changed; or
- (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Borrower must supply any information required under this Agreement in paper form.

18.7 **Know your customer requirements**

18.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation

made after the date of this Agreement;

- (b) any change in the status of the Borrower after the date of this Agreement whether as a result of the Permitted Reorganisation or otherwise; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Borrower shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (c) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (c) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

19. FINANCIAL COVENANTS

19.1 Definitions

In this Clause:

" **Cash** " means, at any time, cash denominated in a currency of an Acceptable Jurisdiction in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
- (c) there is no Security Interest over that cash other than Security Interests permitted under paragraph (b) of sub-clause 20.5.3 of Clause 20.5 (*Negative pledge*); and
- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

" **Cash Equivalent Investments** " means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;

- (iii) which matures within one year after the relevant date of calculation; and
- (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited;
 - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days' notice; or
- (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group) beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under paragraph (b) of sub-clause 20.5.3 of Clause 20.5 (*Negative pledge*)).

" **Consolidated EBITDA** " means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

" **Interest Payable** " means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the relevant currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

" **Regulatory Asset Base** " means at any date, the regulatory asset base of the Distribution Companies for such date as last determined and notified by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

" **Total Net Debt** " means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

19.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

19.2.2 Any amount in a currency other than Sterling is to be taken into account at its Sterling equivalent calculated on the basis of:

- (a) the Agent's Spot Rate of Exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on the day the relevant amount falls to be calculated; or
- (b) if the amount is to be calculated on the last day of a financial period of the Borrower, the relevant rates of exchange used by the Borrower in, or in connection with, its financial statements for that period.

19.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

19.3 **Interest cover**

The Borrower must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

19.4 **Asset Cover**

The Borrower must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of the Regulatory Asset Base.

19.5 **Calculation of Interest Payable**

For the purpose of the financial covenant set out in Clause 19.3 (*Interest cover*), in relation to any Measurement Period ending less than 12 months from the date of this Agreement, Interest Payable shall be calculated ignoring any amounts accrued before the date of this Agreement and in respect of the period after the date of this Agreement shall be increased by a factor of A/B where 'A' is 365 and 'B' is the total number of calendar days between the date of this Agreement and the last day of such Measurement Period.

20. **GENERAL COVENANTS**

20.1 **General**

The Borrower agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Distribution Company or each member of the Group, the Borrower must ensure that each Distribution Company or each of its Subsidiaries, as the case may be, performs that covenant.

20.2 **Authorisations**

The Borrower must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or for the validity or enforceability of, any Finance Document.

20.3 **Compliance with laws**

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

20.4 **Pari passu ranking**

The Borrower must ensure that its payment obligations under the Finance Documents rank at least *pari passu* with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

20.5 **Negative pledge**

In this Clause 20.5, " **Quasi-Security** " means an arrangement or transaction described in sub-clause 20.5.2 below.

20.5.1 Except as provided below, none of the Borrower, any Distribution Company nor any Holding Company of a Distribution Company may create or allow to exist any Security Interest or Quasi-Security on any of its assets.

20.5.2 Except as provided below, none of the Borrower, any Distribution Company nor any Holding Company of a Distribution Company may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Borrower or any other member of the Group;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

20.5.3 Sub-clauses 20.5.1 and 20.5.2 do not apply to:

- (a) any Security Interest or Quasi-Security created over the assets of or any shares or other ownership interests in any entity which becomes a member of the Group after the date of this Agreement as a result of a Permitted Acquisition;
- (b) any Security Interest or Quasi-Security created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
- (c) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
- (d) any Security Interest or Quasi-Security arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
- (e) any Security Interest or Quasi-Security created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, **provided that** the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of acquisition of such asset;
- (f) any Security Interest or Quasi-Security outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, **provided that** the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of acquisition of such asset;
- (g) any Security Interest or Quasi-Security created or outstanding on or over any asset of any company which becomes a Subsidiary of the Borrower after the date of this Agreement where such Security Interest or Quasi-Security is created prior to the date on which such company becomes a Subsidiary of the Borrower and is not created or increased in contemplation of such company being acquired and/or becoming a Subsidiary of the Borrower and the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of such company becoming a Subsidiary of the Borrower;
- (h) any Security Interest or Quasi-Security created on any asset to secure any Financial Indebtedness incurred in connection with the financing of any asset or project in respect of which the repayment of that Financial Indebtedness is to be made from the revenues arising out of, or other proceeds of realisation from, that asset or project, with recourse to those revenues and proceeds and other assets used in connection with, or forming the subject matter of, that asset or

project but without recourse (or with such limited recourse as the Majority Lenders may from time to time agree) to any other assets of the Group;

- (i) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
- (j) any Security Interest or Quasi-Security created or outstanding with the prior approval of the Majority Lenders; and
- (k) any Security Interest or Quasi-Security created or outstanding on or over assets of:
 - (A) the Borrower provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security created or outstanding under this exception on or over such assets shall not at any time exceed £5,000,000 or its equivalent; and
 - (B) a Distribution Company provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security created or outstanding under this exception on or over such assets shall not at any time exceed £20,000,000 or its equivalent for each Distribution Company.

20.6 Disposals

20.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash).

20.6.2 Sub-clause 20.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity;
- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
- (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
- (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 6 months;
- (e) the disposal of assets by one wholly-owned Subsidiary of the Borrower to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Borrower by one of its Subsidiaries;
- (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, **provided that** the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £100,000,000 or its equivalents;
- (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account; and
- (h) any disposal of any assets (including shares) other than:
 - (A) any shares held in any Distribution Company or in any Holding Company of a Distribution Company; and
 - (B) any assets of a Distribution Company,

for cash where the higher of the market value and net consideration receivable (when aggregated with the higher of the market value and net consideration receivable for any other sale, lease, licence, transfer or other disposal of any such assets which is not permitted under any other paragraph of this sub-clause 20.6.2) does not exceed 10% of the

Regulatory Asset Base (as defined in Clause 19.1 (*Definitions*)) at the relevant time.

20.7 **Environmental matters**

20.7.1 The Borrower will and will ensure that each Distribution Company will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

20.7.2 The Borrower will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against it or any Distribution Company which is current, pending or threatened; and
- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against it or any Distribution Company,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

20.8 **Insurance**

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

20.9 **Merger**

The Borrower shall not enter into any amalgamation, demerger, merger, corporate reconstruction or reorganisation.

20.10 **Change of business**

The Borrower shall procure that no substantial change is made to the general nature of the business of the Borrower or the Group from that carried on at the date of this Agreement.

20.11 **Acquisitions**

20.11.1 Except as provided below neither the Borrower nor any other member of the Group may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

20.11.2 **Provided that** no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 20.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 20.6.2 of Clause 20.6 (*Disposals*) above;
- (b) any Permitted Acquisition; or
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

20.12 **Prohibition on the Debt Purchase Transactions of the Group**

The Borrower shall not, and shall procure that no other member of the Group shall, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

20.13 **Prohibition on Subsidiary Financial Indebtedness**

The Borrower shall procure that no member of the Group (other than the Borrower, any Distribution Company or any Subsidiary which is not a Holding Company of a Distribution Company) will incur or allow to remain outstanding any Financial Indebtedness (other than Financial Indebtedness owed to another member of the Group).

20.14 **Arm's length transactions**

The Borrower shall not (and shall ensure that no member of the Group shall) enter into any transactions with any other member of the PPL Group except on arm's length terms and for full market value (or on terms which are more favourable to the Group).

20.15 **Pensions**

20.15.1 The Borrower shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).

20.15.2 Except in respect of WPD South Wales Plc for the Western Power Utilities Pension Scheme, the Infracore 92 Scheme and the WPD Group Electricity Supply Pension Scheme (and in the case of merger, the CN Group of the ESPS) the Borrower shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.

20.15.3 The Borrower shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 20.15.2 above paid or required (by law or otherwise).

20.15.4 The Borrower shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.

20.15.5 The Borrower shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

20.16 **Licence**

The Borrower will procure that each Distribution Company will at all times:

20.16.1 comply with the terms of its Licence in all material respects;

20.16.2 without prejudice to the generality of sub-clause 20.16.1 above, comply with the ring fencing provisions of its Licence in all respects; and

20.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of its Licence.

20.17 **Dividends and Distribution**

The Borrower (and any other member of the Group) will be permitted, at any time, to:

- (a) declare, make or pay any dividend, charge, fee or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);
- (b) repay or distribute any dividend or share premium reserve;
- (c) pay or allow any member of the Group to pay any management, advisory or other fee to or to the order of any of the shareholders of the Borrower; or
- (d) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so,

provided that the Borrower, prior to any action referred to in paragraphs (a) to (d) above being taken, delivers to the Facility Agent a Distribution Certificate, signed by two directors of the Borrower, certifying that, taking into account any such payment, the Borrower will be in compliance with its obligations under Clause 19 (*Financial Covenants*) on each of the next two Measurement Dates.

20.18 **Anti-corruption law**

20.18.1 The Borrower shall not (and shall ensure that no other member of the Group will) directly or indirectly use the proceeds of the Facility for any purpose which would breach the Bribery Act 2010, the United States Foreign Corrupt Practices Act of 1977 or other similar legislation in other jurisdictions.

20.18.2 The Borrower shall (and shall ensure that each other member of the Group will):

- (a) conduct its business in compliance with applicable anti-corruption laws; and
- (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

21. **DEFAULT**

21.1 **Events of Default**

Each of the events set out in this Clause is an Event of Default.

21.2 **Non-payment**

The Borrower fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

21.2.1 administrative or technical error; or

21.2.2 a Disruption Event,

and payment is made within three Business Days of its due date.

21.3 **Breach of other obligations**

21.3.1 The Borrower does not perform or comply with its obligations under Clause 19 (*Financial Covenants*), Clause 20.5 (*Negative pledge*), Clause 20.6 (*Disposals*) or Clause 20.11 (*Acquisitions*).

21.3.2 The Borrower does not perform or comply with any of its other obligations under any Finance Document (other than those referred to in Clause 21.2 (*Non-payment*) and in sub-clause 21.3.1 above) in any material respect or any representation or warranty by the Borrower in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 15 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Borrower becoming aware of such non-compliance or misrepresentation, as the case may be.

21.4 **Cross-default**

21.4.1 Any Financial Indebtedness of the Borrower or any Distribution Company is not paid when due nor within any originally applicable grace period.

21.4.2 Any Financial Indebtedness of the Borrower or any Distribution Company is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).

21.4.3 Any commitment for any Financial Indebtedness of the Borrower or any Distribution Company is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).

21.4.4 Any creditor of the Borrower or any Distribution Company becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).

21.4.5 No Event of Default will occur under this Clause 21.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 21.4.1 to 21.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

21.5 **Insolvency**

21.5.1 Any of the following occurs in respect of the Borrower:

- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
- (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
- (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
- (d) a moratorium is declared in respect of any of its indebtedness.

21.5.2 If a moratorium occurs in respect of the Borrower, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

21.6 **Insolvency proceedings**

21.6.1 Except as provided below, any of the following occurs in respect of the Borrower:

- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
- (b) any person presents a petition for its winding-up, administration or dissolution;
- (c) an order for its winding-up, administration or dissolution is made;
- (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;
- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

21.7 **Creditors' process**

A distress, attachment, execution or other legal process material in relation to the Borrower's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Borrower and is not discharged or stayed within 30 days.

21.8 **Licence**

Either:

21.8.1 notice is given to revoke or terminate any Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

21.8.2 any Licence is revoked,

in either case, other than in circumstances which permit the Borrower or the relevant Distribution Company to carry on the distribution business of the relevant Distribution Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the relevant Licence, issued under the Act or pursuant to the Utilities Act, 2000.

21.9 **Balancing and Settlement Code**

21.9.1 any Distribution Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where that Distribution Company is able to carry on its distribution business; or

21.9.2 any Distribution Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

21.10 **Unlawfulness and invalidity**

21.10.1 It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Documents in any material respect.

21.10.2 Any obligation or obligations of the Borrower under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.

21.11 **Cessation of business**

The Borrower or any Distribution Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 20.6 (*Disposals*).

21.12 **Repudiation and rescission of agreements**

The Borrower (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.

21.13 **Ownership of the Distribution Companies**

The Borrower ceases to own (directly or indirectly) 100% of the shares in any Distribution Company.

21.14 **Material Adverse Effect**

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

21.15 **Acceleration**

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Borrower:

21.15.1 cancel the Total Commitments; and/or

21.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:

(a) immediately due and payable; and/or

(b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders.

Any notice given under this sub-clause will take effect in accordance with its terms.

22. **THE ADMINISTRATIVE PARTIES**

22.1 **Appointment and duties of the Facility Agent**

- 22.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.
- 22.1.2 Each Finance Party irrevocably authorises the Facility Agent to:
- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
 - (b) execute each Finance Document expressed to be executed by the Facility Agent.
- 22.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.
- 22.1.4 The Facility Agent shall provide to the Borrower within three Business Days of a request by the Borrower (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

22.2 **Role of the Arranger**

Except as specifically provided in the Finance Documents, neither the Arranger nor any Co-ordinator has any obligations of any kind to any other Party in connection with any Finance Document.

22.3 **No fiduciary duties**

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person and no Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

22.4 **Individual position of an Administrative Party**

- 22.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.
- 22.4.2 Each Administrative Party may:
- (a) carry on any business with the Borrower or its related entities (including acting as an agent or a trustee for any other financing); and
 - (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Borrower or its related entities.

22.5 **Reliance**

The Facility Agent may:

- 22.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;

- 22.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;
- 22.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and
- 22.5.4 act under the Finance Documents through its personnel and agents.

22.6 **Majority Lenders' instructions**

- 22.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.
- 22.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.
- 22.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.

22.7 **Responsibility**

- 22.7.1 No Administrative Party is responsible to any other Finance Party for the adequacy, accuracy or completeness of:
 - (a) any Finance Document or any other document; or
 - (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.
- 22.7.2 Without affecting the responsibility of the Borrower for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms that it:
 - (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Borrower and its related entities and the nature and extent of any recourse against any Party or its assets); and
 - (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.
- 22.7.3
 - (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
 - (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it may not rely on any statement in relation to those requirements made by any other person.

22.8 **Exclusion of liability**

- 22.8.1 The Facility Agent is not liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- 22.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement

system used by the Facility Agent for that purpose.

22.8.3 No Party may take any proceedings against any officer, employee or agent of the Facility Agent in respect of any claim it might have against the Facility Agent or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

22.9 **Default**

22.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.

22.9.2 If the Facility Agent:

- (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
 - (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,
- it must promptly notify the Lenders.

22.10 **Information**

22.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.

22.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.

22.10.3 Except as provided above, the Facility Agent has no duty:

- (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of the Borrower or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or
- (b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Borrower.

22.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.

22.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.

22.10.6 The Borrower irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.

22.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Borrower and shall disclose the same upon the written request of the Borrower or the Majority Lenders.

22.11 **Indemnities**

22.11.1 Without limiting the liability of the Borrower under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Borrower for such loss or liability.

22.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that

Lender under a Finance Document but unpaid.

22.11.3 The Borrower must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:

- (a) investigating any event which the Facility Agent reasonably believes to be a Default; or
- (b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

22.12 **Compliance**

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

22.13 **Resignation of the Facility Agent**

22.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Borrower.

22.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Borrower, in which case the Majority Lenders may appoint a successor Facility Agent.

22.13.3 If no successor Facility Agent has been appointed under sub-clause 22.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.

22.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Borrower prior to the appointment. Any successor Facility Agent must have an office in the U.K.

22.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term " **Facility Agent** " will mean the successor Facility Agent.

22.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.

22.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 22.13.6 above, it will have no further obligations under any Finance Document.

22.14 **Replacement of the Facility Agent**

22.14.1 After consultation with the Borrower, the Majority Lenders may, by giving 30 days' notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).

22.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.

22.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 22 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).

22.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

22.15 **Relationship with Lenders**

22.15.1 Subject to Clause 28.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.

22.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

22.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

22.16 **Facility Agent's management time**

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

22.17 **Notice period**

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

22.18 **Subordination Deed**

The Lenders expressly authorise the Facility Agent, at the request of the Company, to enter into a Subordination Deed in respect of any intra-Group items, loans from Affiliates and shareholder loans made to any member of the Group.

23. **EVIDENCE AND CALCULATIONS**

23.1 **Accounts**

Accounts maintained by a Finance Party in connection with this Agreement are *prima facie* evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

23.2 **Certificates and determinations**

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

23.3 **Calculations**

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

24. **FEES**

24.1 **Agency fee**

The Borrower must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Borrower.

24.2 **Upfront fees**

The Borrower must pay the upfront fees in the manner agreed between the relevant Administrative Parties and the Borrower.

24.3 **Commitment fee**

- 24.3.1 The Borrower must pay a commitment fee computed at the rate of 40 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.
- 24.3.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.
- 24.3.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

24.4 **Utilisation fee**

- 24.4.1 The Borrower must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate amount of all Loans exceeds 33.34 per cent. of the Total Commitments but is lower than or equal to 66.67 per cent. of the Total Commitments.
- 24.4.2 The Borrower must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate amount of all Loans exceeds 66.67 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 24.4.1 above is not payable in respect of any day for which the fee described in this sub-clause 24.4.2 is payable.
- 24.4.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.
- 24.4.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25. **INDEMNITIES AND BREAK COSTS**

25.1 **Currency indemnity**

- 25.1.1 The Borrower must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:
- (a) that Finance Party receiving an amount in respect of the Borrower's liability under the Finance Documents; or
 - (b) that liability being converted into a claim, proof, judgment or order,
- in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.
- 25.1.2 Unless otherwise required by law, the Borrower waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

25.2 **Other indemnities**

The Borrower shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

- 25.2.1 the occurrence of any Event of Default;
- 25.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or
- 25.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Borrower otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last day

of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

25.3 **Break Costs**

25.3.1 The Borrower must pay to each Lender its Break Costs within three Business Days of demand.

25.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:

(a) the interest (excluding Margin and Mandatory Costs) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

(b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

25.3.3 Each Lender must supply to the Facility Agent for the Borrower details of the amount of any Break Costs claimed by it under this Clause.

26. **EXPENSES**

26.1 **Initial costs**

The Borrower must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

26.2 **Subsequent costs**

The Borrower must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

26.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate) executed after the date of this Agreement and the syndication of the facility; and

26.2.2 any amendment, waiver or consent requested by or on behalf of the Borrower or specifically allowed by this Agreement.

26.3 **Enforcement costs**

The Borrower must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

27. **AMENDMENTS AND WAIVERS**

27.1 **Procedure**

27.1.1 Except as provided in this Clause 27, any term of the Finance Documents may be amended or waived with the agreement of the Borrower and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.

27.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 27.1.1 above. Any such amendment or waiver is binding on all the Parties.

27.2 **Exceptions**

27.2.1 An amendment or waiver that has the effect of changing or which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (c) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (d) an increase in, or an extension of, a Commitment or the Total Commitments or any requirement that a cancellation of Commitments reduces the Commitments of the Lenders rateably under the Facility;
- (e) a term of a Finance Document which expressly requires the consent of each Lender;
- (f) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (g) Clause 8.1 (*Mandatory prepayment – illegality*) or Clause 8.2 (*Mandatory prepayment – change of control*); or
- (h) this Clause,

may only be made with the consent of all the Lenders.

27.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party may only be made with the consent of that Administrative Party.

27.3 **Disenfranchisement of Defaulting Lenders**

27.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitment.

27.3.2 For the purposes of this Clause 27.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

27.4 **Replacement of a Defaulting Lender**

27.4.1 The Borrower may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 28 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 28 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender,

to a Lender or other bank, financial institution, trust, fund or other entity (a " **Replacement Lender** ") selected by the Borrower, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 28.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

27.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Borrower shall have no right to replace the Facility Agent;
- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Borrower to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 27.4.1 above; and
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents.

27.5 **Change of currency**

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Borrower) determines is necessary to reflect the change.

27.6 **Waivers and remedies cumulative**

The rights of each Finance Party under the Finance Documents:

- 27.6.1 may be exercised as often as necessary;
- 27.6.2 are cumulative and not exclusive of its rights under the general law; and
- 27.6.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

28. **CHANGES TO THE PARTIES**

28.1 **Assignments and transfers by the Borrower**

The Borrower may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders unless the assignment or transfer is to effect and complete a Permitted Reorganisation.

28.2 **Assignments and transfers by Lenders**

28.2.1 A Lender (the " **Existing Lender** ") may, subject to the following provisions of this Clause 28, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the " **New Lender** ").

28.2.2 Unless the Borrower and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.

- 28.2.3 An Existing Lender must consult with the Borrower for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.
- 28.2.4 The Facility Agent is not obliged to accept an assignment or to execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.
- 28.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:
- (a) the obligations are novated in accordance with the following provisions of this Clause 28; or
 - (b) the New Lender confirms to the Facility Agent and the Borrower in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are transferred to the New Lender.
- 28.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £1,750.
- 28.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

28.3 Procedure for transfer by way of novations

- 28.3.1 A novation is effected if:
- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
 - (b) the Facility Agent executes it.
- Subject to sub-clause 28.2.4 of Clause 28.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.
- 28.3.2 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.
- 28.3.3 Subject to Clause 28.9 (*Pro rata interest settlement*), on the Transfer Date:
- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
 - (b) the Existing Lender will be released from those obligations and cease to have those rights.

28.4 Limitation of responsibility of Existing Lender

- 28.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:
- (a) any Finance Document or any other document; or
 - (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document, and any representations or warranties implied by law are excluded.
- 28.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Borrower and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and
- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

28.4.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
- (b) support any losses incurred by the New Lender by reason of the non-performance by the Borrower of its obligations under any Finance Document or otherwise.

28.5 **Costs resulting from change of Lender or Facility Office**

If:

28.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and

28.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Borrower would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 12 (*Tax gross-up and indemnities*) or Clause 13 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 28.5 shall not apply:

- (i) in respect of an assignment or transfer made in the ordinary course of the primary syndication of the Facility; or
- (ii) in relation to Clause 12 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 12.6.1 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Borrower making the payment has not complied with its obligations under sub-clause 12.6.2 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*).

28.6 **Changes to the Reference Banks**

28.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Borrower) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

28.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the Facility Agent (after consultation with the Borrower) shall designate by notice to the Borrower and the Lenders.

28.7 **Copy of Transfer Certificate or Increase Confirmation to Borrower**

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Borrower a copy of that Transfer Certificate or Increase Confirmation.

28.8 **Security over Lenders' rights**

In addition to the other rights provided to Lenders under this Clause 28, each Lender may without consulting with or obtaining consent from the Borrower, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

28.8.1 any charge, assignment or other security to secure obligations to a federal reserve, central bank, governmental authority, agency or department (including Her Majesty's Treasury); and

28.8.2 in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or security shall:

(a) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or

(b) require any payments to be made by the Borrower or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

28.9 **Pro rata interest settlement**

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a " *pro rata basis* " to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 28.3 (*Procedure for transfer by way of novations*) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

28.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date (" **Accrued Amounts** ") and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and

28.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:

(i) when the Accrued Amounts become payable, those Accrued Amounts will be payable to the Existing Lender; and

(ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 28.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

28.10 **Disenfranchisement on Debt Purchase Transactions entered into by Relevant Persons**

28.10.1 For so long as a Holding Company of the Borrower or any of such Holding Company's Affiliates other than a member of the Group (a " **Relevant Person** ") (i) beneficially owns a Commitment or (ii) has entered into a sub-participation agreement relating to a Commitment or other agreement or arrangement having a substantially similar economic effect and such agreement or arrangement has not been terminated:

(a) in ascertaining the Majority Lenders or whether any given percentage (including for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents such Commitment shall be deemed to be zero; and

(b) for the purposes of Clause 26.2 (*Exceptions*), such Relevant Person or the person with whom it has entered into such sub-participation, other agreement or arrangement shall be deemed not to be a Lender (unless in the case of a person not being a Relevant Person it is a Lender by a virtue otherwise than by beneficially owning the relevant Commitment).

28.10.2 Each Lender shall, unless such Debt Purchase Transaction is an assignment or transfer, promptly notify the Facility Agent in writing if it knowingly enters into a Debt Purchase Transaction with a Relevant Person (a " **Notifiable Debt Purchase Transaction** "), such notification to be substantially in the form set out in Part I of Schedule 9 (*Forms of Notifiable Deb*

Purchase Transaction Notice).

28.10.3 A Lender shall promptly notify the Facility Agent if a Notifiable Debt Purchase Transaction to which it is a party:

- (a) is terminated; or
- (b) ceases to be with a Relevant Person,

such notification to be substantially in the form set out in Part II of the Schedule 9 (*Forms of Notifiable Debt Purchase Transaction Notice*).

28.10.4 Each Relevant Person that is a Lender agrees that:

- (a) in relation to any meeting or conference call to which all the Lenders are invited to attend or participate, it shall not attend or participate in the same if so requested by the Facility Agent or, unless the Facility Agent otherwise agrees, be entitled to receive the agenda or any minutes of the same; and
- (b) in its capacity as Lender, unless the Facility Agent otherwise agrees, it shall not be entitled to receive any report or other document prepared at the request of, or on the instructions of, the Facility Agent or one or more of the Lenders.

29. **CONFIDENTIALITY AND DISCLOSURE OF INFORMATION**

29.1 **Confidential Information**

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 29.2 (*Disclosure of Confidential Information*) and Clause 29.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

29.2 **Disclosure of Confidential Information**

Any Finance Party may disclose:

29.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 29.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;

29.2.2 to any person:

- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Borrower and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (c) appointed by any Finance Party or by a person to whom paragraphs (a) or (b) of sub-clause 29.2.2 above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
- (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in paragraphs (a) or (b) of sub-clause 29.2.2 above;

- (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 28.8 (*Security over Lenders' rights*);
- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Borrower;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to paragraphs (a), (b) and (c) of sub-clause 29.2.2 above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
- (ii) in relation to paragraph (d) of sub-clause 29.2.2 above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
- (iii) in relation to paragraphs (e), (f) and (g) of sub-clause 29.2.2 above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;

29.2.3 to any person appointed by that Finance Party or by a person to whom paragraph (a) or (b) of sub-clause 29.2.2 above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 29.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Borrower and the relevant Finance Party;

29.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Borrower if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

29.3 **Disclosure to numbering service providers**

29.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Borrower the following information:

- (a) name of the Borrower;
- (b) country of domicile of the Borrower;
- (c) place of incorporation of the Borrower;

- (d) date of this Agreement;
- (e) the names of the Facility Agent and the Arranger;
- (f) date of each amendment and restatement of this Agreement;
- (g) amount of Total Commitments;
- (h) currency of the Facility;
- (i) type of the Facility;
- (j) ranking of Facility;
- (k) Final Maturity Date for the Facility;
- (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
- (m) such other information agreed between such Finance Party and the Borrower,

to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

29.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Borrower by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

29.3.3 The Borrower represents that none of the information set out in paragraphs (a) to (m) of sub-clause 29.3.1 above is, nor will at any time be, unpublished price-sensitive information.

29.3.4 The Facility Agent shall notify the Borrower and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Borrower; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Borrower by such numbering service provider.

30. SET-OFF

A Finance Party may set off any matured obligation owed to it by the Borrower under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

31. PRO RATA SHARING

31.1 Redistribution

If any amount owing by the Borrower under this Agreement to a Lender (the " **recovering Lender** ") is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a " **recovery** "), then:

31.1.1 the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;

31.1.2 the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and

31.1.3 the recovering Lender must pay to the Facility Agent an amount equal to the excess (the " **redistribution** ").

31.2 **Effect of redistribution**

31.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Borrower under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

31.2.2 When the Facility Agent makes a distribution under sub-clause 31.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

31.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 31.2.2 above, the Borrower will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

31.2.4 If:

(a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Borrower; and

(b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 31.2.2 above will operate in reverse to the extent of the reimbursement.

31.3 **Exceptions**

Notwithstanding any other term of this Clause 31, a recovering Lender need not pay a redistribution to the extent that:

31.3.1 it would not, after the payment, have a valid claim against the Borrower in the amount of the redistribution; or

31.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

(a) the recovering Lender notified the Facility Agent of those proceedings; and

(b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

32. **SEVERABILITY**

If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

32.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

32.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

33. **COUNTERPARTS**

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

34. **NOTICES**

34.1 **In writing**

34.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:

- (a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or
- (b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.

34.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.

34.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

34.2 **Contact details**

34.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

34.2.2 The contact details of the Borrower for this purpose are:

Address:	Avonbank, Feeder Road, Bristol BS2 0TB
Fax number:	01179 332 108
Phone number:	01179 332 354
E-mail:	jhunt9@wsternpower.co.uk
Attention:	Julie Hunt

The contact details of the Facility Agent for this purpose are:

Address:	Mizuho Corporate Bank, Ltd. Bracken House One Friday Street London EC4M 9JA
Fax number:	+44 207 012 4053
E-mail:	Dawn.halstead@mhcb.co.uk
Attention:	Loan Agency

34.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

34.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

34.3 **Effectiveness**

34.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

34.3.2 A communication given under sub-clause 34.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

34.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

34.4 **The Borrower**

All formal communication under the Finance Documents to or from the Borrower must be sent through the Facility Agent.

34.5 **Communication when Facility Agent is Impaired Agent**

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

35. **LANGUAGE**

35.1.1 Any notice given in connection with a Finance Document must be in English.

35.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

36. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

37. **ENFORCEMENT**

37.1 **Jurisdiction**

37.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

37.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Borrower waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

37.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

THIS AGREEMENT has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
Barclays Bank PLC	£30,000,000	
Commonwealth Bank of Australia	£30,000,000	
HSBC Bank plc	£30,000,000	
Lloyds TSB Bank plc	£30,000,000	
Mizuho Corporate Bank, Ltd.	£30,000,000	
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	£30,000,000	
The Royal Bank of Scotland plc	£30,000,000	
Total	£210,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT DOCUMENTS

The Borrower

1. A certified copy of the constitutional documents of the Borrower.
2. A certified copy of a resolution of the board of directors or a committee of the board of directors of the Borrower approving the terms of, and the transactions contemplated by, the Finance Documents.
3. A specimen of the signature of each person authorised on behalf of the Borrower to execute or witness the execution of any Finance Document or to sign or send any document or notice in connection with any Finance Document.
4. A certificate of the Borrower (signed by a director) confirming that borrowing the Total Commitments would not cause any borrowing limit binding on the Borrower to be exceeded.
5. A certificate of an authorised signatory of the Borrower certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

Legal opinions

6. A legal opinion of Clifford Chance LLP, legal advisers to the Arranger and the Facility Agent addressed to the Finance Parties.

Other documents and evidence

7. Evidence that all fees and expenses then due and payable from the Borrower under this Agreement have been or will be paid no later than the first Drawdown Date.
 8. The Original Financial Statements.
 9. The Information Package.
 10. A copy of any other authorisation or other document, opinion or assurance which the Facility Agent notifies the Borrower is necessary or desirable in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document.
 11. Evidence that (i) any amounts outstanding under the Existing RCF have been or will, on the advance of the first Loan under this Agreement, be repaid in full, and (ii) all commitments under the Existing RCF have been or will, on the advance of the first Loan under this Agreement irrevocably cancelled in full.
-

**SCHEDULE 3
REQUESTS**

To: Mizuho Corporate Bank, Ltd. as Facility Agent

From: PPL WW Holdings Ltd.

Date: [•]

PPL WW Holdings Ltd. - £210,000,000 Revolving Facility Agreement dated [•] 2012 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [•]
 - (b) Amount: [•]
 - (c) Term: [•]
 - (d) Currency: [•]
3. Our payment instructions are: [•]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. [This Loan is to be made in [whole]/[part] for the purpose of refinancing [*identify maturing Loan*][The proceeds of this Loan should be credited to [*account*]].
6. We confirm that as at [*relevant testing date*] Consolidated EBITDA was [•] and Interest Payable was [•]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
7. We confirm that as at [*relevant testing date*] Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
8. This Request is irrevocable.

By:

PPL WW HOLDINGS LTD.

SCHEDULE 4
CALCULATION OF THE MANDATORY COST

1. The Mandatory Cost is an addition to the interest rate to compensate Lenders for the cost of compliance with (a) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.
2. On the first day of each Term (or as soon as possible thereafter) the Facility Agent shall calculate, as a percentage rate, a rate (the "**Additional Cost Rate** ") for each Lender, in accordance with the paragraphs set out below. The Mandatory Cost will be calculated by the Facility Agent as a weighted average of the Lenders' Additional Cost Rates (weighted in proportion to the percentage participation of each Lender in the relevant Loan) and will be expressed as a percentage rate per annum.
3. The Additional Cost Rate for any Lender lending from a Facility Office in a Participating Member State will be the percentage notified by that Lender to the Facility Agent. This percentage will be certified by that Lender in its notice to the Facility Agent to be its reasonable determination of the cost (expressed as a percentage of that Lender's participation in all Loans made from that Facility Office) of complying with the minimum reserve requirements of the European Central Bank in respect of loans made from that Facility Office.
4. The Additional Cost Rate for any Lender lending from a Facility Office in the United Kingdom will be calculated by the Facility Agent as follows:

(a) in relation to a Sterling Loan:

$$\frac{AB + C(B - D) + E \times 0.01}{100 - (A + C)} \quad \text{per cent annum}$$

(b) in relation to a Loan in any currency other than sterling:

$$\frac{E \times 0.01}{300} \quad \text{per cent. per annum}$$

Where:

- A is the percentage of Eligible Liabilities (assuming these to be in excess of any stated minimum) which that Lender is from time to time required to maintain as an interest free cash ratio deposit with the Bank of England to comply with cash ratio requirements.
 - B is the percentage rate of interest (excluding the Margin and the Mandatory Cost and, if the Loan is an Unpaid Sum, the additional rate of interest specified in sub-clause 9.3.1 of Clause 9.3 (*Interest on overdue amounts*)) payable for the relevant Term on the Loan.
 - C is the percentage (if any) of Eligible Liabilities which that Lender is required from time to time to maintain as interest bearing Special Deposits with the Bank of England.
 - D is the percentage rate per annum payable by the Bank of England to the Facility Agent on interest bearing Special Deposits.
 - E is designed to compensate Lenders for amounts payable under the Fees Rules and is calculated by the Facility Agent as being the average of the most recent rates of charge supplied by the Reference Banks to the Facility Agent pursuant to paragraph 7 below and expressed in pounds per £1,000,000.
5. For the purposes of this Schedule:
 - (a) "**Eligible Liabilities** " and "**Special Deposits** " have the meanings given to them from time to time under or pursuant to the Bank of England Act 1998 or (as may be appropriate) by the Bank of England;
 - (b) "**Fees Rules** " means the rules on periodic fees contained in the FSA Supervision Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits;

- (c) " **Fee Tariffs** " means the fee tariffs specified in the Fees Rules under the activity group A.1 Deposit acceptors (ignoring any minimum fee or zero rated fee required pursuant to the Fees Rules but taking into account any applicable discount rate);
 - (d) " **Tariff Base** " has the meaning given to it in, and will be calculated in accordance with, the Fees Rules; and
 - (e) " **Unpaid Sum** " means any sum due and payable but unpaid by the Borrower under the Finance Documents.
6. In application of the above formulae, A, B, C and D will be included in the formulae as percentages (i.e. 5 per cent. will be included in the formula as 5 and not as 0.05). A negative result obtained by subtracting D from B shall be taken as zero. The resulting figures shall be rounded to four decimal places.
7. If requested by the Facility Agent, each Reference Bank shall, as soon as practicable after publication by the Financial Services Authority, supply to the Facility Agent, the rate of charge payable by that Reference Bank to the Financial Services Authority pursuant to the Fees Rules in respect of the relevant financial year of the Financial Services Authority (calculated for this purpose by that Reference Bank as being the average of the Fee Tariffs applicable to that Reference Bank for that financial year) and expressed in pounds per £1,000,000 of the Tariff Base of that Reference Bank.
8. Each Lender shall supply any information required by the Facility Agent for the purpose of calculating its Additional Cost Rate. In particular, but without limitation, each Lender shall supply the following information on or prior to the date on which it becomes a Lender:
- (a) the jurisdiction of its Facility Office; and
 - (b) any other information that the Facility Agent may reasonably require for such purpose.
- Each Lender shall promptly notify the Facility Agent of any change to the information provided by it pursuant to this paragraph.
9. The percentages of each Lender for the purpose of A and C above and the rates of charge of each Reference Bank for the purpose of E above shall be determined by the Facility Agent based upon the information supplied to it pursuant to paragraphs 7 and 8 above and on the assumption that, unless a Lender notifies the Facility Agent to the contrary, each Lender's obligations in relation to cash ratio deposits and Special Deposits are the same as those of a typical bank from its jurisdiction of incorporation with a Facility Office in the same jurisdiction as its Facility Office.
10. The Facility Agent shall have no liability to any person if such determination results in an Additional Cost Rate which over or under compensates any Lender and shall be entitled to assume that the information provided by any Lender or Reference Bank pursuant to paragraphs 3, 7 and 8 above is true and correct in all respects.
11. The Facility Agent shall distribute the additional amounts received as a result of the Mandatory Cost to the Lenders on the basis of the Additional Cost Rate for each Lender based on the information provided by each Lender and each Reference Bank pursuant to paragraphs 3, 7 and 8 above.
12. Any determination by the Facility Agent pursuant to this Schedule in relation to a formula, the Mandatory Cost, an Additional Cost Rate or any amount payable to a Lender shall, in the absence of manifest error, be conclusive and binding on all Parties.
13. The Facility Agent may from time to time, after consultation with the Borrower and the Lenders, determine and notify to all Parties any amendments which are required to be made to this Schedule in order to comply with any change in law, regulation or any requirements from time to time imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) and any such determination shall, in the absence of manifest error, be conclusive and binding on all Parties.
-

SCHEDULE 5
FORM OF TRANSFER CERTIFICATE

To: Mizuho Corporate Bank, Ltd. as Facility Agent

From: [THE EXISTING LENDER] (the " **Existing Lender** ") and [THE NEW LENDER] (the " **New Lender** ")

Date: [•]

PPL WW Holdings Ltd. - £210,000,000 Revolving Facility Agreement dated [•] 2012 (as amended and restated from time to time) (the "Agreement")

We refer to the Agreement. This is a Transfer Certificate.

1. The Existing Lender transfers by novation to the New Lender all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement referred to in the Schedule below in accordance with the terms of the Agreement.
2. The proposed Transfer Date is [•].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Borrower, that it is:
 - (a) [a Qualifying Lender (other than a Treaty Lender);]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
 - (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.]**
6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Borrower) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Borrower is generally subject to full exemption from UK withholding tax and notifies the Borrower that the Borrower must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

* Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.

** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 12.1 (*Definitions*).

*** Insert jurisdiction of tax residence.

**** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.
-

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[**EXISTING LENDER**]

By:

The Transfer Date is confirmed by the Facility Agent as [•].

[•]

By:

[**NEW LENDER**]

By:



**SCHEDULE 6
FORM OF COMPLIANCE CERTIFICATE**

To: Mizuho Corporate Bank, Ltd. as Facility Agent

From: PPL WW Holdings Ltd.

Date: [•]

PPL WW Holdings Ltd. - £210,000,000 Revolving Facility Agreement dated [•] 2012 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Compliance Certificate.
2. We confirm that as at [*relevant testing date*], Consolidated EBITDA was [•] and Interest Payable was [•], therefore the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
3. We confirm that as at [relevant testing date], Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:

[•].
5. [We confirm that no Default is outstanding as at [relevant testing date].] ¹

PPL WW HOLDINGS LTD.

By:

Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

SCHEDULE 7
FORM OF INCREASE CONFIRMATION

To: Mizuho Corporate Bank, Ltd. as Facility Agent, and PPL WW Holdings Ltd. as Borrower
From: [the *Increase Lender*] (the "**Increase Lender** ")
Dated: [•]

PPL WW Holdings Ltd. - £210,000,000 Revolving Facility Agreement dated [•] 2012 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
2. We refer to Clause 2.2 (*Increase*) of the Agreement.
3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the "**Relevant Commitment** ") as if it was an Original Lender under the Agreement.
4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the "**Increase Date** ") is [•].
5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule.
7. The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in Clause 2.2 (*Increase*).
8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Borrower, that it is:
 - (a) [a Qualifying Lender (other than a Treaty Lender);]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
 - (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.]**
10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Borrower) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Borrower is generally subject to full exemption from UK withholding tax and notifies the Borrower that the Borrower must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
- ** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 12.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
 12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
 13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.
-

**SCHEDULE 8
TIMETABLES**

	Loans in euro	Loans in sterling	Loans in other currencies
Facility Agent notifies the Borrower if a currency is approved as an Optional Currency in accordance with Clause 4.3 (<i>Conditions relating to Optional Currencies</i>)	D-10 10 a.m.	N/A	D-10 10:00 a.m.
Delivery of a duly completed Request in accordance with Clause 5.1 (<i>Giving of Requests</i>)	D-3 10.00am	D-1 10.00am	D-3 10.00am
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 (<i>Advance of Loan</i>) and notifies the Lenders of the Loan in accordance with Clause 5.4 (<i>Advance of Loan</i>)	D-3 4.00pm	D-1 4.00pm	D-3 4.00pm
Facility Agent receives a notification from a Lender under Clause 6.2 (<i>Unavailability of a currency</i>)	D-2 9.00am	D 10.00am	D-2 10.00am
Agent gives notice in accordance with Clause 6.2 (<i>Unavailability of a currency</i>)	D-2 4.00pm	D 4.00pm	D-2 4.00pm
LIBOR or EURIBOR is fixed	Rate Fixing Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Rate Fixing Day as of 11:00 a.m.	Rate Fixing Day as of 11:00 a.m.

"D" = date of drawdown

"D- X"= Business Days prior to date of drawdown

SCHEDULE 9
FORMS OF NOTIFIABLE DEBT PURCHASE TRANSACTION NOTICE

PART I
FORM OF NOTICE ON ENTERING INTO NOTIFIABLE DEBT PURCHASE TRANSACTION

To: [] as Facility Agent

From: [*The Lender*]

Dated:

PPL WW Holdings Ltd. - £210,000,000 Revolving Facility
dated [] (the "Facilities Agreement")

1. We refer to paragraph (b) of clause 28.10 (*Disenfranchisement on Debt Purchase Transactions entered into by Relevant Persons*) of the Facilities Agreement. Terms defined in the Facilities Agreement have the same meaning in this notice unless given a different meaning in this notice.
2. We have entered into a Notifiable Debt Purchase Transaction.
3. The Notifiable Debt Purchase Transaction referred to in paragraph 2 above relates to [*insert amount (of that Commitment) to which the relevant Debt Purchase Transaction applies*]

[Lender]

By:

PART II
FORM OF NOTICE ON TERMINATION OF NOTIFIABLE DEBT PURCHASE TRANSACTION/NOTIFIABLE DEBT PURCHASE TRANSACTION CEASING TO BE WITH RELEVANT PERSON

To: [] as Agent

From: [*The Lender*]

Dated:

PPL WW Holdings Ltd. - £210,000,000 Facility Agreement
dated [] (the "Facilities Agreement")

1. We refer to paragraph (c) of clause 28.10 (*Disenfranchisement on Debt Purchase Transactions entered into by Relevant Persons*) of the Facilities Agreement. Terms defined in the Facilities Agreement have the same meaning in this notice unless given a different meaning in this notice.
2. A Notifiable Debt Purchase Transaction which we entered into and which we notified you of in a notice dated [•] has [terminated]/ [ceased to be with a Relevant Person].
3. The Notifiable Debt Purchase Transaction referred to in paragraph 2 above relates to [*insert amount (of that Commitment) to which the relevant Debt Purchase Transaction applies*]

[Lender]

By:

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[*insert relevant details*]

[*Facility office address, fax number and attention details for notices and account details for payments*]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [•].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)



- (a) Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.
- (b) The principles of construction set out in the Agreement will have effect as if set out in this Deed.
- (c) Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

- (a) make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or
- (b) secure, in any manner, all or any part of the Subordinated Debt; or
- (c) defease, in any manner, all or any part of the Subordinated Debt; or
- (d) give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or
- (e) procure any other person to do any of the acts or take any of the actions referred to paragraphs (a) to (d) above.

2.3 Undertakings of the Subordinated Creditor

- (a) The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (i) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
 - (ii) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
- (b) The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
- (c) The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (i) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
 - (ii) initiate or support or take any steps with a view to, or which may lead to:
 - I. any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - II. any voluntary arrangement or assignment for the benefit of creditors; or
 - III. any similar proceedings,

involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;

- (iii) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
 - (iv) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).
- (d) If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.
- (e) The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 21.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- (a) the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- (b) any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the " **rights** ") made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- (c) if the trust referred to in paragraph (b) above or paragraph (d) of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- (d) the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph (b) above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent's own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and
- (e) the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph (b) above or to do anything which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. SET-OFF

- (a) The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.
- (b) If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph (b) of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. NEW MONEY

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the

facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. PROTECTION OF SUBORDINATION

- (a) The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.
- (b) Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. MISCELLANEOUS

- (a) This Deed overrides anything in any Subordinated Finance Document to the contrary.
- (b) Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.
- (c) This Deed is a Finance Document.

7. ASSIGNMENT

- (a) The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.
- (b) The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. TRUSTS

- (a) The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.
- (b) The perpetuity period for each trust created by this Deed shall be 80 years.

9. TERMINATION

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. GOVERNING LAW

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. JURISDICTION

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: **MIZUHO CORPORATE BANK, LTD.**, as Facility Agent acting on behalf of the Lenders.

To: **PPL WW HOLDINGS LTD.**

From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the " **Acceding Subordinated Creditor** ") in relation to the subordination deed (the " **Subordination Deed** ") dated [•] between, among others, PPL WW Holdings Ltd. as Company, Mizuho Corporate Bank, Ltd. as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **PPL WW HOLDINGS LTD.**)
acting by)
Director

In the presence of:

Witness's Signature:
Name:
Address:

Company contact details:

Address: Avonbank,
Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED)
by [**ACCEDING SUBORDINATED CREDITOR**])
acting by)
Director

In the presence of:

Witness's Signature:
Name:
Address:

Company contact details:

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)
by **MIZUHO CORPORATE BANK, LTD.**)
acting by)
Director

In the presence of:

Witness's Signature:
Name:

Address:

Company contact details:

Facility Agent contact details:

Address: Bracken House
 One Friday Street
 London EC4M 9JA

Annex 2
Form of Certificate

To: Mizuho Corporate Bank, Ltd. as Facility Agent

From: PPL WW Holdings Ltd.

Date: [●]

PPL WW Holdings Ltd. - £210,000,000 Revolving Facility Agreement dated [●] 2012 (as amended and restated from time to time) (the "Agreement") and Subordination Deed dated [●] (as amended and restated from time to time) (the "Deed")

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make [*insert type of payment*] of [*insert amount and currency*] under [*insert description of relevant Subordinated Finance Document*] on [*insert date of payment*].
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 19 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

PPL WW HOLDINGS LTD.

By:

Director

By:

Director

SIGNATORIES

Company

EXECUTED as a DEED)
by **PPL WW HOLDINGS LTD.**)
acting by)
Director

In the presence of:

Witness's Signature:

Name:

Address:

Company contact details:

Address: Avonbank,
Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Subordinated Creditor

EXECUTED as a DEED)
by **[SUBORDINATED CREDITOR]**)
acting by)
Director

In the presence of:

Witness's Signature:

Name:

Address:

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED
by **MIZUHO CORPORATE BANK, LTD.**
acting by

)
)
)

.....
Director

In the presence of:

Witness's Signature:

Name:

Address:

Facility Agent contact details:

Address: Bracken House
 One Friday Street
 London EC4M 9JA



SCHEDULE 11
FORM OF DISTRIBUTION CERTIFICATE

To: Mizuho Corporate Bank, Ltd. as Facility Agent

From: [PPL WW Holdings Ltd.]

Date: [●]

PPL WW Holdings Ltd. - £210,000,000 Facility Agreement dated [●] 2012 (as amended and restated from time to time) (the "Facility Agreement")

1. We refer to the Facility Agreement. Capitalised terms defined in the Facility Agreement have the same meaning in this Distribution Certificate, unless given a different meaning in this Distribution Certificate
2. We confirm that the Company will make [insert type of payment] of [insert amount and currency] on [insert date of payment].
3. We confirm that, taking into account such payment, the Borrower will be in compliance with its obligations under Clause 19 (*Financial Covenants*) of the Facility Agreement on each of the next two Measurement Dates.

PPL WW HOLDINGS LTD.

By:

Director

By:

Director

SIGNATORIES

THE BORROWER

Signed by)
for and on behalf of)
)
PPL WW HOLDINGS LTD.)

Address: Avonbank
Feeder Road
Bristol BS2 0TB
Fax: +44 (0)1179 332 108

THE JOINT COORDINATORS AND BOOKRUNNERS

Signed by)
for and on behalf of)
LLOYDS TSB BANK PLC)

Address: 10 Gresham Street
London EC2V 7AE
Tel: +44 20 7158 2908
Email: Nick.Walker@lloydsbanking.com

Signed by)
for and on behalf of)
MIZUHO CORPORATE BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA

THE MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
)
BARCLAYS BANK PLC)

Address: Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
Tel: +44 (0) 20 7773 2190
Fax: +44 (0) 20 7773 1840

Signed by)
for and on behalf of)
)
COMMONWEALTH BANK OF AUSTRALIA)

Address: Senator House
Level 3
85 Queen Victoria Street
London
EC4V 4HA
Tel: (0)20 7710 3956
Fax: (0)20 7329 6611
E-mail: john.russell@cba.com.au

Signed by)
for and on behalf of)
HSBC BANK PLC)
)

Address: 3 Rivergate
Bristol, BS1 6ER
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Signed by)
for and on behalf of)
LLOYDS TSB BANK PLC)

Address: 10 Gresham Street
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E-mail: Nick.Walker@lloydsbanking.com

Signed by)
for and on behalf of)
MIZUHO CORPORATE BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA

Signed by)
for and on behalf of)
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.)

Address: Ropemaker Place
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Signed by)
for and on behalf of)
)
THE ROYAL BANK OF SCOTLAND PLC)

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E-mail: www.rbs.com/mib

THE ORIGINAL LENDERS

Signed by)
for and on behalf of)
)
BARCLAYS BANK PLC)

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Signed by)
for and on behalf of)
)
COMMONWEALTH BANK OF AUSTRALIA)

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Signed by)
for and on behalf of)
)
HSBC BANK PLC)

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E-mail: sharondaw@hsbc.com

Signed by)
for and on behalf of)

LLOYDS TSB BANK PLC)

Address: 10 Gresham Street
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Attention: Nick Walker (for credit matters)
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E-mail: Nick.Walker@lloydsbanking.com

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Signed by)
for and on behalf of)

MIZUHO CORPORATE BANK, LTD.)

Address: Bracken House
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Signed by)
for and on behalf of)

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.)

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mayumi.saito-o'connor@uk.mufg.jp

Signed by)
for and on behalf of)
THE ROYAL BANK OF SCOTLAND PLC)
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THE FACILITY AGENT

Signed by)
for and on behalf of)
)
MIZUHO CORPORATE BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA

TRUST AGREEMENT

Between

PPL CORPORATION

And

FIRST UNION NATIONAL BANK AS TRUSTEE

PPL EMPLOYEE NON-QUALIFIED PLAN TRUST

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TRUST AGREEMENT
Between
PPL CORPORATION
And
FIRST UNION NATIONAL BANK, AS TRUSTEE

This Agreement and Declaration of Trust (hereinafter called the "Trust Agreement") made as of the 1st day of April 2001, as amended, by and between PPL Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal place of business at Allentown, Pennsylvania, hereinafter referred to as "PPL," and First Union National Bank, with its principal place of business at Charlotte, North Carolina, hereinafter called the "Trustee",

WITNESSETH:

WHEREAS, PPL has heretofore adopted a nonqualified deferred compensation plan and agreement for certain of its Directors (such Directors and their designated beneficiaries where applicable being hereinafter referred to collectively as the "Participants" and individually as a "Participant") and may hereafter adopt other such plans or agreements; and

WHEREAS, PPL wishes to establish this grantor trust, hereinafter called the "Trust," for the collective investment of such property as may from time to time be contributed thereto, subject only to the claims of PPL's general creditors in the event of PPL's Insolvency (as defined in Article III); and

WHEREAS, PPL wishes the Trust to be used in connection with such plan or plans or agreements as it may from time to time designate under Article X of this

Trust Agreement (which plans and agreements are hereinafter called the "Plans" collectively or the "Plan" individually), although the Trust may not necessarily hold sufficient assets to satisfy all of the benefits to be provided under the Plans; and

WHEREAS, the Trustee is willing to hold and administer such trust assets pursuant to the terms of this Trust Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual

covenants herein contained, PPL and the Trustee intending to be legally bound hereby, do covenant and agree as follows:

Article 1
Establishment, Purpose and Nature of Trust Fund

1.1 PPL hereby establishes with the Trustee a trust consisting of such cash and/or marketable securities as shall be paid to the Trustee with respect to the Plans pursuant to Article II, Paragraph 2.1. The Trust shall be known as the PPL EMPLOYEE NONQUALIFIED PLANS TRUST. The creation of this Trust is not intended to create an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974. The Trust is intended to constitute an unfunded arrangement and shall not affect the status of the Plans as unfunded plans maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. 1.2 The Trust shall consist of all contributions to the Trust by PPL and the earnings and losses thereon (including unrealized gains and losses), less disbursements therefrom (hereinafter called the "Trust Fund"). The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of PPL and shall be used exclusively for the uses and purposes of Participants, and general creditors as herein set forth. Participants shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plans and this Trust Agreement shall be mere unsecured contractual rights of Participants against PPL. Any assets held by the Trust will be subject to the claims of PPL's general creditors under federal and state law in the event PPL becomes Insolvent.

1.3 The Trust hereby established is revocable by PPL; provided, however, that it shall be irrevocable (a) during the pendency of a Potential Change in Control and (b) upon a Change in Control, each as defined in Paragraph 10.3.

1.4 The Trust Fund shall be held by the Trustee, subject to the reservation of powers under Paragraphs 10.1 and 10.2 of Article X, for the purpose of providing benefits in accordance with the terms of the Plans. The Trustee shall pay all benefits as they become due and payable pursuant to the Plans in accordance with Article III and Article IV to the extent there are sufficient funds in the Trust to do so. Notwithstanding the foregoing, the Trust Fund shall be treated as an asset of PPL and shall remain subject to the claims of PPL's general creditors in the event of PPL becomes Insolvent.

1.5 The rights, powers, titles, duties, discretions and immunities of the Trustee shall be governed solely by this Trust Agreement and applicable state and federal law.

1.6 The Trust is intended to be a grantor trust, of which PPL is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, Sections 671-678, and any successor statute thereto, and shall be construed accordingly.

1.7 The Plans and any persons who may be entitled to benefit payments under the terms of the Plans shall not have any preferred claim on the Trust Fund. Persons who may be entitled to benefit payments under the terms of the Plans shall have no greater right or status than an unsecured creditor of PPL with respect to such amounts.

1.8 Notwithstanding anything else in this Agreement to the contrary: (1) the Trustee is not a party to, and has, except as expressly provided herein, no duties or responsibilities under, the Plans; (2) PPL shall be required to certify in writing to the Trustee the identity of any party or person, whether or not a fiduciary named in any Plans, which has the power to manage and control Plan assets, and the Trustee shall be entitled to rely upon such certification until notified otherwise in writing by PPL; and (3) in any case in which a provision of this Agreement conflicts with any provision in any Plans, this Agreement shall control. Notwithstanding the preceding sentence, the Trustee reserves the right to seek a judicial and/or administrative determination as to its proper course of action under this Agreement.

1.9 The terms of the Plans shall govern the amount, form and timing of benefit payments to which a Participant is entitled under the Plans. The Trustee shall have no right or obligations with respect to any of the provisions of the Plans except as provided in this Trust Agreement.

Article II
Contributions to Trust Fund and Allocation to Plan Accounts

2.1 Subject to the provisions of Paragraph 2.2, PPL may from time to time make, or cause to be made, such contributions to the Trust Fund of cash and/or marketable securities as it determines to be appropriate in its sole discretion and are acceptable to the Trustee, which shall be held by the Trustee for the benefit of the Participants covered by each respective Plan, subject to the reservation of powers under Paragraphs 10.1 and 10.2 of Article X and the claims of PPL's general creditors in the event PPL becomes Insolvent. The Trustee shall be accountable for all such contributions, but shall have no duty to determine that the amounts thereof comply with the provisions of the Plans. PPL shall designate the Plan Account or Accounts as defined in Paragraph 2.3 to which each contribution shall be allocated and the amount of such contribution to be allocated to each such Plan Account.

2.2 Immediately prior to a Change in Control (as defined in Paragraph 10.3), the Chief Executive Officer of PPL (or his or her designee) shall authorize an irrevocable cash contribution to be made to the Trust in an amount equal to the amount that, in the determination of PPL, is sufficient to pay each Participant or beneficiary the benefits to which Participants or their beneficiaries would be entitled pursuant to the terms of the Plans as of the date of the Change in Control assuming each Participant terminated employment as of such date under circumstances giving rise to payment of benefits under the Plans. After a Change in Control, the Trustee may compel any contribution that is required under the Trust. Within 60 days following the end of each Plan year ending after a Change in Control has occurred, PPL shall be required to irrevocably deposit additional cash or other property to the Trust in an amount sufficient and to the extent necessary, to pay each Participant or beneficiary the benefits payable pursuant to the terms of the Plans as of the close of the Plan years.

2.3 The Trustee shall hold the Trust Fund without distinction as to principal or income as a single commingled fund, but for bookkeeping purposes shall maintain a separate account (hereinafter called a "Plan Account" or an "Account") reflecting the interest of each Plan in the Trust Fund. Each Plan Account shall consist of contributions to and payments from the Trust Fund which are allocable to each such Plan, and the earnings thereon, less disbursements therefrom attributable to the interest of each Plan in the entire Trust Fund. The Trustee shall advise the Accounting Party (as defined in Paragraph 2.4 below) of the Fair Market Value (as defined in Paragraph 2.5 below) of assets in the Trust Fund as of the close of each calendar year of the Trust, or at such more frequent intervals as may be mutually agreed upon between the Accounting Party and Trustee, among the Plan Accounts based upon the actual return of each Plan Account.

2.4 For purposes of this Trust Agreement, the Accounting Party is PPL prior to the occurrence of a Change in Control, and after the occurrence of a Change in Control, in lieu of PPL, a committee composed of three members appointed by the Board of Directors of PPL prior to the occurrence of a Change in Control. Any vacancy on the committee after the occurrence of a Change in Control (arising for any reason, including the failure of the Board of Directors of PPL to appoint three members willing to serve on the committee or the death or resignation of any member) will be filled by the employee or former employee of PPL with an accrued benefit under any of the Plans designated by the remaining members or member of the committee, who is willing to serve as a member of the committee. If the remaining members of the committee cannot agree on a new member or there are no members of the committee (for any reason, including the failure of the Board of Directors of PPL to appoint prior to the occurrence of a Change in Control any person who is willing to serve on the committee or the death or resignation of all members) any vacancy after the occurrence of a Change in Control shall be filled by the Participant with the largest accrued benefit under the Plans and who is willing to serve as a member. If at any time after an occurrence of a Change in Control, there are no members of the committee willing or able to serve, the determination as to the Participant with the largest accrued benefit under the Plans shall be made by the Trustee. In the event that there are less than three persons who are willing to serve as members, the committee shall consist of the number of such persons who are willing to serve as members.

2.5 For purposes of this Trust Agreement, "Fair Market Value" for any security shall be determined as follows:

(a) securities listed on the New York Stock Exchange, the American Stock Exchange or any other recognized exchange shall be valued at their last sale prices on the exchange on which securities are principally traded on the valuation date (NYSE-Composite Transactions or AMEX-Composite Transactions prices to prevail on any security listed on either of these exchanges as well as on another exchange); and where no sale is reported for that date, the last bid price shall be used.

(b) all other securities and assets shall be valued at their market values as fixed by the Trustee's staff regularly engaged in such activities.

Article III
Cessation of Payments from
Trust Fund While Company Insolvent

3.1 The Trust Fund shall be subject to claims of general creditors of PPL in the event PPL becomes Insolvent, and at any time the Trustee has actual knowledge, or has determined, that PPL is Insolvent, the Trustee shall deliver the Trust Fund to satisfy such

claims as a court of competent jurisdiction may direct. PPL shall be considered "Insolvent" for purposes of this Trust Agreement if (1) PPL is unable to pay its debts as they become due or (2) PPL is subject to a pending proceeding as a debtor or a debtor-in-possession under the federal Bankruptcy Code, 11 U.S.C. 101 et seq. (or any successor federal statute) .

3.2 At all times during the continuance of this Trust, as provided in Section 1.3 hereof, the principal and income of the Trust shall be subject to claims of general creditors of PPL under federal and state law as set forth below.

3.3 The Board of Directors and the Chief Executive Officer of PPL shall have the duty to inform the Trustee in writing that PPL has become Insolvent and the basis on which they consider PPL to be Insolvent. If a person claiming to be a creditor of PPL alleges in writing to the Trustee that PPL has become Insolvent, the Trustee shall determine whether PPL is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to Participants or their beneficiaries.

3.4 If the Board of Directors or the Chief Executive Officer of PPL informs the Trustee in writing that PPL has become Insolvent, the Trustee shall independently determine, within a reasonable time that in no event shall exceed sixty days after receipt of such notice, whether PPL is Insolvent and, pending such determination, the Trustee shall discontinue payments from the Trust Fund, shall hold the Trust Fund for the benefit of PPL's general creditors, and shall resume payments from the Trust Fund only after the Trustee has determined that PPL is not Insolvent (or is no longer Insolvent, if the Trustee initially determined PPL to be Insolvent) .

3.5 If at any time the Trustee has determined that PPL is Insolvent, the Trustee shall discontinue payments to Participants and shall hold the assets of the Trust for the benefit of PPL's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Participants or their beneficiaries to pursue their rights as general creditors of PPL with respect to benefits due under the Plans or otherwise.

3.6 Trustee shall resume the payment of benefits to Participants in accordance with Article IV of this Trust Agreement only after the Trustee has determined that PPL is not Insolvent (or is no longer Insolvent). If the Trustee discontinues payments from the Trust Fund and subsequently resumes such payments, the first payments following such discontinuance shall include the aggregate amount of all payment's which would have been made to Participants under Article IV during the period of such discontinuance (together with interest based upon the daily average, as determined by the Trustee, of the Average Prime Rate Charged by Banks (Percent) as published in the Business Conditions Digest, or any successor publication, of the Social and Economic Statistics Administration, Bureau of Economic Analysis, of the U.S. Department of Commerce, or any successor governmental agency), less the aggregate amount of payments made to any such persons by or on behalf of PPL in lieu of the

payments provided for in Article IV during any such period of discontinuance.

3.7 Except as provided in Paragraph 3.3 or 3.4, or unless the Trustee has actual knowledge that PPL is Insolvent, the Trustee shall have no duty to inquire whether PPL is Insolvent. The Trustee may in all events rely on such evidence concerning PPL's insolvency as may be a furnished to the Trustee which will give the Trustee a reasonable basis for making a determination concerning PPL's insolvency.

3.8 Nothing in this Trust Agreement shall in any way diminish any rights of a person to pursue his rights as a general creditor of PPL under the Plans.

Article IV
Payments from Trust Fund While Company Solvent

4.1 All payments from the Trust Fund while PPL is solvent shall be made by the Trustee only to such persons who at any time prior to the occurrence of a Change in Control were employees of PPL, or any of its subsidiaries, and, in such manner, at such times, and in such amounts as required by the terms of each respective Plan in effect when such payment is made or, if such payment is made after a Change in Control occurs, as required by the terms of each respective Plan in effect when any such Change in Control occurs.

4.2 Immediately preceding the occurrence of a Change in Control, PPL shall deliver to the Trustee: a) a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Participant, that provides a formula or other instructions acceptable to the Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plans), and the time of commencement for payment of such amounts, and b) copies of all then current Plans and any subsequent amendments thereto. Except as otherwise provided herein, the Trustee shall make payments to the Participants in accordance with such Payment Schedule. The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plans and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by PPL.

4.3 PPL hereby agrees that the Accounting Party (as defined in Section 2.4) shall have the exclusive responsibility, and the Trustee shall not have any responsibility or duty under this Trust Agreement for determining that any change in the Payment Schedule is in accordance with the terms of the Plan and applicable law, including without limitation, the amount, timing or method of payment and the identity of each person to whom such payments shall be made. The Trustee shall have no responsibility or duty to determine the tax effect of any payment or to see to the application of any payment.

4.4 The entitlement of a Participant to benefits under the Plans shall be determined under the Plans, and any claim for such benefits shall be considered and reviewed under the procedures, if any, set out in the Plans.

4.5 Notwithstanding anything contained in Paragraph 4.1, PPL may make payment of benefits directly to Participants as they become due under the terms of the Plans. PPL shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to Participants. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plans, PPL shall make the balance of each such payment as it falls due. The Trustee shall notify PPL where principal and earnings are not sufficient. The Trustee shall have no responsibility to inquire whether payments have been made pursuant to the Plans in question.

4.6 In no event shall the Trustee knowingly cause any payment or distribution to be made from the Trust Fund pursuant to the terms of any Plan for any purpose in an amount which is in excess of the then current balance of the Plan Account (as defined in Section 2.3) attributable to that Plan.

4.7 After the occurrence of a Change in Control, if a Participant does not receive a payment that the Participant believes he or she has become entitled to under any Plan, he or she shall notify the Trustee of such entitlement. Within thirty (30) days of its receipt of such notice, the Trustee shall determine whether the terms of the Plan dictate that the Participant is entitled to a payment. If the Trustee determines that a payment is required, the Trustee shall make the payment to the Participant as soon as practicable, but in no event shall the payment be made later than thirty (30) days after the expiration of the initial thirty-day period. The Trustee shall provide PPL with written confirmation of the fact and amount of such payment after it is made. The Trustee's decision shall be final and binding, and the Participant shall be notified of the decision in writing within ten (10) days. The notice shall include specific reasons for the decision, including specific references to the pertinent Plan provisions on which the decision is based, and shall be written in a manner calculated to be understood by the Participant. The provisions of this Paragraph 4 . 7 shall apply only after the occurrence of a Change in Control. The Trustee may rely upon direction from the Accounting Party in making such determinations.

4.8 The Trustee shall not be liable for any payment made in good faith without actual notice or knowledge of the changed condition or status of any recipient thereof. If the Trustee has responsibility for benefit payments and if any payment is not

claimed, the Trustee shall retain the payment as part of the Trust Fund.

4.9 Except as provided in this Article IV, after the Trust has become irrevocable, PPL shall have no right or power to direct the Trustee to return to PPL or to divert to others any of the Trust assets before all payments of benefits have been made to Participants and their beneficiaries pursuant to the terms of the Plans and all expenses of the Trust have been paid. At any time prior to the Trust becoming irrevocable, however, PPL shall have the right or power to direct the Trustee to return to PPL any of the assets of the Trust.

Article V
Responsibilities of Trustee

5.1 Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims (the "Prudent Man Standard of Care"), provided however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by PPL or the Accounting Party which is contemplated by, and in conformity with, the terms of the Plan or this Trust and is given in writing by PPL or the Accounting Party. In the event of a dispute between PPL and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute. The Trustee shall not be responsible for the title, validity or genuineness of any property or evidence of title thereto received by it or delivered by it pursuant to this Trust Agreement and shall be held harmless in acting upon any notice, request, direction, instruction, consent, certification or other instrument believed by it to be genuine and delivered by the proper party or parties. Under no circumstances shall Trustee be liable for consequential, special, or speculative damages under the Trust Agreement even if the Trustee is advised as to the possibility thereof. It is understood and agreed that Trustee shall be under no duty to take any action other than herein specified with respect to any securities or other property at any time deposited hereunder unless specifically agreed to by the Trustee in writing or as otherwise provided in this Trust Agreement. Subject to the Accounting Party's power of investment direction under Article X, the Trustee shall have exclusive authority and discretion to hold, manage, care for and protect the Trust Fund and shall have the following powers and discretions in addition to those conferred bylaw:

(a) To invest and reinvest the Trust Fund in such equities (of any classification, including common and preferred stocks), fixed income, cash, cash equivalents or other property (real, personal or mixed) and interests in investment companies and investment trusts as the Trustee shall deem advisable, excluding any obligations or security, or other property of PPL, whether or not such investments and reinvestments be authorized by any state law for the investment of Trust Funds generally;

(b) To sell, exchange, convey, transfer or dispose of, and also to grant options with respect to, any property, whether real or personal, at any time held by it by private contract or by public auction, for cash or upon credit, or partly for cash and partly upon credit, as the Trustee may deem best, and no person dealing with the Trustee shall be bound to see to the application of the purchase money or to inquire into the validity, expediency or propriety of any such sale or other disposition;

(c) To acquire, hold and dispose of any real estate, at such time, in such manner and upon such terms as the Trustee may deem advisable; to retain, manage, operate, repair, improve, partition, mortgage or lease for any term or terms of years any such real estate, or to exchange all or any part thereof for other real estate, upon such terms and conditions as the Trustee deems proper, using other Trust assets for any of such purposes if deemed advisable;

(d) To compromise, compound and settle any debt or obligation due to or from it as Trustee and to reduce the rate of interest thereon, to extend or otherwise modify, or to foreclose upon default or otherwise enforce or act with respect to any such obligation;

(e) If directed by the Accounting Party, Trustee shall vote as instructed by Accounting Party, in person or by general or limited proxy, any stocks or other securities at any time held in the Trust Fund, at any meeting of stockholders or security holders, in respect to any business which may come before the meeting.

(f) To vote, in person or by general or limited proxy, any stocks or other securities at any time held in the Trust Fund, at any meeting of stockholders or security holders, in respect to any business which may come before the meeting; to exercise any options appurtenant to any stocks, bonds or other securities for the conversion thereof into other stocks, bonds or securities; to exercise or sell any conversion or subscription rights appurtenant to any stocks, bonds or other securities at any time held in the Trust Fund, and to make any and all necessary payments therefor; to join in, and to approve, or to dissent from and to oppose, any corporate act or proceeding, including any reorganization, recapitalization, consolidation, merger, dissolution, liquidation, sale of assets or other action by or plan in respect of corporations or properties, the stocks or securities of which may at any time be held in the Trust Fund; to deposit with any committee or depository, pursuant to any plan or agreement of protection, reorganization, consolidation, sale, merger, or other readjustment, any property held in the Trust Fund; and to make payment from the Trust Fund of any charges or assessments imposed by the terms of any such plan or agreement;

(g) To accept and hold any securities or other property received by it under the provisions of any of the subdivisions of this Article whether or not the Trustee would be authorized hereunder then to invest therein;

(h) To borrow money on behalf of the Trust upon such terms and conditions as the Trustee shall deem advisable to carry out the purposes of the Trust and to pledge securities or other property of the Trust Fund in repayment of any such loan;

(i) To enforce any right, obligation or claim in its discretion and in general to protect in any way the interests of the Trust Fund, either before or after default, and in case the Trustee shall, in its discretion, consider such action for the best interest of the Trust Fund, to abstain from the enforcement of any right, obligation or claim and to abandon any property, whether real or personal, which at any time may be held by the Trustee;

(j) To make, execute, acknowledge and deliver any and all deeds, leases, assignments, transfers, conveyances and any and all other instruments necessary or appropriate to carry out any powers herein granted;

(k) To cause any investments from time to time held by it hereunder to be registered in, or transferred into, its name as

Trustee or the name of its nominee or nominees, and with or without designation of fiduciary capacity, or to retain any investments unregistered or in form permitting transfer by delivery, but the books and records of the Trustee shall at all times show that all such investments are part of the Trust Fund;

(l) To hold any part or all of the Trust Fund uninvested;

(m) The Trustee may not invest in securities (including stock and the rights to acquire stock) or obligations issued by PPL or an Employer as that term is defined in the Plan, except by reason of the inclusion of such securities in a broadly inclusive index, mutual fund, or collective investment medium.

Notwithstanding anything else in this Agreement to the contrary, including, without limitation, any specific or general power granted to the Trustee, including the power to invest in real property, no portion of the Trust Fund shall be invested in real estate. For this purpose, "real estate" includes, but is not limited to, any direct or indirect interest in real property, leaseholds or mineral interests.

5.2 If Trustee undertakes or defends any litigation arising in connection with this Trust, Trustee shall act only under the Prudent Man Standard of Care, and PPL agrees to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, attorney's fees and expenses) relating thereto and to be primarily liable for such payments if the following conditions are met: (a) Trustee shall notify the Accounting Party as soon as practicable after it has received actual notice of litigation, or when Trustee has reached a decision to undertake litigation but prior to filing a complaint or other written notice to any party or agency, and (b) Trustee shall at all times afford the Accounting Party the reasonable opportunity to approve (which approval shall not be unreasonably withheld) the hiring or discharge of legal counsel and the settlement or other conclusion of any such litigation. If PPL does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust. In no event shall Trustee have any liability or responsibility to undertake or defend any litigation unless the Trustee is reasonably assured of receiving payment of related fees and expenses. Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein; provided, however, that if an insurance policy is held as an asset of the Trust, the Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy. Subject to the foregoing, the Trustee shall have the exclusive authority:

(a) to retain an actuary to calculate the amount of any benefit payments due pursuant to Paragraph 1.4 of Article I; and

(b) to do all acts which the Trustee may deem necessary or proper and to exercise any and all of the powers of the Trustee under this Trust Agreement upon such terms and conditions as to the Trustee may seem in the best interests of the Trust Fund.

5.3 Trustee, at the expense of the Trust or PPL, may consult with legal counsel (who prior to the occurrence of a Change in Control may also be counsel for PPL generally) with respect to any of its duties or obligations hereunder. The Trustee may consult with counsel, and the Trustee shall not be deemed imprudent by reason of its taking or refraining from taking any action, prior to the occurrence of a Change in Control, in accordance with the opinion of counsel for PPL. PPL agrees to indemnify and hold the Trustee harmless from and against any loss, costs and expenses including without limitation reasonable attorneys' fees and other costs and expenses incident to any suit, action, investigation, claim or proceeding that the Trustee may incur in the administration of the Trust Fund, and this provision shall survive termination of this Trust Agreement and the Trust, provided the following conditions are met: (a) Trustee shall act at all times under the Prudent Man Standard of Care, (b) Trustee shall notify the Accounting Party as soon as practicable after it has received actual notice of the suit, action, investigation, claim or proceeding, and (c) Trustee shall at all times afford the Accounting Party the reasonable opportunity to approve (which approval shall not be unreasonably withheld) the hiring or discharge of legal counsel and the settlement or other conclusion of any such matter. The Trustee shall not be required to give any bond or any other security for the faithful performance of its duties under this Trust Agreement, except such as may be required by any law which prohibits the waiver thereof.

5.4 Trustee, at the reasonable and prudent expense of the Trust or PPL, may hire agents, accountant, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder. The Trustee shall be entitled, as it may deem appropriate from time to time, to require of PPL such certifications and proofs of facts or other information and/or cooperation as shall permit the Trustee to perform its duties or to exercise the powers granted the Trustee under this Trust Agreement and shall be entitled to rely thereon.

5.5 The Trustee shall not be responsible in any manner whatsoever for the correctness of the recitals of fact herein (other than recitals of fact relating solely to the Trustee and its power and authority to enter into and perform this Trust Agreement) all of which have been made by PPL solely; and the Trustee shall not be responsible or accountable in any manner whatsoever for or with respect to the validity or sufficiency of this Trust Agreement and makes no representation with respect thereto. The Trustee shall not be responsible for the sufficiency of the Trust to pay the benefits contemplated by the Plans or for the use or application by PPL of any monies held in the Trust when disbursed in conformity with this Trust Agreement.

5.6 During the term of this Trust, all of the income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

5.7 Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

5.8 If Trustee has at all times acted under the Prudent Man Standard of Care, Trustee shall not be liable for any expense, loss, claim or damage (including counsel fees) suffered by the Plan or Participant arising out of or caused by any delay in, or failure of, performance by Trustee, in whole or in part, arising out of, or caused by, unforeseeable circumstances beyond Trustee's control, including

without limitation: acts of God, interruption, delay in, or loss (partial or complete) of electrical power or external computer (hardware or software) or communication services (including access to book entry securities systems maintained by Federal Reserve Bank of New York and/or any clearing corporation); act of civil or military authority; sabotage; natural emergency; epidemic; war or other government actions; civil disturbance; flood, earthquake, fire, other catastrophe; strike or other labor disturbance by employees of nonaffiliates; government, judicial, or self regulatory organization order, rule or regulation; riot; energy or natural resource difficulty or shortage; and inability to obtain materials, equipment, or transportation, provided, in all cases, Trustee has acted under the Prudent Man Standard of Care to mitigate, control, and prevent losses and expenses due to such circumstances.

5.9 The Trustee is not a party to, and has no duties or responsibilities under, the Plan other than those that may be expressly contained in this Trust Agreement. In any case in which a provision of this Trust Agreement conflicts with any provision in the Plan, this Trust Agreement shall control. The Trustee shall have no duties, responsibilities or liability with respect to the acts or omissions of any prior or successor trustee.

5.10 Trustee shall have no responsibility with respect to: (i) the selection or monitoring of any insurance policies or insurance contracts held in the Trust or the insurers issuing such policies or contracts; or (ii) the payment of any premiums with respect to such policies or contracts.

5.11 The duties of the Trustee shall be limited to the assets held in the Trust, and the Trustee shall have no duties with respect to assets held by any other person including, without limitation, any other trustee for the Plan. PPL hereby agrees that the Trustee shall not serve as, and shall not be deemed to be, a co-trustee under any circumstances. The Accounting Party may request the Trustee to perform a recordkeeping service with respect to property held by others and not otherwise subject to the terms of this Trust Agreement. To the extent the Trustee shall agree to perform this service, its sole responsibility shall be to accurately reflect information on its books which it has received from an authorized party.

Article VI
Fees, Expenses and Taxes

6.1 PPL shall pay the reasonable expenses incurred by the Trustee in or as a result of the performance of its duties hereunder, including reasonable fees and expenses for services rendered to the Trustee, and such compensation to the Trustee as may be agreed upon in writing from time to time between PPL and the Trustee. After the occurrence of a Change in Control, the compensation of the Trustee shall be determined by the application of the current rates then charged by the Trustee for the provision of the types of investment and trustee services contemplated in this Trust Agreement to trusts of a similar character and size.

6.2 PPL shall pay the reasonable expenses incurred by the Accounting Party, if other than PPL, in or as a result of the performance by its members of their duties hereunder. Such expenses shall include but not be limited to the cost of travel as well as the cost of any communications with the Trustee or Plan Participants. PPL shall also pay to the Accounting Party, if other than PPL, such compensation as may be provided for by resolution of the Board of Directors of PPL prior to the occurrence of a Change in Control.

6.3 If PPL fails to pay any such expenses and compensation as provided for in Paragraphs 6.1 and 6.2, the Trustee shall pay them from the Trust Fund.

6.4 Any taxes, including real and personal property taxes, income taxes, transfer taxes and other taxes of any kind whatsoever that may under any existing or future laws be assessed against or levied upon or in respect of the Trust Fund or its assets or any interest therein shall be paid by PPL. The word "taxes" in this Article VI shall be deemed to include any interest or penalties that may be levied or imposed in respect to any taxes.

6.5 To the extent the Accounting Party has provided necessary information to the Trustee, the Trustee shall be responsible for any necessary withholding and reporting of federal taxes related to the payment of benefits pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities. In addition, to the extent the Accounting Party has provided necessary information to the Trustee, the Trustee shall use reasonable efforts to assist such Accounting Party with respect to any "Tax Obligations." The term "Tax Obligations" means the responsibility for payment of taxes, withholding, certification and reporting requirements, claims for exemptions or refund, interest, penalties and other related expenses of the Trust, including but not limited to the requirements set forth in Section 2(a) of this Trust Agreement. Notwithstanding the foregoing, the Trustee shall have no responsibility or liability for any Tax Obligations now or hereafter imposed on PPL or the Trust by any taxing authorities, domestic or foreign, except as provided by applicable law. To the extent the Trustee is responsible under any applicable law for any Tax Obligation, the Accounting Party shall inform the Trustee of all Tax Obligations, shall direct the Trustee with respect to the performance of such Tax Obligations. All such Tax Obligations shall be paid from the Trust unless paid by PPL.

Article VII
Accounts of the Trustee

7.1 The Trustee shall keep accurate and detailed accounts of all investments, receipts and disbursements and other transactions hereunder, and all accounts, books and records relating thereto shall be open at all reasonable times to inspection and audit by any person or persons designated by the Accounting Party. The cost of any audit if requested by the Accounting Party shall be paid by PPL.

7.2 Within ninety (90) days following the close of each calendar year, the Trustee shall file with the Accounting Party and PPL, if different, a written account setting forth all investments, receipts, disbursements, and other transactions of the Trust Fund effected by it during such fiscal year including a description of all securities and investments purchased and sold, with the cost or net proceeds of such purchases or sales, and showing all cash, securities and other property held, including values at the end of such calendar year.

7.3 Upon the expiration of one hundred eighty days following the filing as above provided of such account, such account shall be considered as final and binding upon the Accounting Party, PPL, its subsidiaries, directors, former directors, Participants, employees, former employees, retired employees, their beneficiaries, and the Trustee, as if settled by a court of competent jurisdiction, and the Trustee shall be forever released and discharged from any liability or accountability to anyone in connection with or arising or resulting from any of the acts or transactions shown therein, except with respect to such acts or transactions as to which the Accounting Party shall within such one hundred eighty day period file with the Trustee written objections or which involve manifest error, gross negligence, willful misconduct or fraud.

7.4 Accounts of the Trustee need only be settled with the Accounting Party. Subject to any express provision of applicable law as may be in effect from time to time to the contrary, no other person or party shall be entitled to any accounting by the Trustee.

7.5 Nothing contained in this Trust Agreement shall, however, preclude the Trustee from having any of its accounts settled by a court of competent jurisdiction. In any action or proceeding for settlement of the accounts of the Trustee or concerning administration of the Trust Fund, the Accounting Party and the Trustee shall be the only necessary parties thereto. To the extent provided by law, service of any notice or process upon the Accounting Party shall be deemed for all purposes service on PPL, its subsidiaries, directors, former directors, Participants, employees, former employees, and retired employees of PPL, and their beneficiaries and any final judgment in any such action or proceeding shall be binding and conclusive on the Accounting Party, PPL, employees, former employees, directors, former directors and retired employees of PPL and their beneficiaries and the Trustee.

Article VIII
Resignation or Removal of the Trustee

8.1 The Trustee may be removed by the Accounting Party to the extent provided in Article X at any time upon sixty days notice in writing. The Trustee shall have the right to resign at any time by giving sixty days notice in writing to the Accounting Party, provided that such resignation shall not become effective until a successor trustee has accepted its appointment. Upon such removal or notice of resignation of the Trustee, the Accounting Party shall appoint and designate a successor Trustee, which shall be a corporate trustee qualified to conduct trust business in Pennsylvania, which is independent of and not subject to control by PPL. Such successor trustee shall qualify as such by delivering a written acceptance of the trust to the Accounting Party and the retiring Trustee, and thereupon all the provisions hereof shall relate and be applicable to such successor Trustee. Until the effective date of the assumption by the successor Trustee of its duties under this Trust Agreement, the retiring Trustee shall continue to function and be bound hereunder as trustee hereof. Upon receipt of such written acceptance the retiring Trustee shall forthwith file with the Accounting Party a written account of its acts in the same form as its annual account above provided for in Article VII from the date of its last annual account to the date of the acceptance of the Trust by the successor trustee and settlement of such account shall be accomplished as in Article VII. Upon the filing of such account, the retiring Trustee shall transfer and deliver the Trust Fund to the successor Trustee but shall be entitled to reserve therefrom and hold such assets as it may reasonably deem necessary to provide for any and all expenses and payments properly chargeable against the Trust Fund or for which the Trust Fund may be liable or to which the retiring Trustee may be entitled by way of fees and expenses in the settlement of its account. If the assets so withheld are insufficient or excessive for such purposes, the retiring Trustee shall be entitled to reimbursement for any deficiency out of the Trust Fund from the successor Trustee, or shall deliver the excess to the successor Trustee, as the case may be. To the extent permitted by law, upon the transfer of the Trust Fund as above provided and the settlement of its account, the retiring Trustee's previous annual accounts having been settled as provided in Article VII, the retiring Trustee shall thereupon be discharged from any further duty, obligation or responsibility with respect to the operation of the Trust Fund or any matter connected therewith prior to the delivery of said written acceptance except matters which relate to manifest error, gross negligence, willful misconduct or fraud.

8.2 If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 8.1 hereof, by the effective date of resignation or removal under Section 8.1. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Article IX
Action of PPL or Accounting Party

9.1 Any action of PPL pursuant to any of the provisions of this Trust Agreement shall be evidenced by a written notice or direction to such effect over the signature of: i) any officer or ii) other representative of PPL who shall have been certified to the Trustee by the President, Treasurer or Secretary of PPL as having such authority. The Trustee shall be fully protected in acting in accordance with such notices or directions. All communications from PPL to the Trustee shall be in writing, signed by the person designated as having such authority as PPL shall certify to the Trustee, and the Trustee shall act and be fully protected in acting in accordance with such communications.

9.2 Any action of the Accounting Party pursuant to provisions of this Trust Agreement shall be evidenced by a written notice or direction to such effect over the signature of any one or more members of the Accounting Party. Prior to the occurrence of a Change in Control, the President, Treasurer or Secretary of PPL shall advise the Trustee of the name or names of the person or persons who will serve as members of the Accounting Party after the occurrence of such Change in Control. After such Change in Control, current members of the Accounting Party shall advise the Trustee of the name or names of any new person or persons serving as members of the Accounting Party.

9.3 All communications from the Accounting Party to the Trustee shall be in writing, signed by the person designated as having such authority as PPL or member of the Accounting Party shall certify to the Trustee, and the Trustee shall be fully protected in acting in accordance with such communications.

9.4 PPL shall furnish the Trustee with a written list of the names, signatures and extent of authority of all persons constituting the Accounting Party as defined in Section 2.4. The Trustee shall be entitled to rely on and shall be fully protected in acting upon direction from such person until notified in writing by PPL, as appropriate, of a change in the make up of the Accounting Party.

Article X
Reservation of Powers

10.1 The Accounting Party expressly reserves the powers to:

- (a) remove the Trustee;
- (b) direct the investment and reinvestment of the principal and income of the Trust Fund; it shall be the duty of the Trustee to act strictly in accordance with such investment directions, and any changes therein, as so communicated to the Trustee from time to time in writing. To the maximum extent permitted by law, Trustee shall have no duty or responsibility (i) to advise with respect to, or inquire as to the propriety of, any such investment direction or (ii) for any investment decisions made with respect to the Trust by PPL or the Accounting Party. In the absence of investment direction by the Accounting Party, the Trustee shall invest Trust assets in any manner permitted under Section 5.1; and
- (c) following the occurrence of a Potential Change in Control as defined in Paragraph 10.3, modify, alter or amend this Trust Agreement, provided that no such modification, alteration or amendment may directly or indirectly (i) affect any Participant's entitlement to receive benefit payments under any Plan or under this Trust Agreement or the amount, form or timing of such benefit payments, (ii) alter the relative funding levels of the Plan Accounts, (iii) alter the method of allocation of Trust Fund earnings and losses among the Plan Accounts, (iv) eliminate the requirement under this Trust Agreement of separate accounting for the interests of each Plan in the Trust Fund, (v) impair or otherwise affect any claims which general creditors of PPL may have with respect to the Trust Fund in the event of PPL becomes Insolvent, (vi) change the rights, duties, powers, liabilities or immunities of the Trustee hereunder without the Trustee's written consent, except as provided upon the Trustee's removal in Article VIII, (vii) eliminate the restrictions set forth in this subparagraph 10.1(c), or (viii) confer upon the Trustee or any other person, directly or indirectly, the power or authority to effect any result prohibited under clauses (i)-(vii) of this subparagraph 10.1(c). No provision of this Trust Agreement may be amended by PPL in any manner adverse to Participants following a Potential Change in Control.

10.2 Subject to the provisions of Paragraphs 10.1 and 10.3 of this Article X, PPL expressly reserves the powers to:

- (a) modify, alter, amend, terminate or revoke this Trust Agreement and the trust hereby created to any extent and in any respect deemed advisable by PPL, through an action of PPL that is in writing duly executed and acknowledged and delivered to the Trustee; provided however, that the rights, duties, powers, liabilities or immunities of the Trustee hereunder shall not be changed without its written consent, except as provided upon the Trustee's removal in Article VIII;
- (b) withdraw from the Trust Fund any property forming a part of the Trust Fund, any such withdrawal shall be considered a revocation of this Trust solely with respect to such property;
- (c) reallocate amounts among Plan Accounts in the Trust Fund;
- (d) require the Trustee to furnish such information as may be reasonably requested in regard to the operations of the Trust Fund and the investment thereof;
- (e) add to or delete from Appendix A one or more nonqualified deferred compensation plans or agreements for PPL's or its subsidiaries employees;
- (f) add to or delete from Appendix A one or more individual employment agreements with employees of PPL or any of its subsidiaries; and
- (g) contribute to the Trust Fund property other than cash or marketable securities to the extent not expressly prohibited by the Plans or within the terms of this Trust, if acceptable to Trustee.

10.3 The right of PPL to exercise the powers reserved to it under Paragraph 10.2 of this Article shall expire upon the occurrence of a Change in Control or Potential Change in Control. For purposes of this Trust Agreement, a Change in Control shall be deemed to have occurred

(a) if one of the following events occurs:

(I) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareowners was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended;

(II) any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors;

(III) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (I) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least 60% of the combined voting power of the securities of the Company or at least 60% of the combined voting power of the securities of such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (II) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (excluding in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities;

(IV) the shareowners of the Company approve a plan of complete liquidation or dissolution of the Company; or

(V) the Board adopts a resolution to the effect that a "Change in Control" has occurred or is anticipated to occur.

(b) For purposes of this Trust Agreement, a "Potential Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(I) PPL enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(II) any Person publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control;

(III) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of PPL representing 5% or more of the combined voting power of PPL's then outstanding securities entitled to vote generally in the election of directors; or

(IV) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

For purposes of this Paragraph 10.3:

"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act; and "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) PPL or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of PPL or any of its Affiliates (as defined in Rule 12b-2 promulgated under Section 12 of the Exchange Act), (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of PPL in substantially the same proportions as their ownership of stock of PPL.

10.4 The Board of Directors or the Chief Executive Officer or any Plan Participant may notify the Trustee in writing as promptly as practicable following the occurrence of a Change in Control or Potential Change in Control, and the Trustee shall not be charged with knowledge of such Change in Control or Potential Change in Control in the absence of written notification.

10.5 The Trustee is not a party to any Plan except insofar as the Trustee has assumed duties under a Plan as specifically provided in this Trust Agreement. PPL retains the right to amend any provision of any Plan to the extent provided for in such Plan, including provisions relating to the Trustee; provided, however, that the allocation of responsibilities to the Trustee shall not be amended, altered or modified without the prior written consent of the Trustee, and no amendment to any Plan shall allocate responsibilities between the Trustee and PPL in a manner

inconsistent with the terms of this Trust Agreement.

Article XI
Surplus Plan Accounts and Termination of Trust

11.1 If this Trust Agreement is terminated under Article X with respect to any Plan at a time when there is a Plan Account attributable to such Plan or if the Trustee determines that certain amounts attributable to a Plan Account will not be required to make benefit payments under the Plan for which such Plan Account is maintained, the value of the Plan Account or portion thereof attributable to such Plan shall be allocated in the Trustee's discretion among the remaining Plan Accounts in a way that the Trustee believes best maximizes benefit payments under Article IV.

11.2 Unless the Trust is revoked under Article X, the Trust shall not terminate until the date on which no person is or will ever be entitled to benefit payments under the Plans. Any assets remaining in the Trust shall be returned to PPL upon revocation or termination of the Trust.

Article XII
Merger or Consolidation of Trustee

12.1 Any corporation into which the Trustee **may** be merged or with which it may be consolidated, or any corporation resulting from any merger, reorganization or consolidation to which the Trustee may be a party, or any corporation to which all or substantially all of the trust business of the Trustee may be transferred shall be the successor of the Trustee hereunder without the execution or filing of any instrument or the performance of any further act; provided that in case of any such transfer of trust business the transferee corporation shall file with PPL written acceptance of the Trust hereby created.

Article XIII
Miscellaneous

13.1 This Trust Agreement, as amended from time to time, shall be administered, construed and enforced according to the laws of the Commonwealth of Pennsylvania and in courts situated in that Commonwealth. The situs of the Trust shall be Lehigh County, Pennsylvania.

13.2 This Trust Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.

13.3 Nothing in this Trust Agreement shall require PPL to retain any employee in its service or the service of any of its subsidiaries.

13.4 The Trustee by joining in the execution of this Trust Agreement hereby signifies its acceptance of the Trust hereby created.

13.5 Notwithstanding anything in this Trust Agreement to the contrary, this Trust shall terminate no later than twenty-one years after the death of the last survivor in being upon the cessation of PPL's powers under Article X of the class consisting of the persons entitled to receive benefits under the Plans.

13.6 No attempt by any person entitled to benefits under the Plan to assign, alienate, anticipate, sell, transfer, pledge, encumber or place a charge upon any benefit or any installment thereof shall be recognized by the Trustee, nor shall the Trustee recognize any such attempt to attach or garnish or otherwise subject the Trust Fund or any benefit or any installment thereof to legal process, except as the Trustee may be required to do by law.

13.7 Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

13.7 This Trust Agreement shall be binding upon any successors or assigns of PPL and any transferee(s) of all or substantially all of PPL's assets.

13.8 Any notice to the Trustee shall be sent to the following:

First Union National Bank
Attn: Robert Hord
1525 West W. T. Harris Boulevard
Charlotte, North Carolina 28288

Any notice to PPL shall be sent to the

PPL Corporation
Attn: Thoburn Hatten
Two North Ninth Street
Allentown, Pennsylvania 18101

Either party hereto may designate a new representative for the purpose of receiving notices by notifying the other party in writing of the name and address of such new representative. An Accounting Party other than PPL shall notify both PPL and Trustee of the name and address of its designated representative authorized from time to time to receive notices.

IN WITNESS WHEREOF, this Trust Agreement has been duly executed by the authorized officers of the parties hereto.

ATTEST:

/s/ Diane M. Koch
Assistant Secretary

PPL CORPORATION

By: /s/ James E. Abel

Name: James E. Abel

Title: Vice President-Finance & Treasurer

Date: April 10, 2001

ATTEST:

/s/ Samantha Miller

FIRST UNION NATIONAL BANK AS TRUSTEE

By: /s/ Robert E. Hord Jr.

Name: Robert E. Hord Jr.

Title: Vice President

Date: April 26, 2001

APPENDIX A

Name of Plan

PPL Corporation Directors Deferred Compensation Plan

**Designated
Hereunder
Effective**

April 1, 2001

TRUST AGREEMENT

Between

PPL CORPORATION

And

FIRST UNION NATIONAL BANK AS TRUSTEE

PPL EMPLOYEE NON-QUALIFIED PLAN TRUST

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TRUST AGREEMENT
Between
PPL CORPORATION
And
FIRST UNION NATIONAL BANK, AS TRUSTEE

This Agreement and Declaration of Trust (hereinafter called the "Trust Agreement") made as of the 1st day of April 2001, as amended, by and between PPL Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal place of business at Allentown, Pennsylvania, hereinafter referred to as "PPL," and First Union National Bank, with its principal place of business at Charlotte, North Carolina, hereinafter called the "Trustee",

WITNESSETH:

WHEREAS, PPL has heretofore adopted a nonqualified deferred compensation plan and agreement for certain of its Directors (such Directors and their designated beneficiaries where applicable being hereinafter referred to collectively as the "Participants" and individually as a "Participant") and may hereafter adopt other such plans or agreements; and

WHEREAS, PPL wishes to establish this grantor trust, hereinafter called the "Trust," for the collective investment of such property as may from time to time be contributed thereto, subject only to the claims of PPL's general creditors in the event of PPL's Insolvency (as defined in Article III); and

WHEREAS, PPL wishes the Trust to be used in connection with such plan or plans or agreements as it may from time to time designate under Article X of this

Trust Agreement (which plans and agreements are hereinafter called the "Plans" collectively or the "Plan" individually), although the Trust may not necessarily hold sufficient assets to satisfy all of the benefits to be provided under the Plans; and

WHEREAS, the Trustee is willing to hold and administer such trust assets pursuant to the terms of this Trust Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual

covenants herein contained, PPL and the Trustee intending to be legally bound hereby, do covenant and agree as follows:

Article 1
Establishment, Purpose and Nature of Trust Fund

1.1 PPL hereby establishes with the Trustee a trust consisting of such cash and/or marketable securities as shall be paid to the Trustee with respect to the Plans pursuant to Article II, Paragraph 2.1. The Trust shall be known as the PPL EMPLOYEE NONQUALIFIED PLANS TRUST. The creation of this Trust is not intended to create an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974. The Trust is intended to constitute an unfunded arrangement and shall not affect the status of the Plans as unfunded plans maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. 1.2 The Trust shall consist of all contributions to the Trust by PPL and the earnings and losses thereon (including unrealized gains and losses), less disbursements therefrom (hereinafter called the "Trust Fund"). The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of PPL and shall be used exclusively for the uses and purposes of Participants, and general creditors as herein set forth. Participants shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plans and this Trust Agreement shall be mere unsecured contractual rights of Participants against PPL. Any assets held by the Trust will be subject to the claims of PPL's general creditors under federal and state law in the event PPL becomes Insolvent.

1.3 The Trust hereby established is revocable by PPL; provided, however, that it shall be irrevocable (a) during the pendency of a Potential Change in Control and (b) upon a Change in Control, each as defined in Paragraph 10.3.

1.4 The Trust Fund shall be held by the Trustee, subject to the reservation of powers under Paragraphs 10.1 and 10.2 of Article X, for the purpose of providing benefits in accordance with the terms of the Plans. The Trustee shall pay all benefits as they become due and payable pursuant to the Plans in accordance with Article III and Article IV to the extent there are sufficient funds in the Trust to do so. Notwithstanding the foregoing, the Trust Fund shall be treated as an asset of PPL and shall remain subject to the claims of PPL's general creditors in the event of PPL becomes Insolvent.

1.5 The rights, powers, titles, duties, discretions and immunities of the Trustee shall be governed solely by this Trust Agreement and applicable state and federal law.

1.6 The Trust is intended to be a grantor trust, of which PPL is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, Sections 671-678, and any successor statute thereto, and shall be construed accordingly.

1.7 The Plans and any persons who may be entitled to benefit payments under the terms of the Plans shall not have any preferred claim on the Trust Fund. Persons who may be entitled to benefit payments under the terms of the Plans shall have no greater right or status than an unsecured creditor of PPL with respect to such amounts.

1.8 Notwithstanding anything else in this Agreement to the contrary: (1) the Trustee is not a party to, and has, except as expressly provided herein, no duties or responsibilities under, the Plans; (2) PPL shall be required to certify in writing to the Trustee the identity of any party or person, whether or not a fiduciary named in any Plans, which has the power to manage and control Plan assets, and the Trustee shall be entitled to rely upon such certification until notified otherwise in writing by PPL; and (3) in any case in which a provision of this Agreement conflicts with any provision in any Plans, this Agreement shall control. Notwithstanding the preceding sentence, the Trustee reserves the right to seek a judicial and/or administrative determination as to its proper course of action under this Agreement.

1.9 The terms of the Plans shall govern the amount, form and timing of benefit payments to which a Participant is entitled under the Plans. The Trustee shall have no right or obligations with respect to any of the provisions of the Plans except as provided in this Trust Agreement.

Article II
Contributions to Trust Fund and Allocation to Plan Accounts

2.1 Subject to the provisions of Paragraph 2.2, PPL may from time to time make, or cause to be made, such contributions to the Trust Fund of cash and/or marketable securities as it determines to be appropriate in its sole discretion and are acceptable to the Trustee, which shall be held by the Trustee for the benefit of the Participants covered by each respective Plan, subject to the reservation of powers under Paragraphs 10.1 and 10.2 of Article X and the claims of PPL's general creditors in the event PPL becomes Insolvent. The Trustee shall be accountable for all such contributions, but shall have no duty to determine that the amounts thereof comply with the provisions of the Plans. PPL shall designate the Plan Account or Accounts as defined in Paragraph 2.3 to which each contribution shall be allocated and the amount of such contribution to be allocated to each such Plan Account.

2.2 Immediately prior to a Change in Control (as defined in Paragraph 10.3), the Chief Executive Officer of PPL (or his or her designee) shall authorize an irrevocable cash contribution to be made to the Trust in an amount equal to the amount that, in the determination of PPL, is sufficient to pay each Participant or beneficiary the benefits to which Participants or their beneficiaries would be entitled pursuant to the terms of the Plans as of the date of the Change in Control assuming each Participant terminated employment as of such date under circumstances giving rise to payment of benefits under the Plans. After a Change in Control, the Trustee may compel any contribution that is required under the Trust. Within 60 days following the end of each Plan year ending after a Change in Control has occurred, PPL shall be required to irrevocably deposit additional cash or other property to the Trust in an amount sufficient and to the extent necessary, to pay each Participant or beneficiary the benefits payable pursuant to the terms of the Plans as of the close of the Plan years.

2.3 The Trustee shall hold the Trust Fund without distinction as to principal or income as a single commingled fund, but for bookkeeping purposes shall maintain a separate account (hereinafter called a "Plan Account" or an "Account") reflecting the interest of each Plan in the Trust Fund. Each Plan Account shall consist of contributions to and payments from the Trust Fund which are allocable to each such Plan, and the earnings thereon, less disbursements therefrom attributable to the interest of each Plan in the entire Trust Fund. The Trustee shall advise the Accounting Party (as defined in Paragraph 2.4 below) of the Fair Market Value (as defined in Paragraph 2.5 below) of assets in the Trust Fund as of the close of each calendar year of the Trust, or at such more frequent intervals as may be mutually agreed upon between the Accounting Party and Trustee, among the Plan Accounts based upon the actual return of each Plan Account.

2.4 For purposes of this Trust Agreement, the Accounting Party is PPL prior to the occurrence of a Change in Control, and after the occurrence of a Change in Control, in lieu of PPL, a committee composed of three members appointed by the Board of Directors of PPL prior to the occurrence of a Change in Control. Any vacancy on the committee after the occurrence of a Change in Control (arising for any reason, including the failure of the Board of Directors of PPL to appoint three members willing to serve on the committee or the death or resignation of any member) will be filled by the employee or former employee of PPL with an accrued benefit under any of the Plans designated by the remaining members or member of the committee, who is willing to serve as a member of the committee. If the remaining members of the committee cannot agree on a new member or there are no members of the committee (for any reason, including the failure of the Board of Directors of PPL to appoint prior to the occurrence of a Change in Control any person who is willing to serve on the committee or the death or resignation of all members) any vacancy after the occurrence of a Change in Control shall be filled by the Participant with the largest accrued benefit under the Plans and who is willing to serve as a member. If at any time after an occurrence of a Change in Control, there are no members of the committee willing or able to serve, the determination as to the Participant with the largest accrued benefit under the Plans shall be made by the Trustee. In the event that there are less than three persons who are willing to serve as members, the committee shall consist of the number of such persons who are willing to serve as members.

2.5 For purposes of this Trust Agreement, "Fair Market Value" for any security shall be determined as follows:

(a) securities listed on the New York Stock Exchange, the American Stock Exchange or any other recognized exchange shall be valued at their last sale prices on the exchange on which securities are principally traded on the valuation date (NYSE-Composite Transactions or AMEX-Composite Transactions prices to prevail on any security listed on either of these exchanges as well as on another exchange); and where no sale is reported for that date, the last bid price shall be used.

(b) all other securities and assets shall be valued at their market values as fixed by the Trustee's staff regularly engaged in such activities.

Article III
Cessation of Payments from
Trust Fund While Company Insolvent

3.1 The Trust Fund shall be subject to claims of general creditors of PPL in the event PPL becomes Insolvent, and at any time the Trustee has actual knowledge, or has determined, that PPL is Insolvent, the Trustee shall deliver the Trust Fund to satisfy such

claims as a court of competent jurisdiction may direct. PPL shall be considered "Insolvent" for purposes of this Trust Agreement if (1) PPL is unable to pay its debts as they become due or (2) PPL is subject to a pending proceeding as a debtor or a debtor-in-possession under the federal Bankruptcy Code, 11 U.S.C. 101 et seq. (or any successor federal statute) .

3.2 At all times during the continuance of this Trust, as provided in Section 1.3 hereof, the principal and income of the Trust shall be subject to claims of general creditors of PPL under federal and state law as set forth below.

3.3 The Board of Directors and the Chief Executive Officer of PPL shall have the duty to inform the Trustee in writing that PPL has become Insolvent and the basis on which they consider PPL to be Insolvent. If a person claiming to be a creditor of PPL alleges in writing to the Trustee that PPL has become Insolvent, the Trustee shall determine whether PPL is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to Participants or their beneficiaries.

3.4 If the Board of Directors or the Chief Executive Officer of PPL informs the Trustee in writing that PPL has become Insolvent, the Trustee shall independently determine, within a reasonable time that in no event shall exceed sixty days after receipt of such notice, whether PPL is Insolvent and, pending such determination, the Trustee shall discontinue payments from the Trust Fund, shall hold the Trust Fund for the benefit of PPL's general creditors, and shall resume payments from the Trust Fund only after the Trustee has determined that PPL is not Insolvent (or is no longer Insolvent, if the Trustee initially determined PPL to be Insolvent) .

3.5 If at any time the Trustee has determined that PPL is Insolvent, the Trustee shall discontinue payments to Participants and shall hold the assets of the Trust for the benefit of PPL's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Participants or their beneficiaries to pursue their rights as general creditors of PPL with respect to benefits due under the Plans or otherwise.

3.6 Trustee shall resume the payment of benefits to Participants in accordance with Article IV of this Trust Agreement only after the Trustee has determined that PPL is not Insolvent (or is no longer Insolvent). If the Trustee discontinues payments from the Trust Fund and subsequently resumes such payments, the first payments following such discontinuance shall include the aggregate amount of all payment's which would have been made to Participants under Article IV during the period of such discontinuance (together with interest based upon the daily average, as determined by the Trustee, of the Average Prime Rate Charged by Banks (Percent) as published in the Business Conditions Digest, or any successor publication, of the Social and Economic Statistics Administration, Bureau of Economic Analysis, of the U.S. Department of Commerce, or any successor governmental agency), less the aggregate amount of payments made to any such persons by or on behalf of PPL in lieu of the

payments provided for in Article IV during any such period of discontinuance.

3.7 Except as provided in Paragraph 3.3 or 3.4, or unless the Trustee has actual knowledge that PPL is Insolvent, the Trustee shall have no duty to inquire whether PPL is Insolvent. The Trustee may in all events rely on such evidence concerning PPL's insolvency as may be a furnished to the Trustee which will give the Trustee a reasonable basis for making a determination concerning PPL's insolvency.

3.8 Nothing in this Trust Agreement shall in any way diminish any rights of a person to pursue his rights as a general creditor of PPL under the Plans.

Article IV
Payments from Trust Fund While Company Solvent

4.1 All payments from the Trust Fund while PPL is solvent shall be made by the Trustee only to such persons who at any time prior to the occurrence of a Change in Control were employees of PPL, or any of its subsidiaries, and, in such manner, at such times, and in such amounts as required by the terms of each respective Plan in effect when such payment is made or, if such payment is made after a Change in Control occurs, as required by the terms of each respective Plan in effect when any such Change in Control occurs.

4.2 Immediately preceding the occurrence of a Change in Control, PPL shall deliver to the Trustee: a) a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Participant, that provides a formula or other instructions acceptable to the Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plans), and the time of commencement for payment of such amounts, and b) copies of all then current Plans and any subsequent amendments thereto. Except as otherwise provided herein, the Trustee shall make payments to the Participants in accordance with such Payment Schedule. The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plans and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by PPL.

4.3 PPL hereby agrees that the Accounting Party (as defined in Section 2.4) shall have the exclusive responsibility, and the Trustee shall not have any responsibility or duty under this Trust Agreement for determining that any change in the Payment Schedule is in accordance with the terms of the Plan and applicable law, including without limitation, the amount, timing or method of payment and the identity of each person to whom such payments shall be made. The Trustee shall have no responsibility or duty to determine the tax effect of any payment or to see to the application of any payment.

4.4 The entitlement of a Participant to benefits under the Plans shall be determined under the Plans, and any claim for such benefits shall be considered and reviewed under the procedures, if any, set out in the Plans.

4.5 Notwithstanding anything contained in Paragraph 4.1, PPL may make payment of benefits directly to Participants as they become due under the terms of the Plans. PPL shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to Participants. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plans, PPL shall make the balance of each such payment as it falls due. The Trustee shall notify PPL where principal and earnings are not sufficient. The Trustee shall have no responsibility to inquire whether payments have been made pursuant to the Plans in question.

4.6 In no event shall the Trustee knowingly cause any payment or distribution to be made from the Trust Fund pursuant to the terms of any Plan for any purpose in an amount which is in excess of the then current balance of the Plan Account (as defined in Section 2.3) attributable to that Plan.

4.7 After the occurrence of a Change in Control, if a Participant does not receive a payment that the Participant believes he or she has become entitled to under any Plan, he or she shall notify the Trustee of such entitlement. Within thirty (30) days of its receipt of such notice, the Trustee shall determine whether the terms of the Plan dictate that the Participant is entitled to a payment. If the Trustee determines that a payment is required, the Trustee shall make the payment to the Participant as soon as practicable, but in no event shall the payment be made later than thirty (30) days after the expiration of the initial thirty-day period. The Trustee shall provide PPL with written confirmation of the fact and amount of such payment after it is made. The Trustee's decision shall be final and binding, and the Participant shall be notified of the decision in writing within ten (10) days. The notice shall include specific reasons for the decision, including specific references to the pertinent Plan provisions on which the decision is based, and shall be written in a manner calculated to be understood by the Participant. The provisions of this Paragraph 4 . 7 shall apply only after the occurrence of a Change in Control. The Trustee may rely upon direction from the Accounting Party in making such determinations.

4.8 The Trustee shall not be liable for any payment made in good faith without actual notice or knowledge of the changed condition or status of any recipient thereof. If the Trustee has responsibility for benefit payments and if any payment is not

claimed, the Trustee shall retain the payment as part of the Trust Fund.

4.9 Except as provided in this Article IV, after the Trust has become irrevocable, PPL shall have no right or power to direct the Trustee to return to PPL or to divert to others any of the Trust assets before all payments of benefits have been made to Participants and their beneficiaries pursuant to the terms of the Plans and all expenses of the Trust have been paid. At any time prior to the Trust becoming irrevocable, however, PPL shall have the right or power to direct the Trustee to return to PPL any of the assets of the Trust.

Article V
Responsibilities of Trustee

5.1 Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims (the "Prudent Man Standard of Care"), provided however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by PPL or the Accounting Party which is contemplated by, and in conformity with, the terms of the Plan or this Trust and is given in writing by PPL or the Accounting Party. In the event of a dispute between PPL and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute. The Trustee shall not be responsible for the title, validity or genuineness of any property or evidence of title thereto received by it or delivered by it pursuant to this Trust Agreement and shall be held harmless in acting upon any notice, request, direction, instruction, consent, certification or other instrument believed by it to be genuine and delivered by the proper party or parties. Under no circumstances shall Trustee be liable for consequential, special, or speculative damages under the Trust Agreement even if the Trustee is advised as to the possibility thereof. It is understood and agreed that Trustee shall be under no duty to take any action other than herein specified with respect to any securities or other property at any time deposited hereunder unless specifically agreed to by the Trustee in writing or as otherwise provided in this Trust Agreement. Subject to the Accounting Party's power of investment direction under Article X, the Trustee shall have exclusive authority and discretion to hold, manage, care for and protect the Trust Fund and shall have the following powers and discretions in addition to those conferred bylaw:

(a) To invest and reinvest the Trust Fund in such equities (of any classification, including common and preferred stocks), fixed income, cash, cash equivalents or other property (real, personal or mixed) and interests in investment companies and investment trusts as the Trustee shall deem advisable, excluding any obligations or security, or other property of PPL, whether or not such investments and reinvestments be authorized by any state law for the investment of Trust Funds generally;

(b) To sell, exchange, convey, transfer or dispose of, and also to grant options with respect to, any property, whether real or personal, at any time held by it by private contract or by public auction, for cash or upon credit, or partly for cash and partly upon credit, as the Trustee may deem best, and no person dealing with the Trustee shall be bound to see to the application of the purchase money or to inquire into the validity, expediency or propriety of any such sale or other disposition;

(c) To acquire, hold and dispose of any real estate, at such time, in such manner and upon such terms as the Trustee may deem advisable; to retain, manage, operate, repair, improve, partition, mortgage or lease for any term or terms of years any such real estate, or to exchange all or any part thereof for other real estate, upon such terms and conditions as the Trustee deems proper, using other Trust assets for any of such purposes if deemed advisable;

(d) To compromise, compound and settle any debt or obligation due to or from it as Trustee and to reduce the rate of interest thereon, to extend or otherwise modify, or to foreclose upon default or otherwise enforce or act with respect to any such obligation;

(e) If directed by the Accounting Party, Trustee shall vote as instructed by Accounting Party, in person or by general or limited proxy, any stocks or other securities at any time held in the Trust Fund, at any meeting of stockholders or security holders, in respect to any business which may come before the meeting.

(f) To vote, in person or by general or limited proxy, any stocks or other securities at any time held in the Trust Fund, at any meeting of stockholders or security holders, in respect to any business which may come before the meeting; to exercise any options appurtenant to any stocks, bonds or other securities for the conversion thereof into other stocks, bonds or securities; to exercise or sell any conversion or subscription rights appurtenant to any stocks, bonds or other securities at any time held in the Trust Fund, and to make any and all necessary payments therefor; to join in, and to approve, or to dissent from and to oppose, any corporate act or proceeding, including any reorganization, recapitalization, consolidation, merger, dissolution, liquidation, sale of assets or other action by or plan in respect of corporations or properties, the stocks or securities of which may at any time be held in the Trust Fund; to deposit with any committee or depository, pursuant to any plan or agreement of protection, reorganization, consolidation, sale, merger, or other readjustment, any property held in the Trust Fund; and to make payment from the Trust Fund of any charges or assessments imposed by the terms of any such plan or agreement;

(g) To accept and hold any securities or other property received by it under the provisions of any of the subdivisions of this Article whether or not the Trustee would be authorized hereunder then to invest therein;

(h) To borrow money on behalf of the Trust upon such terms and conditions as the Trustee shall deem advisable to carry out the purposes of the Trust and to pledge securities or other property of the Trust Fund in repayment of any such loan;

(i) To enforce any right, obligation or claim in its discretion and in general to protect in any way the interests of the Trust Fund, either before or after default, and in case the Trustee shall, in its discretion, consider such action for the best interest of the Trust Fund, to abstain from the enforcement of any right, obligation or claim and to abandon any property, whether real or personal, which at any time may be held by the Trustee;

(j) To make, execute, acknowledge and deliver any and all deeds, leases, assignments, transfers, conveyances and any and all other instruments necessary or appropriate to carry out any powers herein granted;

(k) To cause any investments from time to time held by it hereunder to be registered in, or transferred into, its name as

Trustee or the name of its nominee or nominees, and with or without designation of fiduciary capacity, or to retain any investments unregistered or in form permitting transfer by delivery, but the books and records of the Trustee shall at all times show that all such investments are part of the Trust Fund;

(l) To hold any part or all of the Trust Fund uninvested;

(m) The Trustee may not invest in securities (including stock and the rights to acquire stock) or obligations issued by PPL or an Employer as that term is defined in the Plan, except by reason of the inclusion of such securities in a broadly inclusive index, mutual fund, or collective investment medium.

Notwithstanding anything else in this Agreement to the contrary, including, without limitation, any specific or general power granted to the Trustee, including the power to invest in real property, no portion of the Trust Fund shall be invested in real estate. For this purpose, "real estate" includes, but is not limited to, any direct or indirect interest in real property, leaseholds or mineral interests.

5.2 If Trustee undertakes or defends any litigation arising in connection with this Trust, Trustee shall act only under the Prudent Man Standard of Care, and PPL agrees to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, attorney's fees and expenses) relating thereto and to be primarily liable for such payments if the following conditions are met: (a) Trustee shall notify the Accounting Party as soon as practicable after it has received actual notice of litigation, or when Trustee has reached a decision to undertake litigation but prior to filing a complaint or other written notice to any party or agency, and (b) Trustee shall at all times afford the Accounting Party the reasonable opportunity to approve (which approval shall not be unreasonably withheld) the hiring or discharge of legal counsel and the settlement or other conclusion of any such litigation. If PPL does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust. In no event shall Trustee have any liability or responsibility to undertake or defend any litigation unless the Trustee is reasonably assured of receiving payment of related fees and expenses. Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein; provided, however, that if an insurance policy is held as an asset of the Trust, the Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy. Subject to the foregoing, the Trustee shall have the exclusive authority:

(a) to retain an actuary to calculate the amount of any benefit payments due pursuant to Paragraph 1.4 of Article I; and

(b) to do all acts which the Trustee may deem necessary or proper and to exercise any and all of the powers of the Trustee under this Trust Agreement upon such terms and conditions as to the Trustee may seem in the best interests of the Trust Fund.

5.3 Trustee, at the expense of the Trust or PPL, may consult with legal counsel (who prior to the occurrence of a Change in Control may also be counsel for PPL generally) with respect to any of its duties or obligations hereunder. The Trustee may consult with counsel, and the Trustee shall not be deemed imprudent by reason of its taking or refraining from taking any action, prior to the occurrence of a Change in Control, in accordance with the opinion of counsel for PPL. PPL agrees to indemnify and hold the Trustee harmless from and against any loss, costs and expenses including without limitation reasonable attorneys' fees and other costs and expenses incident to any suit, action, investigation, claim or proceeding that the Trustee may incur in the administration of the Trust Fund, and this provision shall survive termination of this Trust Agreement and the Trust, provided the following conditions are met: (a) Trustee shall act at all times under the Prudent Man Standard of Care, (b) Trustee shall notify the Accounting Party as soon as practicable after it has received actual notice of the suit, action, investigation, claim or proceeding, and (c) Trustee shall at all times afford the Accounting Party the reasonable opportunity to approve (which approval shall not be unreasonably withheld) the hiring or discharge of legal counsel and the settlement or other conclusion of any such matter. The Trustee shall not be required to give any bond or any other security for the faithful performance of its duties under this Trust Agreement, except such as may be required by any law which prohibits the waiver thereof.

5.4 Trustee, at the reasonable and prudent expense of the Trust or PPL, may hire agents, accountant, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder. The Trustee shall be entitled, as it may deem appropriate from time to time, to require of PPL such certifications and proofs of facts or other information and/or cooperation as shall permit the Trustee to perform its duties or to exercise the powers granted the Trustee under this Trust Agreement and shall be entitled to rely thereon.

5.5 The Trustee shall not be responsible in any manner whatsoever for the correctness of the recitals of fact herein (other than recitals of fact relating solely to the Trustee and its power and authority to enter into and perform this Trust Agreement) all of which have been made by PPL solely; and the Trustee shall not be responsible or accountable in any manner whatsoever for or with respect to the validity or sufficiency of this Trust Agreement and makes no representation with respect thereto. The Trustee shall not be responsible for the sufficiency of the Trust to pay the benefits contemplated by the Plans or for the use or application by PPL of any monies held in the Trust when disbursed in conformity with this Trust Agreement.

5.6 During the term of this Trust, all of the income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

5.7 Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

5.8 If Trustee has at all times acted under the Prudent Man Standard of Care, Trustee shall not be liable for any expense, loss, claim or damage (including counsel fees) suffered by the Plan or Participant arising out of or caused by any delay in, or failure of, performance by Trustee, in whole or in part, arising out of, or caused by, unforeseeable circumstances beyond Trustee's control, including

without limitation: acts of God, interruption, delay in, or loss (partial or complete) of electrical power or external computer (hardware or software) or communication services (including access to book entry securities systems maintained by Federal Reserve Bank of New York and/or any clearing corporation); act of civil or military authority; sabotage; natural emergency; epidemic; war or other government actions; civil disturbance; flood, earthquake, fire, other catastrophe; strike or other labor disturbance by employees of nonaffiliates; government, judicial, or self regulatory organization order, rule or regulation; riot; energy or natural resource difficulty or shortage; and inability to obtain materials, equipment, or transportation, provided, in all cases, Trustee has acted under the Prudent Man Standard of Care to mitigate, control, and prevent losses and expenses due to such circumstances.

5.9 The Trustee is not a party to, and has no duties or responsibilities under, the Plan other than those that may be expressly contained in this Trust Agreement. In any case in which a provision of this Trust Agreement conflicts with any provision in the Plan, this Trust Agreement shall control. The Trustee shall have no duties, responsibilities or liability with respect to the acts or omissions of any prior or successor trustee.

5.10 Trustee shall have no responsibility with respect to: (i) the selection or monitoring of any insurance policies or insurance contracts held in the Trust or the insurers issuing such policies or contracts; or (ii) the payment of any premiums with respect to such policies or contracts.

5.11 The duties of the Trustee shall be limited to the assets held in the Trust, and the Trustee shall have no duties with respect to assets held by any other person including, without limitation, any other trustee for the Plan. PPL hereby agrees that the Trustee shall not serve as, and shall not be deemed to be, a co-trustee under any circumstances. The Accounting Party may request the Trustee to perform a recordkeeping service with respect to property held by others and not otherwise subject to the terms of this Trust Agreement. To the extent the Trustee shall agree to perform this service, its sole responsibility shall be to accurately reflect information on its books which it has received from an authorized party.

Article VI
Fees, Expenses and Taxes

6.1 PPL shall pay the reasonable expenses incurred by the Trustee in or as a result of the performance of its duties hereunder, including reasonable fees and expenses for services rendered to the Trustee, and such compensation to the Trustee as may be agreed upon in writing from time to time between PPL and the Trustee. After the occurrence of a Change in Control, the compensation of the Trustee shall be determined by the application of the current rates then charged by the Trustee for the provision of the types of investment and trustee services contemplated in this Trust Agreement to trusts of a similar character and size.

6.2 PPL shall pay the reasonable expenses incurred by the Accounting Party, if other than PPL, in or as a result of the performance by its members of their duties hereunder. Such expenses shall include but not be limited to the cost of travel as well as the cost of any communications with the Trustee or Plan Participants. PPL shall also pay to the Accounting Party, if other than PPL, such compensation as may be provided for by resolution of the Board of Directors of PPL prior to the occurrence of a Change in Control.

6.3 If PPL fails to pay any such expenses and compensation as provided for in Paragraphs 6.1 and 6.2, the Trustee shall pay them from the Trust Fund.

6.4 Any taxes, including real and personal property taxes, income taxes, transfer taxes and other taxes of any kind whatsoever that may under any existing or future laws be assessed against or levied upon or in respect of the Trust Fund or its assets or any interest therein shall be paid by PPL. The word "taxes" in this Article VI shall be deemed to include any interest or penalties that may be levied or imposed in respect to any taxes.

6.5 To the extent the Accounting Party has provided necessary information to the Trustee, the Trustee shall be responsible for any necessary withholding and reporting of federal taxes related to the payment of benefits pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities. In addition, to the extent the Accounting Party has provided necessary information to the Trustee, the Trustee shall use reasonable efforts to assist such Accounting Party with respect to any "Tax Obligations." The term "Tax Obligations" means the responsibility for payment of taxes, withholding, certification and reporting requirements, claims for exemptions or refund, interest, penalties and other related expenses of the Trust, including but not limited to the requirements set forth in Section 2(a) of this Trust Agreement. Notwithstanding the foregoing, the Trustee shall have no responsibility or liability for any Tax Obligations now or hereafter imposed on PPL or the Trust by any taxing authorities, domestic or foreign, except as provided by applicable law. To the extent the Trustee is responsible under any applicable law for any Tax Obligation, the Accounting Party shall inform the Trustee of all Tax Obligations, shall direct the Trustee with respect to the performance of such Tax Obligations. All such Tax Obligations shall be paid from the Trust unless paid by PPL.

Article VII
Accounts of the Trustee

7.1 The Trustee shall keep accurate and detailed accounts of all investments, receipts and disbursements and other transactions hereunder, and all accounts, books and records relating thereto shall be open at all reasonable times to inspection and audit by any person or persons designated by the Accounting Party. The cost of any audit if requested by the Accounting Party shall be paid by PPL.

7.2 Within ninety (90) days following the close of each calendar year, the Trustee shall file with the Accounting Party and PPL, if different, a written account setting forth all investments, receipts, disbursements, and other transactions of the Trust Fund effected by it during such fiscal year including a description of all securities and investments purchased and sold, with the cost or net proceeds of such purchases or sales, and showing all cash, securities and other property held, including values at the end of such calendar year.

7.3 Upon the expiration of one hundred eighty days following the filing as above provided of such account, such account shall be considered as final and binding upon the Accounting Party, PPL, its subsidiaries, directors, former directors, Participants, employees, former employees, retired employees, their beneficiaries, and the Trustee, as if settled by a court of competent jurisdiction, and the Trustee shall be forever released and discharged from any liability or accountability to anyone in connection with or arising or resulting from any of the acts or transactions shown therein, except with respect to such acts or transactions as to which the Accounting Party shall within such one hundred eighty day period file with the Trustee written objections or which involve manifest error, gross negligence, willful misconduct or fraud.

7.4 Accounts of the Trustee need only be settled with the Accounting Party. Subject to any express provision of applicable law as may be in effect from time to time to the contrary, no other person or party shall be entitled to any accounting by the Trustee.

7.5 Nothing contained in this Trust Agreement shall, however, preclude the Trustee from having any of its accounts settled by a court of competent jurisdiction. In any action or proceeding for settlement of the accounts of the Trustee or concerning administration of the Trust Fund, the Accounting Party and the Trustee shall be the only necessary parties thereto. To the extent provided by law, service of any notice or process upon the Accounting Party shall be deemed for all purposes service on PPL, its subsidiaries, directors, former directors, Participants, employees, former employees, and retired employees of PPL, and their beneficiaries and any final judgment in any such action or proceeding shall be binding and conclusive on the Accounting Party, PPL, employees, former employees, directors, former directors and retired employees of PPL and their beneficiaries and the Trustee.

Article VIII
Resignation or Removal of the Trustee

8.1 The Trustee may be removed by the Accounting Party to the extent provided in Article X at any time upon sixty days notice in writing. The Trustee shall have the right to resign at any time by giving sixty days notice in writing to the Accounting Party, provided that such resignation shall not become effective until a successor trustee has accepted its appointment. Upon such removal or notice of resignation of the Trustee, the Accounting Party shall appoint and designate a successor Trustee, which shall be a corporate trustee qualified to conduct trust business in Pennsylvania, which is independent of and not subject to control by PPL. Such successor trustee shall qualify as such by delivering a written acceptance of the trust to the Accounting Party and the retiring Trustee, and thereupon all the provisions hereof shall relate and be applicable to such successor Trustee. Until the effective date of the assumption by the successor Trustee of its duties under this Trust Agreement, the retiring Trustee shall continue to function and be bound hereunder as trustee hereof. Upon receipt of such written acceptance the retiring Trustee shall forthwith file with the Accounting Party a written account of its acts in the same form as its annual account above provided for in Article VII from the date of its last annual account to the date of the acceptance of the Trust by the successor trustee and settlement of such account shall be accomplished as in Article VII. Upon the filing of such account, the retiring Trustee shall transfer and deliver the Trust Fund to the successor Trustee but shall be entitled to reserve therefrom and hold such assets as it may reasonably deem necessary to provide for any and all expenses and payments properly chargeable against the Trust Fund or for which the Trust Fund may be liable or to which the retiring Trustee may be entitled by way of fees and expenses in the settlement of its account. If the assets so withheld are insufficient or excessive for such purposes, the retiring Trustee shall be entitled to reimbursement for any deficiency out of the Trust Fund from the successor Trustee, or shall deliver the excess to the successor Trustee, as the case may be. To the extent permitted by law, upon the transfer of the Trust Fund as above provided and the settlement of its account, the retiring Trustee's previous annual accounts having been settled as provided in Article VII, the retiring Trustee shall thereupon be discharged from any further duty, obligation or responsibility with respect to the operation of the Trust Fund or any matter connected therewith prior to the delivery of said written acceptance except matters which relate to manifest error, gross negligence, willful misconduct or fraud.

8.2 If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 8.1 hereof, by the effective date of resignation or removal under Section 8.1. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Article IX
Action of PPL or Accounting Party

9.1 Any action of PPL pursuant to any of the provisions of this Trust Agreement shall be evidenced by a written notice or direction to such effect over the signature of: i) any officer or ii) other representative of PPL who shall have been certified to the Trustee by the President, Treasurer or Secretary of PPL as having such authority. The Trustee shall be fully protected in acting in accordance with such notices or directions. All communications from PPL to the Trustee shall be in writing, signed by the person designated as having such authority as PPL shall certify to the Trustee, and the Trustee shall act and be fully protected in acting in accordance with such communications.

9.2 Any action of the Accounting Party pursuant to provisions of this Trust Agreement shall be evidenced by a written notice or direction to such effect over the signature of any one or more members of the Accounting Party. Prior to the occurrence of a Change in Control, the President, Treasurer or Secretary of PPL shall advise the Trustee of the name or names of the person or persons who will serve as members of the Accounting Party after the occurrence of such Change in Control. After such Change in Control, current members of the Accounting Party shall advise the Trustee of the name or names of any new person or persons serving as members of the Accounting Party.

9.3 All communications from the Accounting Party to the Trustee shall be in writing, signed by the person designated as having such authority as PPL or member of the Accounting Party shall certify to the Trustee, and the Trustee shall be fully protected in acting in accordance with such communications.

9.4 PPL shall furnish the Trustee with a written list of the names, signatures and extent of authority of all persons constituting the Accounting Party as defined in Section 2.4. The Trustee shall be entitled to rely on and shall be fully protected in acting upon direction from such person until notified in writing by PPL, as appropriate, of a change in the make up of the Accounting Party.

Article X
Reservation of Powers

10.1 The Accounting Party expressly reserves the powers to:

- (a) remove the Trustee;
- (b) direct the investment and reinvestment of the principal and income of the Trust Fund; it shall be the duty of the Trustee to act strictly in accordance with such investment directions, and any changes therein, as so communicated to the Trustee from time to time in writing. To the maximum extent permitted by law, Trustee shall have no duty or responsibility (i) to advise with respect to, or inquire as to the propriety of, any such investment direction or (ii) for any investment decisions made with respect to the Trust by PPL or the Accounting Party. In the absence of investment direction by the Accounting Party, the Trustee shall invest Trust assets in any manner permitted under Section 5.1; and
- (c) following the occurrence of a Potential Change in Control as defined in Paragraph 10.3, modify, alter or amend this Trust Agreement, provided that no such modification, alteration or amendment may directly or indirectly (i) affect any Participant's entitlement to receive benefit payments under any Plan or under this Trust Agreement or the amount, form or timing of such benefit payments, (ii) alter the relative funding levels of the Plan Accounts, (iii) alter the method of allocation of Trust Fund earnings and losses among the Plan Accounts, (iv) eliminate the requirement under this Trust Agreement of separate accounting for the interests of each Plan in the Trust Fund, (v) impair or otherwise affect any claims which general creditors of PPL may have with respect to the Trust Fund in the event of PPL becomes Insolvent, (vi) change the rights, duties, powers, liabilities or immunities of the Trustee hereunder without the Trustee's written consent, except as provided upon the Trustee's removal in Article VIII, (vii) eliminate the restrictions set forth in this subparagraph 10.1(c), or (viii) confer upon the Trustee or any other person, directly or indirectly, the power or authority to effect any result prohibited under clauses (i)-(vii) of this subparagraph 10.1(c). No provision of this Trust Agreement may be amended by PPL in any manner adverse to Participants following a Potential Change in Control.

10.2 Subject to the provisions of Paragraphs 10.1 and 10.3 of this Article X, PPL expressly reserves the powers to:

- (a) modify, alter, amend, terminate or revoke this Trust Agreement and the trust hereby created to any extent and in any respect deemed advisable by PPL, through an action of PPL that is in writing duly executed and acknowledged and delivered to the Trustee; provided however, that the rights, duties, powers, liabilities or immunities of the Trustee hereunder shall not be changed without its written consent, except as provided upon the Trustee's removal in Article VIII;
- (b) withdraw from the Trust Fund any property forming a part of the Trust Fund, any such withdrawal shall be considered a revocation of this Trust solely with respect to such property;
- (c) reallocate amounts among Plan Accounts in the Trust Fund;
- (d) require the Trustee to furnish such information as may be reasonably requested in regard to the operations of the Trust Fund and the investment thereof;
- (e) add to or delete from Appendix A one or more nonqualified deferred compensation plans or agreements for PPL's or its subsidiaries employees;
- (f) add to or delete from Appendix A one or more individual employment agreements with employees of PPL or any of its subsidiaries; and
- (g) contribute to the Trust Fund property other than cash or marketable securities to the extent not expressly prohibited by the Plans or within the terms of this Trust, if acceptable to Trustee.

10.3 The right of PPL to exercise the powers reserved to it under Paragraph 10.2 of this Article shall expire upon the occurrence of a Change in Control or Potential Change in Control. For purposes of this Trust Agreement, a Change in Control shall be deemed to have occurred

(a) if one of the following events occurs:

(I) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareowners was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended;

(II) any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors;

(III) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (I) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least 60% of the combined voting power of the securities of the Company or at least 60% of the combined voting power of the securities of such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (II) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (excluding in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities;

(IV) the shareowners of the Company approve a plan of complete liquidation or dissolution of the Company; or

(V) the Board adopts a resolution to the effect that a "Change in Control" has occurred or is anticipated to occur.

(b) For purposes of this Trust Agreement, a "Potential Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(I) PPL enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(II) any Person publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control;

(III) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of PPL representing 5% or more of the combined voting power of PPL's then outstanding securities entitled to vote generally in the election of directors; or

(IV) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

For purposes of this Paragraph 10.3:

"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act; and "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) PPL or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of PPL or any of its Affiliates (as defined in Rule 12b-2 promulgated under Section 12 of the Exchange Act), (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of PPL in substantially the same proportions as their ownership of stock of PPL.

10.4 The Board of Directors or the Chief Executive Officer or any Plan Participant may notify the Trustee in writing as promptly as practicable following the occurrence of a Change in Control or Potential Change in Control, and the Trustee shall not be charged with knowledge of such Change in Control or Potential Change in Control in the absence of written notification.

10.5 The Trustee is not a party to any Plan except insofar as the Trustee has assumed duties under a Plan as specifically provided in this Trust Agreement. PPL retains the right to amend any provision of any Plan to the extent provided for in such Plan, including provisions relating to the Trustee; provided, however, that the allocation of responsibilities to the Trustee shall not be amended, altered or modified without the prior written consent of the Trustee, and no amendment to any Plan shall allocate responsibilities between the Trustee and PPL in a manner

inconsistent with the terms of this Trust Agreement.

Article XI
Surplus Plan Accounts and Termination of Trust

11.1 If this Trust Agreement is terminated under Article X with respect to any Plan at a time when there is a Plan Account attributable to such Plan or if the Trustee determines that certain amounts attributable to a Plan Account will not be required to make benefit payments under the Plan for which such Plan Account is maintained, the value of the Plan Account or portion thereof attributable to such Plan shall be allocated in the Trustee's discretion among the remaining Plan Accounts in a way that the Trustee believes best maximizes benefit payments under Article IV.

11.2 Unless the Trust is revoked under Article X, the Trust shall not terminate until the date on which no person is or will ever be entitled to benefit payments under the Plans. Any assets remaining in the Trust shall be returned to PPL upon revocation or termination of the Trust.

Article XII
Merger or Consolidation of Trustee

12.1 Any corporation into which the Trustee **may** be merged or with which it may be consolidated, or any corporation resulting from any merger, reorganization or consolidation to which the Trustee may be a party, or any corporation to which all or substantially all of the trust business of the Trustee may be transferred shall be the successor of the Trustee hereunder without the execution or filing of any instrument or the performance of any further act; provided that in case of any such transfer of trust business the transferee corporation shall file with PPL written acceptance of the Trust hereby created.

Article XIII
Miscellaneous

13.1 This Trust Agreement, as amended from time to time, shall be administered, construed and enforced according to the laws of the Commonwealth of Pennsylvania and in courts situated in that Commonwealth. The situs of the Trust shall be Lehigh County, Pennsylvania.

13.2 This Trust Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.

13.3 Nothing in this Trust Agreement shall require PPL to retain any employee in its service or the service of any of its subsidiaries.

13.4 The Trustee by joining in the execution of this Trust Agreement hereby signifies its acceptance of the Trust hereby created.

13.5 Notwithstanding anything in this Trust Agreement to the contrary, this Trust shall terminate no later than twenty-one years after the death of the last survivor in being upon the cessation of PPL's powers under Article X of the class consisting of the persons entitled to receive benefits under the Plans.

13.6 No attempt by any person entitled to benefits under the Plan to assign, alienate, anticipate, sell, transfer, pledge, encumber or place a charge upon any benefit or any installment thereof shall be recognized by the Trustee, nor shall the Trustee recognize any such attempt to attach or garnish or otherwise subject the Trust Fund or any benefit or any installment thereof to legal process, except as the Trustee may be required to do by law.

13.7 Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

13.7 This Trust Agreement shall be binding upon any successors or assigns of PPL and any transferee(s) of all or substantially all of PPL's assets.

13.8 Any notice to the Trustee shall be sent to the following:

First Union National Bank
Attn: Robert Hord
1525 West W. T. Harris Boulevard
Charlotte, North Carolina 28288

Any notice to PPL shall be sent to the

PPL Corporation
Attn: Thoburn Hatten
Two North Ninth Street
Allentown, Pennsylvania 18101

Either party hereto may designate a new representative for the purpose of receiving notices by notifying the other party in writing of the name and address of such new representative. An Accounting Party other than PPL shall notify both PPL and Trustee of the name and address of its designated representative authorized from time to time to receive notices.

IN WITNESS WHEREOF, this Trust Agreement has been duly executed by the authorized officers of the parties hereto.

ATTEST:

/s/ Diane M. Koch
Assistant Secretary

PPL CORPORATION

By: /s/ James E. Abel

Name: James E. Abel

Title: Vice President-Finance & Treasurer

Date: April 10, 2001

ATTEST:

/s/ Samantha Miller

FIRST UNION NATIONAL BANK AS TRUSTEE

By: /s/ Robert E. Hord Jr.

Name: Robert E. Hord Jr.

Title: Vice President

Date: April 26, 2001

APPENDIX A

<u>Name of Plan</u>	<u>Designated Hereunder Effective</u>
PPL Officers Deferred Compensation Plan	April 1, 2001
PPL Supplemental Executive Retirement Plan	April 1, 2001
PPL Supplemental Compensation Pension Plan	April 1, 2001

**PPL Corporation
2012 Stock Incentive Plan
Performance Unit Agreement**

PERFORMANCE UNIT AGREEMENT (the “Agreement”) dated as of the Date of Grant set forth in the Notice of Grant (as defined below), by and between PPL Corporation, a Pennsylvania corporation (the “Company”), and the participant whose name appears on the Notice of Grant (the “Participant”).

1. Grant of Stock Based Award. Subject to the terms and conditions of this Agreement (including vesting conditions):

(a) The Company hereby evidences and confirms its grant to the Participant, effective as of the Date of Grant, of the number of stock based units contingent upon Company financial performance (the “Performance Units”) specified in the Notice of Grant attached hereto as Exhibit A and made a part hereof (“Notice of Grant”).

(b) (i) If on any date while the Performance Units are outstanding hereunder the Company shall pay any cash dividend on its shares of Common Stock, the Participant shall be granted, as of the applicable dividend payment date, a “Cash Dividend Equivalent Award” which shall represent a future contingent right to a number of shares of Common Stock (rounded down to the nearest whole share) with a current Fair Market Value equal to the product of (x) the number of "Total Performance Units" (as defined below) held by the Participant hereunder as of the related dividend record date, multiplied by (y) the amount of such cash dividend per share of Common Stock. Any Cash Dividend Equivalent Award shall be subject to the same payment terms and conditions as the corresponding Performance Units to which they relate.

(ii) If on any date while the Performance Units are outstanding hereunder the Company shall pay any dividend on its shares of Common Stock in the form of shares of Common Stock, the Participant shall be granted, as of the applicable dividend payment date, the contingent right to a future number of shares of Common Stock, equal to the product of (x) the number of Total Performance Units held by the Participant hereunder as of the related dividend record date, multiplied by (y) the number of shares of Common Stock (including any fraction thereof) payable as a dividend on one share of Common Stock, rounded down to the nearest whole Unit.

(iii) At any point in time, the total number of shares of Common Stock of all Performance Units, Cash Dividend Equivalent Awards, and rights to the stock dividends, if any, referred to in Section 1(b)(ii) above, shall be defined as "Total Performance Units."

(c) This Agreement and the Total Performance Units granted hereunder are subject to all of the terms and conditions of the PPL Corporation 2012 Stock Incentive Plan (the “Plan”), which are incorporated by reference herein. If there is any inconsistency between the terms hereof and the terms of the Plan, the terms of the Plan shall govern. Any capitalized terms used herein without definition shall have the meanings set forth in the Plan.

2. Vesting of Total Performance Units.

(a) Vesting.

(i) Except as otherwise provided in Section 2(b) or Section 2(c), or Section 2(d), subject to the achievement of the performance goals (the “Goals”) established by the Committee for the “Performance Period” (as set forth in the Notice of Grant), and to the continued Employment of the Participant through the conclusion of the Performance Period, the Total Performance Units will become vested based on the extent to which the Goals are satisfied at the conclusion of the Performance Period, as and to the extent set forth in the Notice of Grant (the percentage of the Total Performance Units which so vest being referred to as the “Vesting Percentage”).

(ii) Promptly after the conclusion of the Performance Period, the Committee will determine whether the Goals have been satisfied, and will certify in writing as to whether such Goals were in fact satisfied. Based on the Committee’s determination and certification, (A) the Total Performance Units will vest as and to the extent set forth in the Notice of Grant, and (B) the portion of the Total Performance Units, if any, that do not vest in accordance with the foregoing shall be immediately forfeited and cancelled by the Company without any consideration.

(b) Termination of Employment.

(i) General. Except as provided in Section 2(b)(ii) below, in the event of the Participant’s termination of Employment for any reason prior to the conclusion of the Performance Period, the Participant's Total Performance Units shall be immediately forfeited and cancelled by the Company without consideration.

(ii) Death, Disability, Retirement.

(A) In the event of the Participant’s termination of Employment with the Company and its Affiliates due to death, Disability or Retirement prior to the conclusion of the Performance Period, the Total Performance Units shall remain outstanding and eligible for vesting through the conclusion of the Performance Period (or, if applicable, an earlier Change in Control (as defined below)) as described in Section 2(a) above; provided, that, in such event, only a pro rata portion (as described below in this Section 2(b)(ii)(B)) of the Total Performance Units shall be eligible to become vested, and, to the extent so vested, shall be settled and paid as provided in Section 3; and

(B) Subject to Section 2(c) below (in the event of a Change in Control following termination of Employment due to death, Disability or Retirement and prior to the conclusion of the Performance Period), the pro rata portion described in clause (A) above shall

be determined by multiplying the number of Total Performance Units that would have vested had the Participant's Employment continued through the conclusion of the Performance Period, based on actual achievement of the Goals, by a fraction, the numerator of which is the number of pay periods elapsed from the commencement of the Performance Period through the date of the Participant's termination of Employment, and the denominator of which is the number of pay periods in the Performance Period; and

(C) Upon the determination of the number of Total Performance Units pursuant to Section 2(b)(ii) that shall vest, all remaining unvested Total Performance Units shall be immediately forfeited and cancelled by the Company without consideration.

For purposes of this Agreement, "Retirement" shall mean the Participant's termination of Employment at a time when the Participant is eligible to commence monthly retirement benefits under the Company's Retirement Plan, or, if the Participant is not a participant in the Company's Retirement Plan, under any other defined benefit pension plan (whether or not tax qualified) maintained by the Company Group, or, if the Participant is not covered by any defined benefit pension plan, then Retirement shall mean the Participant's termination of Employment at or after age 55 .

(c) Change in Control . Notwithstanding the foregoing, in the event of a Change in Control prior to the conclusion of the Performance Period while a Participant remains employed with the Company and its Affiliates (or following termination of Employment due to death, Disability or Retirement), (x) the Performance Period shall be deemed to conclude immediately prior to the Change in Control, and (y) a pro rata portion of all then unvested Total Performance Units will become immediately vested as though there had been achievement of Goals satisfying the Target Award (as defined in Exhibit A), such pro rata portion determined by multiplying the number of Total Performance Units, in each case represented by the Target Award, by a fraction, the numerator of which is the number of pay periods elapsed from the commencement of the Performance Period through the date immediately prior to the Change in Control (or, if earlier, the date of the Participant's termination of Employment due to death, Disability or Retirement, consistent with Section 2(b)(ii) above), and the denominator of which is the number of pay periods in the original Performance Period (i.e., if the Performance Period had not terminated upon a Change in Control). All remaining Total Performance Units that do not so vest in accordance with the foregoing provisions of this Section 2(c) shall be immediately forfeited and cancelled by the Company without consideration.

(d) No shares of Common Stock will be issued or issuable (or other consideration be payable) with respect to any portion of the Total Performance Units that do not vest in accordance with the foregoing provisions of Section 2. All Performance Units and shares of Common Stock issued in connection with Performance Units are subject to forfeiture in accordance with the PPL Corporation Policy Regarding Recoupment of Executive Compensation.

3. Payment Date . Subject to Section 7(c), on the Payment Date (as defined below), the Company shall issue to the Participant one share of Common Stock in settlement of the Total Performance Units, if any, that vest as provided in Section 2. The "Payment Date" upon which this Award shall be settled and paid shall occur as soon as practicable following the conclusion of the Performance Period and the date that the Committee (or CLC) determines and certifies that the Goals with respect to the Performance Period have been satisfied (but in no event later than 2½ months after the conclusion of the Performance Period); provided, however, in the case of settlement as a result of a Change in Control pursuant to Section 2(c), the Payment Date shall occur as of immediately prior to the Change in Control and provided, further, no payment shall be made to the Participant following the Participant's termination of Employment for any reason other than death or a Change in Control until six months after the date of termination of Employment.

No fractional shares of Common Stock shall be issued. Fractional shares shall be settled through a cash payment based on the Fair Market Value of the Common Stock on the Payment Date.

4. Securities Law Compliance . Notwithstanding any other provision of this Agreement, the Participant may not sell the shares of Common Stock acquired upon settlement of the Total Performance Units unless such shares are registered under the Securities Act of 1933, as amended (the "Securities Act"), or, if such shares are not then so registered, such sale would be exempt from the registration requirements of the Securities Act. The sale of such shares must also comply with other applicable laws and regulations governing the shares, and Participant may not sell the shares of Common Stock, if the Company determines that such sale would not be in material compliance with such laws and regulations.

5. Participant's Rights with Respect to the Total Performance Units .

(a) Restrictions on Transferability . The Total Performance Units granted hereby are not assignable or transferable, in whole or in part, and may not, directly or indirectly, be offered, transferred, sold, pledged, assigned, alienated, hypothecated or otherwise disposed of or encumbered (including, without limitation, by gift, operation of law or otherwise) other than by will or by the laws of descent and distribution to the estate of the Participant upon the Participant's death; provided that the deceased Participant's beneficiary or representative of the Participant's estate shall acknowledge and agree in writing, in a form reasonably acceptable to the Company, to be bound by the provisions of this Agreement and the Plan, as if such beneficiary or the estate were the Participant.

(b) No Rights as Stockholder . The Participant shall not have any rights as a stockholder including any voting, dividend or other rights or privileges as a stockholder of the Company with respect to any Common Stock corresponding to the Total Performance Units granted hereby, unless and until shares of Common Stock are actually issued to the Participant in respect thereof.

6. Adjustment in Capitalization . In the event of any change in the outstanding Common Stock by reason of any recapitalization, combination or exchange of shares or other similar changes in the Common Stock, appropriate adjustment shall be made by the Committee, in accordance with Section 10 of the Plan.

7. Miscellaneous .

(a) Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any person other than the parties to this Agreement or their respective successors or assigns, any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.

(b) No Right to Continued Employment. Nothing in the Plan or this Agreement shall interfere with or limit in any way the right of the Company or any of its Affiliates to terminate the Participant's Employment at any time, or confer upon the Participant any right to continue in the employment of the Company or any of its Affiliates.

(c) Tax Withholding. The Company and its Affiliates shall have the right to deduct from all amounts payable to the Participant (whether under the Plan or otherwise) any amount of taxes required by law to be withheld in respect of settlement of the vested Total Performance Units, as may be necessary in the opinion of the Company to satisfy tax withholding required by law to be withheld. Unless otherwise determined by the Committee, the Company will meet such obligations with respect to the settlement and payment of any vested Total Performance Units by having the Company withhold the least number of whole shares of Common Stock having a Fair Market Value sufficient to satisfy the amount required to be withheld in respect of settlement and payment of the vested Total Performance Units.

(d) Applicable Law. This Agreement shall be governed by and construed in accordance with the law of the Commonwealth of Pennsylvania regardless of the application of rules of conflict of laws that would apply to the laws of any other jurisdiction.

(e) Limitation on Rights; No Right to Future Grants; Extraordinary Item of Compensation. By entering into this Agreement and accepting the Total Performance Unit Award evidenced hereby, the Participant acknowledges: (i) that the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (ii) that the Award does not create any contractual or other right to receive future grants of Awards; (iii) that participation in the Plan is voluntary; (iv) that the value of the Total Performance Unit Award is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; and (v) that the future value of the shares of Common Stock is unknown and cannot be predicted with certainty.

(f) Headings and Captions. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(g) Amendments. The terms of this Agreement may be amended from time to time by the Committee in its sole discretion in any manner it deems appropriate; provided that no such amendment shall, without the Participant's consent, materially diminish the Participant's rights under this Agreement.

(h) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same instrument.

To confirm your acceptance of the foregoing, kindly sign and promptly return one copy of this Agreement and Exhibit A to the Company.

Sincerely,
PPL Corporation

By: _____

**PPL CORPORATION
2012 STOCK INCENTIVE PLAN**

PERFORMANCE CONTINGENT RESTRICTED STOCK UNIT AGREEMENT

Participant:

Date of Grant:

Number of RSUs:

1. Grant of RSUs. The Company hereby grants the number of performance contingent restricted stock units (“RSUs”) listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms of the PPL Corporation 2012 Stock Incentive Plan (the “Plan”), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. Each RSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting/Form and Timing of Issuance or Transfer.

(a) Subject to the Participant’s continued Employment with the Company and its Affiliates through [insert dates] (each, a “Vesting Date”), ___% of the RSUs shall vest upon each such Vesting Date and the Company shall, within 30 days following the relevant Vesting Date, issue or cause there to be transferred to the Participant the corresponding number of Shares equal to the number of vested RSUs. Notwithstanding the preceding sentence, 100% of the outstanding RSUs shall vest upon (i) the Participant’s termination of Employment by the Company and its Affiliates without Cause or by the Participant with Good Reason during the 24 month period following a Change in Control or (ii) the Participant’s termination of Employment due to death, Disability or Retirement (each of the termination events described under clause (i) and (ii) being a “Qualifying Termination”). The Shares underlying any portion of the RSUs that vest in accordance with the preceding sentence shall be delivered to the Participant on the date that is 6 months and one day following the date of the Participant’s termination of Employment. Upon the Participant’s termination of Employment with the Company or any Affiliate for any reason other than due to a Qualifying Termination, all RSUs that did not become vested on or prior to such date shall immediately terminate and be forfeited without consideration and no Shares shall be delivered hereunder.

(b) Upon the issuance or transfer of Shares in accordance with Section 2(a) of this Agreement, the number of RSUs equal to the number of Shares issued or transferred to the Participant shall be extinguished.

(c) For purposes of this Agreement:

(i) “Cause” shall mean “Cause” as defined in any employment, severance, or similar agreement then in effect between the Participant and any of the Company or its Affiliates, or, if no such agreement containing a definition of “Cause” is then in effect or if such term is not defined therein, “Cause” shall mean (i) Participant’s engagement in misconduct which is materially injurious to the Company or its Affiliates, (ii) Participant’s insubordination after clear and lawful direction, (iii) Participant’s commission of a felony in the performance of duties to the Company, (iv) Participant’s commission of an act or acts constituting any fraud against, or embezzlement from the Company or any of its Affiliates (v) Participant’s material breach of any confidentiality or non-competition covenant entered into between the Participant and the Company, or (vi) Participant’s employment with a competitor while employed by the Company. The determination of the existence of Cause shall be made by the Committee in good faith, which determination shall be conclusive for purposes of this Agreement.

(ii) “Good Reason” shall mean “Good Reason” or such similar concept as defined in any employment, severance, or similar agreement then in effect between the Participant and any of the Company or its Affiliates, or, if no such agreement containing a definition of “Good Reason” is then in effect or if such term is not defined therein, “Good Reason” shall mean without the Participant’s consent, (i) a change caused by the Company in the Participant’s duties and responsibilities which is materially inconsistent with the Participant’s position at the applicable entity that is a member of the Company Group, (ii) a material reduction in the Participant’s annual base salary, annual incentive compensation opportunity or other employee benefits (excluding any such reduction that is part of a plan to reduce annual base salaries, annual incentive compensation opportunities or other employee benefits of comparably situated employees of any entity that is a member of the Company Group generally), or (iii) a relocation of the Participant’s principal place of employment to a location that is more than 50 miles from the Participant’s current principal place of employment; provided that, notwithstanding anything to the contrary in the foregoing, the Participant shall only have “Good Reason” to terminate employment following the applicable entity’s failure to remedy the act which is alleged to constitute “Good Reason” within thirty (30) days following such entity’s receipt of written notice from the Participant specifying such act, so long as such notice is provided within sixty (60) days after such event has first occurred.

(iii) “Retirement” shall mean the Participant’s termination of Employment at a time when the Participant is eligible to commence monthly retirement benefits under the Company’s Retirement Plan, or, if the Participant is not a participant in the Company’s Retirement Plan, under any other defined benefit pension plan (whether or not tax qualified) maintained by the Company Group, or, if the Participant is not covered by any defined benefit pension plan, then Retirement shall mean the Participant’s termination of Employment at or after age 55.

(iv) “Unvested RSUs” shall mean, on a given date, the number of RSUs which remain unvested.

(v) “Vested RSUs” shall mean, on a given date, the number of RSUs which are then vested, but for which Shares have not yet been delivered.

3. Dividend Equivalent RSU’s. RSU’s shall not pay cash dividends. The Participant shall be entitled to receive additional RSU’s equal to the number of whole Shares that could have been purchased on the date that any dividends on Shares may be paid, at the Fair Market Value of Shares on that date, as if the dollar amount of any ordinary dividends that are declared on Shares applied to the Shares underlying the RSUs. All such additional RSU’s shall be subject to the same terms and conditions applicable herein to the underlying RSU’s, including such RSUs becoming Vested RSUs. Notwithstanding the foregoing, if on any date while RSUs are outstanding hereunder the Company shall pay any extraordinary dividend on the Shares, the Committee shall equitably adjust the outstanding RSUs pursuant to Section 10 of the Plan.

4. No Right to Continued Employment. The granting of RSUs evidenced by this Agreement shall impose no obligation on the Company or any Affiliate to continue the Employment of the Participant and shall not lessen or affect the Company’s or its Affiliate’s right to terminate the Employment of such Participant.

5. No Rights of a Shareholder. The Participant shall not have any rights as a shareholder of the Company until the Shares have been issued or transferred to such Participant.

6. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 2 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions.

7. Transferability. RSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 7 shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance.

8. Notices. Any notice under this Agreement shall be addressed to the Company in care of its General Counsel at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

9. Withholding. The Participant shall be required to pay to the Company or any Affiliate applicable withholding taxes with respect to any issuance or transfer under this Agreement or under the Plan, and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any issuance or transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant an amount in respect of such withholding taxes, and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such withholding taxes.

10. Choice of Law. **THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.**

11. RSUs Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan and agrees that all RSUs and Shares received in respect of RSUs are subject to the Plan. The terms and provisions of the Plan, as may be amended from time to time, are hereby incorporated by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms of the Plan will govern and prevail.

12. Modifications. Notwithstanding any provision of this Agreement to contrary, the Company reserves the right to modify the terms and conditions of this Agreement including, without limitation, the timing or circumstances of the issuance or transfer of Shares to the Participant hereunder, to the extent such modification is determined by the Company to be necessary to comply with applicable law or preserve the intended deferral of income recognition with respect to the RSUs until the issuance or transfer of Shares hereunder.

13. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

14. Compliance with IRC Section 409A. Notwithstanding anything herein to the contrary, (i) if at the time of the Participant’s termination of employment with the Company and its Affiliates the Participant is a “specified employee” as defined in Section 409A of the Code and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Participant) until the date that is six months and one day following the Participant’s termination of employment with the Company and its Affiliates (or the earliest date as is permitted under Section 409A of the Code) and (ii) if any other payments or other benefits due to the Participant hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such

payment or other benefits shall be restructured, to the extent possible, in a manner, determined by the Committee, that does not cause such an accelerated or additional tax. The Company shall use commercially reasonable efforts to implement the provisions of this Section 14 in good faith; provided that neither the Company, the Committee nor any of the Company's employees, directors or representatives shall have any liability to the Participant with respect to this Section 14.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

PPL CORPORATION

By: /s/ William H. Spence
William H. Spence
President & CEO

**PPL CORPORATION
2012 STOCK INCENTIVE PLAN /
INCENTIVE COMPENSATION PLAN FOR KEY EMPLOYEES**

Performance Contingent Restricted Stock Unit Agreement

Exhibit A

Granted to: Participant Name

SSN: SSN or I-Number

Date of Award: Grant date

Date restrictions expire: three years from Date of Award (above)

Units: Number of shares granted

**PPL CORPORATION
2012 STOCK INCENTIVE PLAN**

NONQUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT (the “Agreement”), is made effective as of the date set forth on the signature page hereto, (hereinafter called the “Date of Grant”), between PPL Corporation, a Pennsylvania corporation (hereinafter called the “Company”), and the individual set forth on the signature page hereto (hereinafter called the “Participant”), pursuant to the PPL Corporation 2012 Stock Incentive Plan (the “Plan”), which Plan is incorporated herein by reference and made a part of this Agreement.

1. Grant of the Option .

The Company hereby grants to the Participant the right and option (the “Option”) to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of the number of Shares set forth on the signature page hereto, subject to adjustment as set forth in the Plan. The purchase price of the Shares subject to the Option shall be the Option Price set forth on the signature page hereto (the “Option Price”). The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Internal Revenue Code of 1986, as amended.

2. Definitions. Whenever the following terms are used in this Agreement, they shall have the meanings set forth below. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

(a) “Cause” shall mean “Cause” as defined in any employment, severance, or similar agreement then in effect between the Participant and any of the Company or its Affiliates, or, if no such agreement containing a definition of “Cause” is then in effect or if such term is not defined therein, “Cause” shall mean (i) Participant’s engagement in misconduct which is materially injurious to the Company or its Affiliates, (ii) Participant’s insubordination after clear and lawful direction, (iii) Participant’s commission of a felony in the performance of duties to the Company, (iv) Participant’s commission of an act or acts constituting any fraud against, or embezzlement from the Company or any of its Affiliates, (v) Participant’s material breach of any confidentiality or non-competition covenant entered into between the Participant and the Company, or (vi) Participant’s employment with a competitor while employed by the Company. The determination of the existence of Cause shall be made by the Committee in good faith, which determination shall be conclusive for purposes of this Agreement.

(b) “Good Reason” shall mean “Good Reason” or such similar concept as defined in any employment, severance, or similar agreement then in effect between the Participant and any of the Company or its Affiliates, or, if no such agreement containing a definition of “Good Reason” is then in effect or if such term is not defined therein, “Good Reason” shall mean without the Participant’s consent, (i) a change caused by the Company in the Participant’s duties and responsibilities which is materially inconsistent with the Participant’s position at the applicable entity that is a member of the Company Group, (ii) a material reduction in the Participant’s annual base salary, annual incentive compensation opportunity or other employee benefits (excluding any such reduction that is part of a plan to reduce annual base salaries, annual incentive compensation opportunities or other employee benefits of comparably situated employees of any entity that is a member of the Company Group generally), or (iii) a relocation of the Participant’s principal place of employment to a location that is more than 50 miles from the Participant’s current principal place of employment; provided that, notwithstanding anything to the contrary in the foregoing, the Participant shall only have “Good Reason” to terminate employment following the applicable entity’s failure to remedy the act which is alleged to constitute “Good Reason” within thirty (30) days following such entity’s receipt of written notice from the Participant specifying such act, so long as such notice is provided within sixty (60) days after such event has first occurred.

(c) “Retirement” shall mean the Participant’s termination of Employment at a time when the Participant is eligible to commence monthly retirement benefits under the Company’s Retirement Plan, or, if the Participant is not a participant in the Company’s Retirement Plan, under any other defined benefit pension plan (whether or not tax qualified) maintained by the Company Group, or, if the Participant is not covered by any defined benefit pension plan, then Retirement shall mean the Participant’s termination of Employment at or after age 55.

3. Vesting.

(a) Subject to the Participant’s continued Employment through the applicable vesting date, the Option shall vest and become exercisable at the time(s) set forth on the signature page hereto.

(b) Notwithstanding the foregoing, in the event of a termination of the Participant’s Employment by the Company and its Affiliates without Cause or by the Participant with Good Reason during the 24 month period following a Change in Control (a “CIC Termination”), the Option shall, to the extent not then vested or previously forfeited or cancelled, become fully vested and exercisable effective as of such termination date.

(c) Subject to Section 3(b) above, if the Participant’s Employment with the Company is terminated for any reason other than death, Disability, or Retirement, the vested portion of the Option shall remain exercisable for the period set forth in Section 4(a), and the unvested portion of the Option shall immediately terminate. In the event of Participant’s Retirement, all unvested Options then held by the Participant shall become vested and exercisable on the date of Retirement, except where a separation program or policy provides improved retirement benefits, in which case the express terms of such program or policy concerning exercise of Options shall control. In the event of the Participant’s termination of Employment due to death or Disability, all unvested Options then held by the Participant shall remain outstanding and shall become vested and exercisable at the same time as originally scheduled pursuant to this Agreement (as if the Participant remained in Employment through such dates)

4. Exercise of Option.

(a) Period of Exercise. Subject to the provisions of the Plan and this Agreement, the Participant may exercise all or any part of the

Option at any time prior to the earliest to occur of:

- (i) the Participant's termination of Employment by the Company or any of its Affiliates for Cause;
 - (ii) 60 days following the date of the Participant's termination of Employment for any reason other than due to a CIC Termination or the Participant's death, Disability or Retirement (or termination for Cause);
 - (iii) three years and 60 days following the date of the Participant's termination of Employment due to death, Disability or a CIC Termination;
 - (iv) five years following the date of the Participant's termination of employment due to Retirement; and
 - (v) the tenth anniversary of the Date of Grant.
- (b) Method of Exercise.

(i) Subject to Section 4(a), the Option may be exercised by delivering to the Company at its principal office written notice of intent to so exercise; provided that, the Option may be exercised with respect to whole Shares only. Such notice shall specify the number of Shares for which the Option is being exercised and shall be accompanied by payment in full of the Option Price. The payment of the Option Price may be made at the election of the Participant (A) in cash or its equivalent (e.g., by check), (B) to the extent permitted by the Committee, in Shares having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee; provided, that such Shares have been held by the Participant for no less than six months (or such other period as established from time to time by the Committee in order to avoid adverse accounting treatment applying generally accepted accounting principles), (C) partly in cash and, to the extent permitted by the Committee, partly in such Shares, (D) if there is a public market for the Shares at such time, through the delivery of irrevocable instructions to a broker to sell Shares obtained upon the exercise of the Option and to deliver promptly to the Company an amount out of the proceeds of such Sale equal to the aggregate option price for the Shares being purchased, or (E) to the extent permitted by the Committee, through a "net settlement" as described in Section 6(c) of the Plan.

Participant shall not have any rights to dividends or other rights of a stockholder with respect to Shares subject to an Option until the Participant has given written notice of exercise of the Option, paid in full for such Shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan. Participant shall also have no right to a dividend equivalent payment or unit of value with respect to any outstanding Options.

(ii) Notwithstanding any other provision of the Plan or this Agreement to the contrary, the Option may not be exercised prior to the completion of any registration or qualification of the Option or the Shares under applicable state and federal securities or other laws, or under any ruling or regulation of any governmental body or national securities exchange that the Committee shall in its sole discretion determine to be necessary or advisable.

(iii) Upon the Company's determination that the Option has been validly exercised as to any of the Shares, the Company shall issue certificates in the Participant's name for such Shares. However, the Company shall not be liable to the Participant for damages relating to any delays in issuing the certificates to him, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves. Notwithstanding the foregoing, the Company may elect to recognize the Participant's ownership through uncertificated book entry.

(iv) In the event of the Participant's death, the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 4(a) above. Any heir or legatee of the Participant shall take rights herein granted subject to the terms and conditions hereof.

5. No Right to Continued Employment.

The granting of the Option evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the Employment of the Participant and shall not lessen or affect the Company's or its Affiliate's right to terminate the Employment of such Participant.

6. Legend on Certificates.

Unless the Company issues the Shares in uncertificated form, the certificates representing the Shares purchased by exercise of the Option shall be subject to the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

7. Transferability.

The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Option to heirs or

legates of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof. During the Participant's lifetime, the Option is exercisable only by the Participant.

8. Withholding.

The Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold (including from payroll or any other amounts payable to the Participant), any applicable withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes; provided, however, that no amounts shall be withheld in excess of the Company's statutory minimum withholding liability. Without limiting the generality of the foregoing, to the extent permitted by the Committee, the Participant may satisfy, in whole or in part, the foregoing withholding liability by delivery of Shares held by the Participant (which are fully vested and not subject to any pledge or other security interest) or by having the Company withhold from the number of Shares otherwise deliverable to the Participant hereunder Shares with a Fair Market Value not in excess of the statutory minimum withholding liability. The Participant further agrees to make adequate provision for any sums required to satisfy all applicable federal, state, local and foreign tax withholding obligations of the Company which may arise in connection with the Option.

9. Securities Laws.

Upon the acquisition of any Shares pursuant to the exercise of the Option, the Participant will make or enter into such written representations, warranties and agreements as the Committee may reasonably request in order to comply with applicable securities laws or with this Agreement.

10. Notices.

Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

11. Choice of Law.

This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to conflicts of laws.

12. Option Subject to Plan.

By entering into this Agreement the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Option is subject to the Plan. The terms and provisions of the Plan, as they may be amended from time to time, are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

13. Signature in Counterparts.

This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[*Signatures on next page.*]

Sincerely,
PPL Corporation

By: /s/ William H. Spence
William H. Spence
President & CEO

**PPL CORPORATION
2012 STOCK INCENTIVE PLAN /
INCENTIVE COMPENSATION PLAN FOR KEY EMPLOYEES**

**STOCK OPTION AGREEMENT
Non-qualified Stock Option Grant**

Granted to: Participant Name

Empl ID: Employee ID Number

Grant Date: Date of Grant

Date Options Expire: Date of Expiration

Stock Options Awarded: Number of Options Awarded

Option Price: \$ Option (Grant) Price

Stock options provide the holder the right to purchase PPL common stock as they become vested. The options vest over a period of three years – one third at the end of each anniversary of the grant date. The dates of vesting and number of options vested on those dates can be viewed in your Fidelity stock plan account at Fidelity NetBenefits.

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Earnings, as defined:					
Income from Continuing Operations Before Income Taxes	\$ 2,082	\$ 2,201	\$ 1,239	\$ 538	\$ 1,273
Adjustment to reflect earnings from equity method investments on a cash basis (a)	34	1	7	1	
	<u>2,116</u>	<u>2,202</u>	<u>1,246</u>	<u>539</u>	<u>1,273</u>
Total fixed charges as below	1,065	1,022	698	513	568
Less:					
Capitalized interest	53	51	30	43	57
Preferred security distributions of subsidiaries on a pre-tax basis	5	23	21	24	27
Interest expense and fixed charges related to discontinued operations		3	12	15	16
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>1,007</u>	<u>945</u>	<u>635</u>	<u>431</u>	<u>468</u>
Total earnings	<u>\$ 3,123</u>	<u>\$ 3,147</u>	<u>\$ 1,881</u>	<u>\$ 970</u>	<u>\$ 1,741</u>
Fixed charges, as defined:					
Interest charges (b)	\$ 1,019	\$ 955	\$ 637	\$ 446	\$ 518
Estimated interest component of operating rentals	41	44	39	42	22
Preferred securities distributions of subsidiaries on a pre-tax basis	5	23	21	24	27
Fixed charges of majority-owned share of 50% or less-owned persons			1	1	1
Total fixed charges (c)	<u>\$ 1,065</u>	<u>\$ 1,022</u>	<u>\$ 698</u>	<u>\$ 513</u>	<u>\$ 568</u>
Ratio of earnings to fixed charges	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (d)	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(c) Interest on unrecognized tax benefits is not included in fixed charges.

(d) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Earnings, as defined:					
Income (Loss) from Continuing Operations Before					
Income Taxes	\$ 738	\$ 1,212	\$ 881	\$ (13)	\$ 671
Adjustments to reflect earnings from equity method					
investments on a cash basis	<u>738</u>	<u>1,213</u>	<u>888</u>	<u>(12)</u>	<u>671</u>
Total fixed charges as below	238	259	426	364	390
Less:					
Capitalized interest	47	47	33	44	57
Interest expense and fixed charges related to					
discontinued operations	<u>191</u>	<u>209</u>	<u>246</u>	<u>218</u>	<u>176</u>
Total fixed charges included in Income (Loss) from					
Continuing Operations Before Income Taxes	<u>191</u>	<u>209</u>	<u>246</u>	<u>218</u>	<u>176</u>
Total earnings	<u>\$ 929</u>	<u>\$ 1,422</u>	<u>\$ 1,134</u>	<u>\$ 206</u>	<u>\$ 847</u>
Fixed charges, as defined:					
Interest charges (a)	\$ 214	\$ 223	\$ 387	\$ 321	\$ 374
Estimated interest component of operating rentals	24	36	38	42	15
Fixed charges of majority-owned share of 50% or					
less-owned persons	<u>238</u>	<u>259</u>	<u>426</u>	<u>364</u>	<u>390</u>
Total fixed charges (b)	<u>\$ 238</u>	<u>\$ 259</u>	<u>\$ 426</u>	<u>\$ 364</u>	<u>\$ 390</u>
Ratio of earnings to fixed charges (c)	<u>3.9</u>	<u>5.5</u>	<u>2.7</u>	<u>0.6</u>	<u>2.2</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Global's operating results were reclassified as Discontinued Operations. Upon reflecting this reclassification, earnings were less than fixed charges for 2009. See Note 9 in PPL Energy Supply's 2011 Form 10-K for additional information. The total amount of fixed charges for this period was approximately \$364 million and the total amount of earnings was approximately \$206 million. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was approximately \$158 million.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS*(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Earnings, as defined:					
Income Before Income Taxes	\$ 204	\$ 257	\$ 192	\$ 221	\$ 278
Total fixed charges as below	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>	<u>114</u>
Total earnings	<u>\$ 311</u>	<u>\$ 362</u>	<u>\$ 294</u>	<u>\$ 342</u>	<u>\$ 392</u>
Fixed charges, as defined:					
Interest charges (a)	\$ 104	\$ 102	\$ 101	\$ 120	\$ 113
Estimated interest component of operating rentals	<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total fixed charges (b)	<u>\$ 107</u>	<u>\$ 105</u>	<u>\$ 102</u>	<u>\$ 121</u>	<u>\$ 114</u>
Ratio of earnings to fixed charges	<u>2.9</u>	<u>3.4</u>	<u>2.9</u>	<u>2.8</u>	<u>3.4</u>
Preferred stock dividend requirements on a pre-tax basis	\$ 6	\$ 21	\$ 23	\$ 28	\$ 28
Fixed charges, as above	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>	<u>114</u>
Total fixed charges and preferred stock dividends	<u>\$ 113</u>	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 149</u>	<u>\$ 142</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>2.8</u>	<u>2.9</u>	<u>2.4</u>	<u>2.3</u>	<u>2.8</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor		
	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009 2008	
Earnings, as defined:						
Income from Continuing Operations						
Before Income Taxes	\$ 331	\$ 419	\$ 70	\$ 300	\$ (1,235)	\$ (1,536)
Adjustment to reflect earnings from equity method investments on a cash basis (a)	33	(1)		(4)	11	
Loss on impairment of goodwill					1,493	1,806
Mark to market impact of derivative instruments			2	(20)	(19)	34
	<u>364</u>	<u>418</u>	<u>72</u>	<u>276</u>	<u>250</u>	<u>304</u>
Total fixed charges as below	<u>157</u>	<u>153</u>	<u>25</u>	<u>158</u>	<u>186</u>	<u>199</u>
Total earnings	<u>\$ 521</u>	<u>\$ 571</u>	<u>\$ 97</u>	<u>\$ 434</u>	<u>\$ 436</u>	<u>\$ 503</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 151	\$ 147	\$ 24	\$ 153	\$ 176	\$ 184
Estimated interest component of operating rentals	6	6	1	5	5	5
Estimated discontinued operations interest component of rental expense					5	10
Total fixed charges	<u>\$ 157</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 158</u>	<u>\$ 186</u>	<u>\$ 199</u>
Ratio of earnings to fixed charges	<u>3.3</u>	<u>3.7</u>	<u>3.9</u>	<u>2.7</u>	<u>2.3</u>	<u>2.5</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor		
	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009 2008	
Earnings, as defined:						
Income Before Income Taxes	\$ 192	\$ 195	\$ 29	\$ 167	\$ 142	\$ 131
Mark to market impact of derivative instruments			1	(20)	(20)	35
	<u>192</u>	<u>195</u>	<u>30</u>	<u>147</u>	<u>122</u>	<u>166</u>
Total fixed charges as below	<u>44</u>	<u>46</u>	<u>8</u>	<u>40</u>	<u>46</u>	<u>60</u>
Total earnings	<u>\$ 236</u>	<u>\$ 241</u>	<u>\$ 38</u>	<u>\$ 187</u>	<u>\$ 168</u>	<u>\$ 226</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 42	\$ 44	\$ 8	\$ 38	\$ 44	\$ 58
Estimated interest component of operating rentals	<u>2</u>	<u>2</u>		<u>2</u>	<u>2</u>	<u>2</u>
Total fixed charges	<u>\$ 44</u>	<u>\$ 46</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 46</u>	<u>\$ 60</u>
Ratio of earnings to fixed charges	<u>5.4</u>	<u>5.2</u>	<u>4.8</u>	<u>4.7</u>	<u>3.7</u>	<u>3.8</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor		
	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009 2008	
Earnings, as defined:						
Income Before Income Taxes	\$ 215	\$ 282	\$ 55	\$ 218	\$ 200	\$ 226
Adjustment to reflect earnings from equity method investments on a cash basis (a)	33	(1)		(4)	11	
Mark to market impact of derivative instruments					1	(1)
	<u>248</u>	<u>281</u>	<u>55</u>	<u>214</u>	<u>212</u>	<u>225</u>
Total fixed charges as below	<u>72</u>	<u>73</u>	<u>11</u>	<u>71</u>	<u>79</u>	<u>77</u>
Total earnings	<u>\$ 320</u>	<u>\$ 354</u>	<u>\$ 66</u>	<u>\$ 285</u>	<u>\$ 291</u>	<u>\$ 302</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 69	\$ 70	\$ 10	\$ 69	\$ 76	\$ 74
Estimated interest component of operating rentals	3	3	1	2	3	3
Total fixed charges	<u>\$ 72</u>	<u>\$ 73</u>	<u>\$ 11</u>	<u>\$ 71</u>	<u>\$ 79</u>	<u>\$ 77</u>
Ratio of earnings to fixed charges	<u>4.4</u>	<u>4.8</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>	<u>3.9</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

Company Name Business Conducted under Same Name	State or Jurisdiction of Incorporation/Formation
LG&E and KU Energy LLC	Kentucky
Louisville Gas and Electric Company	Kentucky
Kentucky Utilities Company	Kentucky and Virginia
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Funding Corporation	Pennsylvania
PPL Energy Supply, LLC	Delaware
PPL Generation, LLC	Delaware
PPL Susquehanna, LLC	Delaware
PPL Martins Creek, LLC	Delaware
PPL Montana Holdings, LLC	Delaware
PPL Montana, LLC	Delaware
PPL Global, LLC	Delaware
PMDC International Holdings, Inc.	Delaware
PPL UK Holdings, LLC	Delaware
PPL UK Resources Limited	United Kingdom
PPL WW Holdings Limited	United Kingdom
Western Power Distribution LLP	United Kingdom
Western Power Distribution (South West) plc	United Kingdom
Western Power Distribution (South Wales) plc	United Kingdom
PPL UK Investments Limited	United Kingdom
PPL WEM Holdings plc	United Kingdom
WPD Midlands Holdings Limited	United Kingdom
Western Power Distribution (East Midlands) plc	United Kingdom
Western Power Distribution (West Midlands) plc	United Kingdom

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Corporation's Registration Statement on Form S-3 No. 333-180410, the Registration Statement on Form S-3D No 333-161826, and the Registration Statements on Form S-8 (Nos. 333-02003, 333-112453, 333-110372, 333-95967, 333-144047, 333-175680, and 333-181752) of our reports dated February 28, 2013, with respect to the consolidated financial statements of PPL Corporation and the effectiveness of internal control over financial reporting of PPL Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Energy Supply, LLC's Registration Statement on Form S-3 No. 333-180410-04 and the Registration Statement on Form S-4 No. 333-185996 of our report dated February 28, 2013, with respect to the consolidated financial statements of PPL Energy Supply, LLC, included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Electric Utilities Corporation's Registration Statement on Form S-3 No. 333-180410-03 of our report dated February 28, 2013, with respect to the consolidated financial statements of PPL Electric Utilities Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in PPL Corporation's Registration Statement on Form S-3 No. 333-180410, the Registration Statement on Form S-3D No 333-161826, and the Registration Statements on Form S-8 (Nos. 333-02003, 333-112453, 333-110372, 333-95967, 333-144047, 333-175680 and 333-181752) of our reports dated February 25, 2011, relating to the consolidated financial statements and financial statement schedule of LG&E and KU Energy LLC, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Louisville, Kentucky
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-180410-05) of LG&E and KU Energy LLC and in the related Prospectus of our report dated February 28, 2013, with respect to the consolidated financial statements and schedule of LG&E and KU Energy LLC included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-180410-01) of Louisville Gas and Electric Company and in the related Prospectus of our report dated February 28, 2013, with respect to the financial statements of Louisville Gas and Electric Company included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-180410-02) of Kentucky Utilities Company and in the related Prospectus of our report dated February 28, 2013, with respect to the financial statements of Kentucky Utilities Company included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in LG&E and KU Energy LLC's Registration Statement on Form S-3 No. 333-180410-05 of our reports dated February 25, 2011, relating to the consolidated financial statements and financial statement schedule of LG&E and KU Energy LLC, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Louisville, Kentucky
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in Louisville Gas and Electric Company's Registration Statement on Form S-3 No. 333-180410-01 of our reports dated February 25, 2011, relating to the financial statements of Louisville Gas and Electric Company, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Louisville, Kentucky
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in Kentucky Utilities Company's Registration Statement on Form S-3 No. 333-180410-02 of our reports dated February 25, 2011, relating to the financial statements of Kentucky Utilities Company, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Louisville, Kentucky
February 28, 2013

PPL CORPORATION
 2012 ANNUAL REPORT
 TO THE SECURITIES AND EXCHANGE COMMISSION
 ON FORM 10-K

POWER OF ATTORNEY

The undersigned directors of PPL Corporation, a Pennsylvania corporation, that is to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2012 ("Form 10-K Report"), do hereby appoint each of William H. Spence, Paul A. Farr, Robert J. Grey, Michael A. McGrail and Frederick C. Paine, and each of them, their true and lawful attorney, with power to act without the other and with full power of substitution and resubstitution, to execute for them and in their names the Form 10-K Report and any and all amendments thereto, whether said amendments add to, delete from or otherwise alter the Form 10-K Report, or add or withdraw any exhibits or schedules to be filed therewith and any and all instruments in connection therewith. The undersigned hereby grant to each said attorney full power and authority to do and perform in the name of and on behalf of the undersigned, and in any and all capacities, any act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as the undersigned might do, hereby ratifying and approving the acts of each of the said attorneys.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this 25th day of February, 2013.

/s/ Frederick M. Bernthal
 Frederick M. Bernthal

/s/ Venkata Rajamannar Madabhushi
 Venkata Rajamannar Madabhushi

/s/ John W. Conway
 John W. Conway

/s/ Craig A. Rogerson
 Craig A. Rogerson

/s/ Steven G. Elliott
 Steven G. Elliott

/s/ William H. Spence
 William H. Spence

/s/ Louise K. Goeser
 Louise K. Goeser

/s/ Natica von Althann
 Natica von Althann

/s/ Stuart E. Graham
 Stuart E. Graham

/s/ Keith H. Williamson
 Keith H. Williamson

/s/ Stuart Heydt
 Stuart Heydt

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ William H. Spence

William H. Spence
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 PPL Corporation

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Paul A. Farr

Paul A. Farr
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)
 PPL Corporation

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Energy Supply, LLC (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ David G. DeCampli
David G. DeCampli
President
(Principal Executive Officer)
PPL Energy Supply, LLC

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Energy Supply, LLC (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President
(Principal Financial Officer)
PPL Energy Supply, LLC

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Gregory N. Dudkin

 Gregory N. Dudkin
 President
 (Principal Executive Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Vincent Sorgi

Vincent Sorgi
 Vice President and Chief Accounting Officer
 (Principal Financial and Accounting Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Kent W. Blake

Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Kent W. Blake

Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of PPL Energy Supply, LLC (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, David G. DeCampli, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ David G. DeCampli

David G. DeCampli
President
(Principal Executive Officer)
PPL Energy Supply, LLC

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President
(Principal Financial Officer)
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial and Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ Gregory N. Dudkin

Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Vice President and Chief Accounting Officer
(Principal Financial and Accounting Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of LG&E and KU Energy LLC (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of Louisville Gas and Electric Company (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of Kentucky Utilities Company (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

LG&E & KU ENERGY LLC

FORM 10-Q (Quarterly Report)

Filed 05/03/13 for the Period Ending 03/31/13

Address	220 WEST MAIN STREET LOUISVILLE, KY 40202
Telephone	502-672-2000
CIK	0001518339
SIC Code	4931 - Electric and Other Services Combined
Fiscal Year	12/31

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	PPL Energy Supply, LLC (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 592,339,687 shares outstanding at April 30, 2013.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at April 30, 2013.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at April 30, 2013.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at April 30, 2013.

This document is available free of charge at the Investor Center on PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

**PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2013

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This combined Form 10-Q is separately filed by the following individual registrants: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf, and no registrant makes any representation as to information relating to any other registrant, except that information under "Forward-Looking Information" relating to PPL Corporation subsidiaries is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references within this Report, individually, to PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

Central Networks - collectively Central Networks East plc, Central Networks Limited and certain other related assets and liabilities. On April 1, 2011, PPL WEM Holdings plc (formerly WPD Investment Holdings Limited) purchased all of the outstanding ordinary share capital of these companies from E.ON AG subsidiaries. Central Networks West plc (subsequently renamed Western Power Distribution (West Midlands) plc), wholly owned by Central Networks Limited (subsequently renamed WPD Midlands Holdings Limited), and Central Networks East plc (subsequently renamed Western Power Distribution (East Midlands) plc) are British regional electricity distribution utility companies.

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries. Within the context of this document, references to LKE also relate to the consolidated entity.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services for LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Brunner Island - PPL Brunner Island, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Capital Funding - PPL Capital Funding, Inc., a wholly owned financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL that transmits and distributes electricity in its Pennsylvania service area and provides electric supply to retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Energy Supply, PPL Global and other subsidiaries.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that primarily owns and operates WPD, the businesses in the U.K. that are focused on the regulated distribution of electricity.

PPL Ironwood - PPL Ironwood LLC, an indirect subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Martins Creek - PPL Martins Creek, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Montour - PPL Montour, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides services for PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, the nuclear generating subsidiary of PPL Generation.

PPL WEM - PPL WEM Holdings plc (formerly WPD Investment Holdings Limited), an indirect, U.K. subsidiary of PPL Global. PPL WEM indirectly owns both WPD (East Midlands) and WPD (West Midlands).

PPL WW - PPL WW Holdings Limited (formerly Western Power Distribution Holdings Limited), an indirect, U.K. subsidiary of PPL Global. PPL WW Holdings indirectly owns WPD (South Wales) and WPD (South West).

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company. The company (formerly Central Networks East plc) was acquired and renamed in April 2011.

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company. The company (formerly Central Networks West plc) was acquired and renamed in April 2011.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Purchase Contract(s) - a contract that is a component of a 2010 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to May 1, 2014.

2012 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2012.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and makes changes to the existing Alternative Energy Portfolio Standard.

AEPS - Alternative Energy Portfolio Standard.

AFUDC - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Baseload generation - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

BREC - Big Rivers Electric Corporation, a power-generating rural electric cooperative in western Kentucky.

CAIR - the EPA's Clean Air Interstate Rule.

Cane Run Unit 7 - a combined-cycle natural gas unit under construction in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 141 MW and 499 MW to LG&E and KU by 2015.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

COLA - license application for a combined construction permit and operating license from the NRC for a nuclear plant.

CSAPR - Cross-State Air Pollution Rule.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

DPCR4 - Distribution Price Control Review 4, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2005.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - a distribution system improvement charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of DSM programs and revenues lost by implementing those programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which apply to coal combustion and by-products from the production of energy from coal.

EEI - Electric Energy, Inc., owns and operates a coal-fired plant and a natural gas facility in southern Illinois. KU's 20% ownership interest in EEI is accounted for as an equity method investment.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ESOP - Employee Stock Ownership Plan.

Euro - the basic monetary unit among participating members of the European Union.

FERC - Federal Energy Regulatory Commission, the federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

Fitch - Fitch, Inc., a credit rating agency.

FTRs - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that they entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion in the transmission grid.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved LG&E's recovery of costs associated with gas service lines, gas risers, leak mitigation, and gas main replacements. Rate recovery became effective on January 1, 2013.

If-Converted Method - When a company has convertible debt outstanding the following method needs to be applied to calculate diluted EPS: Interest charges (after tax) applicable to the convertible debt shall be added back to net income and the convertible debt shall be assumed to have been converted to equity at the beginning of the period and the resulting common shares shall be included with outstanding shares. Both adjustments are only done for purposes of calculating diluted EPS. This method was applied to PPL's Equity Units beginning in the first quarter of 2013.

Intermediate and peaking generation - includes the output provided by PPL's competitive oil- and natural gas-fired units.

Ironwood Acquisition - In April 2012, PPL Ironwood Holdings, LLC, an indirect, wholly owned subsidiary of PPL Energy Supply, completed the acquisition from a subsidiary of The AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, a natural gas-fired power plant in Lebanon, Pennsylvania.

IRS - Internal Revenue Service, a U.S. government agency.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LIBOR - London Interbank Offered Rate.

LTIIP - Long Term Infrastructure Improvement Plan.

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NorthWestern - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

NPDES - National Pollutant Discharge Elimination System.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception receive accrual accounting treatment.

NRC - Nuclear Regulatory Commission, the federal agency that regulates nuclear power facilities.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

Opacity - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity in power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined nameplate capacities of 2,390 MW.

PADEP - the Pennsylvania Department of Environmental Protection, a state government agency.

PJM - PJM Interconnection, L.L.C., operator of the electric transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply to retail customers within its delivery area who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

PUC Final Order - final order issued by the PUC on August 27, 1998, approving the settlement of PPL Electric's restructuring proceeding.

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts (which are components of the 2010 and 2011 Equity Units.)

RAV - regulatory asset value. This term is also commonly known as RAB or regulatory asset base.

RECs - renewable energy credits.

Regional Transmission Line Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies what changes and additions to the grid are needed to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects that are needed to maintain reliability standards and that are reviewed and approved by the PJM Board.

Registrants - PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU, collectively.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - Reliability First Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RMC - Risk Management Committee.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

SCR - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency whose primary mission is to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

SMGT - Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus that was terminated effective April 1, 2012.

SNCR - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

Spark Spread - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

Superfund - federal environmental legislation that addresses remediation of contaminated sites; states also have similar statutes.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2 or 549 MW of the capacity.

Tolling agreement - agreement whereby the owner of an electric generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

TRA - Tennessee Regulatory Authority, the state agency that has jurisdiction over the regulation of rates and service of utilities in Tennessee.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

VIE - variable interest entity.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

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FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2012 Form 10-K and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical, nuclear decommissioning liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery filings by PPL Electric at the PUC or the FERC, by LG&E at the KPSC or the FERC, by KU at the KPSC, VSCC, TRA or the FERC, or by WPD at Ofgem in the U.K.;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions and our ability to successfully operate acquired businesses and realize expected benefits from business acquisitions.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended March 31,	
	2013	2012
Operating Revenues		
Utility	\$ 1,950	\$ 1,714
Unregulated retail electric and gas	237	223
Wholesale energy marketing		
Realized	976	1,208
Unrealized economic activity (Note 14)	(822)	852
Net energy trading margins	(11)	8
Energy-related businesses	127	107
Total Operating Revenues	2,457	4,112
Operating Expenses		
Operation		
Fuel	529	424
Energy purchases		
Realized	691	883
Unrealized economic activity (Note 14)	(634)	591
Other operation and maintenance	676	706
Depreciation	284	264
Taxes, other than income	96	91
Energy-related businesses	122	102
Total Operating Expenses	1,764	3,061
Operating Income	693	1,051
Other Income (Expense) - net	122	(17)
Interest Expense	251	230
Income Before Income Taxes	564	804
Income Taxes	151	259
Net Income	413	545
Net Income Attributable to Noncontrolling Interests		4
Net Income Attributable to PPL Shareowners	\$ 413	\$ 541
Earnings Per Share of Common Stock:		
Basic	\$ 0.70	\$ 0.93
Diluted	\$ 0.65	\$ 0.93
Dividends Declared Per Share of Common Stock	\$ 0.3675	\$ 0.3600
Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	582,640	579,041
Diluted	657,020	579,527

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Net income	\$ 413	\$ 545
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Foreign currency translation adjustments, net of tax of (\$6), \$2	(245)	76
Available-for-sale securities, net of tax of (\$25), (\$26)	23	24
Qualifying derivatives, net of tax of (\$20), (\$50)	62	78
Equity investees' other comprehensive income (loss), net of tax of \$0, \$2		(4)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):		
Available-for-sale securities, net of tax of \$1, \$0	(1)	(5)
Qualifying derivatives, net of tax of \$35, \$75	(80)	(134)
Defined benefit plans:		
Prior service costs, net of tax of (\$1), (\$1)	1	3
Net actuarial loss, net of tax of (\$13), (\$4)	34	20
Total other comprehensive income (loss) attributable to PPL Shareowners	(206)	58
Comprehensive income (loss)	207	603
Comprehensive income attributable to noncontrolling interests		4
Comprehensive income (loss) attributable to PPL Shareowners	\$ 207	\$ 599

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 413	\$ 545
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	284	264
Amortization	64	55
Defined benefit plans - expense	51	42
Deferred income taxes and investment tax credits	80	257
Unrealized (gains) losses on derivatives, and other hedging activities	98	(235)
Other	30	20
Change in current assets and current liabilities		
Accounts receivable	(187)	32
Accounts payable	(138)	(99)
Unbilled revenues	137	59
Prepayments	(117)	(100)
Counterparty collateral	(64)	65
Taxes	122	66
Other	(74)	(8)
Other operating activities		
Defined benefit plans - funding	(429)	(208)
Other assets	33	(12)
Other liabilities	(59)	(15)
Net cash provided by operating activities	<u>244</u>	<u>728</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(828)	(682)
Purchases of nuclear plant decommissioning trust investments	(28)	(38)
Proceeds from the sale of nuclear plant decommissioning trust investments	24	34
Proceeds from the sale of other investments		16
Net (increase) decrease in restricted cash and cash equivalents	(52)	(22)
Other investing activities	(15)	(19)
Net cash provided by (used in) investing activities	<u>(899)</u>	<u>(711)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	450	
Retirement of long-term debt	(8)	
Issuance of common stock	20	16
Payment of common stock dividends	(210)	(203)
Debt issuance and credit facility costs	(18)	(3)
Contract adjustment payments	(24)	(23)
Net increase (decrease) in short-term debt	416	93
Other financing activities	(5)	(4)
Net cash provided by (used in) financing activities	<u>621</u>	<u>(124)</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>(14)</u>	<u>8</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(48)	(99)
Cash and Cash Equivalents at Beginning of Period	901	1,202
Cash and Cash Equivalents at End of Period	<u>\$ 853</u>	<u>\$ 1,103</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 853	\$ 901
Restricted cash and cash equivalents	119	54
Accounts receivable (less reserve: 2013, \$64; 2012, \$64)		
Customer	936	745
Other	60	79
Unbilled revenues	708	857
Fuel, materials and supplies	616	673
Prepayments	281	166
Price risk management assets	1,284	1,525
Regulatory assets	37	19
Other current assets	95	49
Total Current Assets	4,989	5,068
Investments		
Nuclear plant decommissioning trust funds	764	712
Other investments	48	47
Total Investments	812	759
Property, Plant and Equipment		
Regulated utility plant	25,054	25,196
Less: accumulated depreciation - regulated utility plant	4,258	4,164
Regulated utility plant, net	20,796	21,032
Non-regulated property, plant and equipment		
Generation	11,545	11,295
Nuclear fuel	666	524
Other	737	726
Less: accumulated depreciation - non-regulated property, plant and equipment	6,039	5,942
Non-regulated property, plant and equipment, net	6,909	6,603
Construction work in progress	2,270	2,397
Property, Plant and Equipment, net (a)	29,975	30,032
Other Noncurrent Assets		
Regulatory assets	1,464	1,483
Goodwill	3,995	4,158
Other intangibles (a)	910	925
Price risk management assets	598	572
Other noncurrent assets	598	637
Total Other Noncurrent Assets	7,565	7,775
Total Assets	\$ 43,341	\$ 43,634

(a) At March 31, 2013 and December 31, 2012, includes \$426 million and \$428 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and both periods include \$10 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,061	\$ 652
Long-term debt due within one year	751	751
Accounts payable	1,071	1,252
Taxes	138	90
Interest	352	325
Dividends	215	210
Price risk management liabilities	972	1,065
Regulatory liabilities	61	61
Other current liabilities	1,029	1,219
Total Current Liabilities	<u>5,650</u>	<u>5,625</u>
Long-term Debt	<u>18,881</u>	<u>18,725</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,577	3,387
Investment tax credits	340	328
Price risk management liabilities	533	629
Accrued pension obligations	1,596	2,076
Asset retirement obligations	540	536
Regulatory liabilities	1,016	1,010
Other deferred credits and noncurrent liabilities	666	820
Total Deferred Credits and Other Noncurrent Liabilities	<u>8,268</u>	<u>8,786</u>
Commitments and Contingent Liabilities (Notes 5, 6 and 10)		
Equity		
PPL Shareowners' Common Equity		
Common stock - \$0.01 par value (a)	6	6
Additional paid-in capital	6,988	6,936
Earnings reinvested	5,676	5,478
Accumulated other comprehensive loss	(2,146)	(1,940)
Total PPL Shareowners' Common Equity	<u>10,524</u>	<u>10,480</u>
Noncontrolling Interests	18	18
Total Equity	<u>10,542</u>	<u>10,498</u>
Total Liabilities and Equity	<u>\$ 43,341</u>	<u>\$ 43,634</u>

(a) 780,000 shares authorized; 583,214 and 581,944 shares issued and outstanding at March 31, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	PPL Shareowners						Total
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non-controlling interests	
December 31, 2012 (b)	581,944	\$ 6	\$ 6,936	\$ 5,478	\$ (1,940)	\$ 18	\$ 10,498
Common stock issued (c)	1,270		37				37
Stock-based compensation (d)			15				15
Net income				413			413
Dividends, dividend equivalents and distributions (e)				(215)			(215)
Other comprehensive income (loss)					(206)		(206)
March 31, 2013 (b)	<u>583,214</u>	<u>\$ 6</u>	<u>\$ 6,988</u>	<u>\$ 5,676</u>	<u>\$ (2,146)</u>	<u>\$ 18</u>	<u>\$ 10,542</u>
December 31, 2011	578,405	\$ 6	\$ 6,813	\$ 4,797	\$ (788)	\$ 268	\$ 11,096
Common stock issued (c)	1,115		32				32
Stock-based compensation (d)			17				17
Net income				541		4	545
Dividends, dividend equivalents and distributions (e)				(209)		(4)	(213)
Other comprehensive income (loss)					58		58
March 31, 2012	<u>579,520</u>	<u>\$ 6</u>	<u>\$ 6,862</u>	<u>\$ 5,129</u>	<u>\$ (730)</u>	<u>\$ 268</u>	<u>\$ 11,535</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

(b) See Note 18 for disclosure of balances of each component of AOCI.

(c) Each period includes shares of common stock issued through various stock and incentive compensation plans.

(d) The three months ended March 31, 2013 and 2012 include \$28 million and \$29 million of stock-based compensation expense related to new and existing unvested equity awards. These periods also include \$(13) million and \$(12) million related primarily to the reclassification from "Stock-based compensation" to "Common stock issued" for the issuance of common stock after applicable equity award vesting periods and tax adjustments related to stock-based compensation.

(e) "Earnings reinvested" includes dividends and dividend equivalents on PPL Corporation common stock and restricted stock units. "Noncontrolling interests" includes dividends and distributions to noncontrolling interests.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Operating Revenues		
Wholesale energy marketing		
Realized	\$ 976	\$ 1,208
Unrealized economic activity (Note 14)	(822)	852
Wholesale energy marketing to affiliate	14	21
Unregulated retail electric and gas	238	224
Net energy trading margins	(11)	8
Energy-related businesses	113	96
Total Operating Revenues	508	2,409
Operating Expenses		
Operation		
Fuel	298	211
Energy purchases		
Realized	434	659
Unrealized economic activity (Note 14)	(634)	591
Energy purchases from affiliate	1	1
Other operation and maintenance	235	255
Depreciation	78	64
Taxes, other than income	17	18
Energy-related businesses	110	92
Total Operating Expenses	539	1,891
Operating Income (Loss)	(31)	518
Other Income (Expense) - net	4	5
Interest Expense	46	37
Income (Loss) Before Income Taxes	(73)	486
Income Taxes	(35)	177
Net Income (Loss) Attributable to PPL Energy Supply Member	\$ (38)	\$ 309

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Net income (loss)	\$ (38)	\$ 309
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Available-for-sale securities, net of tax of (\$25), (\$26)	23	24
Qualifying derivatives, net of tax of \$0, (\$45)		68
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):		
Available-for-sale securities, net of tax of \$1, \$0	(1)	(5)
Qualifying derivatives, net of tax of \$21, \$81	(30)	(151)
Defined benefit plans:		
Prior service costs, net of tax of (\$1), (\$1)	1	1
Net actuarial loss, net of tax of (\$2), \$2	4	5
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	(3)	(58)
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ (41)	\$ 251

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities		
Net income (loss)	\$ (38)	\$ 309
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	78	64
Amortization	44	38
Defined benefit plans - expense	12	10
Deferred income taxes and investment tax credits	(21)	161
Unrealized (gains) losses on derivatives, and other hedging activities	214	(260)
Other	19	17
Change in current assets and current liabilities		
Accounts receivable	71	37
Accounts payable	(108)	(24)
Unbilled revenues	123	6
Fuel, materials and supplies	11	(51)
Prepayments	(104)	(7)
Counterparty collateral	(64)	65
Other	23	(29)
Other operating activities		
Defined benefit plans - funding	(105)	(69)
Other assets	44	(12)
Other liabilities	(74)	(1)
Net cash provided by operating activities	<u>125</u>	<u>254</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(124)	(199)
Expenditures for intangible assets	(10)	(13)
Purchases of nuclear plant decommissioning trust investments	(28)	(38)
Proceeds from the sale of nuclear plant decommissioning trust investments	24	34
Net (increase) decrease in notes receivable from affiliates		198
Net (increase) decrease in restricted cash and cash equivalents	(59)	(19)
Other investing activities	2	(4)
Net cash provided by (used in) investing activities	<u>(195)</u>	<u>(41)</u>
Cash Flows from Financing Activities		
Retirement of long-term debt	(8)	
Distributions to member	(313)	(557)
Net increase (decrease) in short-term debt	125	100
Net cash provided by (used in) financing activities	<u>(196)</u>	<u>(457)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(266)</u>	<u>(244)</u>
Cash and Cash Equivalents at Beginning of Period	413	379
Cash and Cash Equivalents at End of Period	<u>\$ 147</u>	<u>\$ 135</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 147	\$ 413
Restricted cash and cash equivalents	105	46
Accounts receivable (less reserve: 2013, \$22; 2012, \$23)		
Customer	209	183
Other	37	31
Accounts receivable from affiliates	56	125
Unbilled revenues	246	369
Fuel, materials and supplies	316	327
Prepayments	119	15
Price risk management assets	1,194	1,511
Other current assets	21	10
Total Current Assets	2,450	3,030
Investments		
Nuclear plant decommissioning trust funds	764	712
Other investments	42	41
Total Investments	806	753
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,555	11,305
Nuclear fuel	666	524
Other	295	294
Less: accumulated depreciation - non-regulated property, plant and equipment	5,908	5,817
Non-regulated property, plant and equipment, net	6,608	6,306
Construction work in progress	659	987
Property, Plant and Equipment, net (a)	7,267	7,293
Other Noncurrent Assets		
Goodwill	86	86
Other intangibles (a)	255	252
Price risk management assets	482	557
Other noncurrent assets	361	404
Total Other Noncurrent Assets	1,184	1,299
Total Assets	\$ 11,707	\$ 12,375

(a) At March 31, 2013 and December 31, 2012, includes \$426 million and \$428 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and both periods include \$10 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	March 31, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 481	\$ 356
Long-term debt due within one year	741	751
Accounts payable	344	438
Accounts payable to affiliates	25	31
Taxes	31	62
Interest	57	31
Price risk management liabilities	951	1,010
Deferred income taxes	59	158
Other current liabilities	251	319
Total Current Liabilities	<u>2,940</u>	<u>3,156</u>
Long-term Debt	<u>2,523</u>	<u>2,521</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,311	1,232
Investment tax credits	200	186
Price risk management liabilities	481	556
Accrued pension obligations	193	293
Asset retirement obligations	370	365
Other deferred credits and noncurrent liabilities	195	218
Total Deferred Credits and Other Noncurrent Liabilities	<u>2,750</u>	<u>2,850</u>
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	3,476	3,830
Noncontrolling interests	18	18
Total Equity	<u>3,494</u>	<u>3,848</u>
Total Liabilities and Equity	<u>\$ 11,707</u>	<u>\$ 12,375</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<u>Member's equity</u>	<u>Non- controlling interests</u>	<u>Total</u>
December 31, 2012 (a)	\$ 3,830	\$ 18	\$ 3,848
Net income (loss)	(38)		(38)
Other comprehensive income (loss)	(3)		(3)
Distributions to member	(313)		(313)
March 31, 2013 (a)	<u>\$ 3,476</u>	<u>\$ 18</u>	<u>\$ 3,494</u>
December 31, 2011	\$ 4,019	\$ 18	\$ 4,037
Net income (loss)	309		309
Other comprehensive income (loss)	(58)		(58)
Distributions to member	(557)		(557)
March 31, 2012	<u>\$ 3,713</u>	<u>\$ 18</u>	<u>\$ 3,731</u>

(a) See Note 18 for disclosure of balances of each component of AOCI.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Operating Revenues		
Retail electric	\$ 512	\$ 457
Electric revenue from affiliate	1	1
Total Operating Revenues	513	458
Operating Expenses		
Operation		
Energy purchases	172	153
Energy purchases from affiliate	14	21
Other operation and maintenance	133	140
Depreciation	43	39
Taxes, other than income	30	26
Total Operating Expenses	392	379
Operating Income	121	79
Other Income (Expense) - net	1	1
Interest Income from Affiliate		1
Interest Expense	25	24
Income Before Income Taxes	97	57
Income Taxes	33	20
Net Income (a)	64	37
Distributions on Preference Stock		4
Net Income Available to PPL	\$ 64	\$ 33

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 64	\$ 37
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	43	39
Amortization	5	4
Defined benefit plans - expense	7	9
Deferred income taxes and investment tax credits	45	58
Other	3	5
Change in current assets and current liabilities		
Accounts receivable	(87)	(11)
Accounts payable	(40)	(25)
Unbilled revenues	5	23
Prepayments	(28)	(70)
Taxes	15	
Other	(26)	(1)
Other operating activities		
Defined benefit plans - funding	(88)	(54)
Other assets	8	
Other liabilities	(3)	(24)
Net cash provided by (used in) operating activities	<u>(77)</u>	<u>(10)</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(189)	(121)
Other investing activities	(3)	(1)
Net cash provided by (used in) investing activities	<u>(192)</u>	<u>(122)</u>
Cash Flows from Financing Activities		
Contributions from parent	60	
Payment of common stock dividends to parent	(25)	(35)
Net increase (decrease) in short-term debt	125	
Other financing activities		(4)
Net cash provided by (used in) financing activities	<u>160</u>	<u>(39)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(109)	(171)
Cash and Cash Equivalents at Beginning of Period	140	320
Cash and Cash Equivalents at End of Period	<u>\$ 31</u>	<u>\$ 149</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 31	\$ 140
Accounts receivable (less reserve: 2013, \$19; 2012, \$18)		
Customer	325	249
Other	4	5
Accounts receivable from affiliates	30	29
Unbilled revenues	105	110
Materials and supplies	40	39
Prepayments	104	76
Deferred income taxes	49	45
Other current assets	17	4
Total Current Assets	<u>705</u>	<u>697</u>
Property, Plant and Equipment		
Regulated utility plant	6,416	6,286
Less: accumulated depreciation - regulated utility plant	<u>2,354</u>	<u>2,316</u>
Regulated utility plant, net	4,062	3,970
Other, net	2	2
Construction work in progress	427	370
Property, Plant and Equipment, net	<u>4,491</u>	<u>4,342</u>
Other Noncurrent Assets		
Regulatory assets	860	853
Intangibles	176	171
Other noncurrent assets	35	55
Total Other Noncurrent Assets	<u>1,071</u>	<u>1,079</u>
Total Assets	<u>\$ 6,267</u>	<u>\$ 6,118</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 125	
Long-term debt due within one year	10	
Accounts payable	241	\$ 259
Accounts payable to affiliates	60	63
Taxes	17	12
Interest	19	26
Regulatory liabilities	57	52
Other current liabilities	99	93
Total Current Liabilities	628	505
Long-term Debt	1,957	1,967
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,274	1,233
Investment tax credits	3	3
Accrued pension obligations	152	237
Regulatory liabilities	13	8
Other deferred credits and noncurrent liabilities	79	103
Total Deferred Credits and Other Noncurrent Liabilities	1,521	1,584
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	1,195	1,135
Earnings reinvested	602	563
Total Equity	2,161	2,062
Total Liabilities and Equity	\$ 6,267	\$ 6,118

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at March 31, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Preference stock	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2012	66,368		\$ 364	\$ 1,135	\$ 563	\$ 2,062
Net income					64	64
Capital contributions from PPL				60		60
Cash dividends declared on common stock					(25)	(25)
March 31, 2013	<u>66,368</u>		<u>\$ 364</u>	<u>\$ 1,195</u>	<u>\$ 602</u>	<u>\$ 2,161</u>
December 31, 2011	66,368	\$ 250	\$ 364	\$ 979	\$ 532	\$ 2,125
Net income					37	37
Cash dividends declared on preference stock					(4)	(4)
Cash dividends declared on common stock					(35)	(35)
March 31, 2012	<u>66,368</u>	<u>\$ 250</u>	<u>\$ 364</u>	<u>\$ 979</u>	<u>\$ 530</u>	<u>\$ 2,123</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Operating Revenues	\$ 800	\$ 705
Operating Expenses		
Operation		
Fuel	231	213
Energy purchases	86	74
Other operation and maintenance	197	206
Depreciation	82	86
Taxes, other than income	12	11
Total Operating Expenses	<u>608</u>	<u>590</u>
Operating Income	192	115
Other Income (Expense) - net	(2)	(3)
Interest Expense	<u>37</u>	<u>38</u>
Income Before Income Taxes	153	74
Income Taxes	<u>57</u>	<u>21</u>
Net Income (a)	<u>\$ 96</u>	<u>\$ 53</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 96	\$ 53
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	82	86
Amortization	7	7
Defined benefit plans - expense	17	10
Deferred income taxes and investment tax credits	45	32
Other	1	(1)
Change in current assets and current liabilities		
Accounts receivable	(78)	
Accounts payable	31	16
Accounts payable to affiliates	1	4
Unbilled revenues		29
Fuel, materials and supplies	47	29
Accrued interest	30	30
Taxes	(2)	9
Other	(29)	(19)
Other operating activities		
Defined benefit plans - funding	(154)	(58)
Other assets	2	(1)
Other liabilities	(11)	6
Net cash provided by operating activities	<u>85</u>	<u>232</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(271)	(174)
Net (increase) decrease in notes receivable from affiliates		10
Net (increase) decrease in restricted cash and cash equivalents	4	2
Net cash provided by (used in) investing activities	<u>(267)</u>	<u>(162)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	60	
Net increase (decrease) in short-term debt	60	
Distributions to member	(4)	(25)
Contributions from member	75	
Net cash provided by (used in) financing activities	<u>191</u>	<u>(25)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>9</u>	<u>45</u>
Cash and Cash Equivalents at Beginning of Period	43	59
Cash and Cash Equivalents at End of Period	<u>\$ 52</u>	<u>\$ 104</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 52	\$ 43
Accounts receivable (less reserve: 2013, \$18; 2012, \$19)		
Customer	218	133
Other	10	20
Unbilled revenues	156	156
Accounts receivable from affiliates	1	1
Fuel, materials and supplies	229	276
Prepayments	23	28
Price risk management assets from affiliates	24	14
Deferred income taxes	13	13
Regulatory assets	32	19
Other current assets	5	4
Total Current Assets	<u>763</u>	<u>707</u>
Property, Plant and Equipment		
Regulated utility plant	8,137	8,073
Less: accumulated depreciation - regulated utility plant	578	519
Regulated utility plant, net	7,559	7,554
Other, net	3	3
Construction work in progress	917	750
Property, Plant and Equipment, net	<u>8,479</u>	<u>8,307</u>
Other Noncurrent Assets		
Regulatory assets	604	630
Goodwill	996	996
Other intangibles	258	271
Other noncurrent assets	104	108
Total Other Noncurrent Assets	<u>1,962</u>	<u>2,005</u>
Total Assets	<u>\$ 11,204</u>	<u>\$ 11,019</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	March 31, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 185	\$ 125
Notes payable with affiliates	85	25
Accounts payable	291	283
Accounts payable to affiliates	2	1
Customer deposits	49	48
Taxes	24	26
Price risk management liabilities	5	5
Regulatory liabilities	4	9
Interest	51	21
Other current liabilities	79	100
Total Current Liabilities	775	643
Long-term Debt	4,075	4,075
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	587	541
Investment tax credits	138	138
Accrued pension obligations	265	414
Asset retirement obligations	127	125
Regulatory liabilities	1,003	1,002
Price risk management liabilities	49	53
Other deferred credits and noncurrent liabilities	233	242
Total Deferred Credits and Other Noncurrent Liabilities	2,402	2,515
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	3,952	3,786
Total Liabilities and Equity	\$ 11,204	\$ 11,019

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Member's Equity
December 31, 2012	\$ 3,786
Net income	96
Contributions from member	75
Distributions to member	(4)
Other comprehensive income (loss)	(1)
March 31, 2013	<u>\$ 3,952</u>
December 31, 2011	\$ 3,741
Net income	53
Distributions to member	(25)
Other comprehensive income (loss)	(4)
March 31, 2012	<u>\$ 3,765</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Operating Revenues		
Retail and wholesale	\$ 369	\$ 329
Electric revenue from affiliate	21	24
Total Operating Revenues	390	353
Operating Expenses		
Operation		
Fuel	96	89
Energy purchases	80	69
Energy purchases from affiliate	1	4
Other operation and maintenance	91	98
Depreciation	36	38
Taxes, other than income	6	5
Total Operating Expenses	310	303
Operating Income	80	50
Other Income (Expense) - net	(1)	1
Interest Expense	10	11
Income Before Income Taxes	69	40
Income Taxes	25	15
Net Income (a)	\$ 44	\$ 25

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 44	\$ 25
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	36	38
Amortization	3	
Defined benefit plans - expense	6	4
Deferred income taxes and investment tax credits	11	16
Other	(5)	(1)
Change in current assets and current liabilities		
Accounts receivable	(37)	(9)
Accounts payable	9	14
Accounts payable to affiliates	(7)	(10)
Unbilled revenues	1	16
Fuel, materials and supplies	37	19
Taxes	17	5
Other	11	8
Other operating activities		
Defined benefit plans - funding	(43)	(24)
Other liabilities	2	1
Net cash provided by operating activities	<u>85</u>	<u>102</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(98)	(60)
Net (increase) decrease in restricted cash and cash equivalents	4	2
Net cash provided by (used in) investing activities	<u>(94)</u>	<u>(58)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	15	
Payment of common stock dividends to parent	(19)	(15)
Contributions from parent	25	
Net cash provided by (used in) financing activities	<u>21</u>	<u>(15)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12	29
Cash and Cash Equivalents at Beginning of Period	22	25
Cash and Cash Equivalents at End of Period	<u>\$ 34</u>	<u>\$ 54</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 34	\$ 22
Accounts receivable (less reserve: 2013, \$1; 2012, \$1)		
Customer	99	59
Other	6	16
Unbilled revenues	71	72
Accounts receivable from affiliates	12	14
Fuel, materials and supplies	105	142
Prepayments	9	7
Price risk management assets from affiliates	12	7
Regulatory assets	21	19
Other current assets	1	1
Total Current Assets	369	359
Property, Plant and Equipment		
Regulated utility plant	3,226	3,187
Less: accumulated depreciation - regulated utility plant	251	220
Regulated utility plant, net	2,975	2,967
Construction work in progress	319	259
Property, Plant and Equipment, net	3,294	3,226
Other Noncurrent Assets		
Regulatory assets	388	400
Goodwill	389	389
Other intangibles	138	144
Other noncurrent assets	39	44
Total Other Noncurrent Assets	954	977
Total Assets	\$ 4,617	\$ 4,562

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 70	\$ 55
Accounts payable	131	117
Accounts payable to affiliates	16	23
Customer deposits	24	23
Taxes	19	2
Price risk management liabilities	5	5
Regulatory liabilities	3	4
Interest	11	5
Other current liabilities	29	34
Total Current Liabilities	308	268
Long-term Debt	1,112	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	555	544
Investment tax credits	40	40
Accrued pension obligations	59	102
Asset retirement obligations	57	56
Regulatory liabilities	471	471
Price risk management liabilities	49	53
Other deferred credits and noncurrent liabilities	106	106
Total Deferred Credits and Other Noncurrent Liabilities	1,337	1,372
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,303	1,278
Earnings reinvested	133	108
Total Equity	1,860	1,810
Total Liabilities and Equity	\$ 4,617	\$ 4,562

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at March 31, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2012	21,294	\$ 424	\$ 1,278	\$ 108	\$ 1,810
Net income				44	44
Capital contributions from LKE			25		25
Cash dividends declared on common stock				(19)	(19)
March 31, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,303</u>	<u>\$ 133</u>	<u>\$ 1,860</u>
December 31, 2011	21,294	\$ 424	\$ 1,278	\$ 60	\$ 1,762
Net income				25	25
Cash dividends declared on common stock				(15)	(15)
March 31, 2012	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 70</u>	<u>\$ 1,772</u>

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Operating Revenues		
Retail and wholesale	\$ 431	\$ 376
Electric revenue from affiliate	1	4
Total Operating Revenues	432	380
Operating Expenses		
Operation		
Fuel	135	124
Energy purchases	6	5
Energy purchases from affiliate	21	24
Other operation and maintenance	97	95
Depreciation	46	48
Taxes, other than income	6	6
Total Operating Expenses	311	302
Operating Income	121	78
Other Income (Expense) - net	(1)	(1)
Interest Expense	17	17
Income Before Income Taxes	103	60
Income Taxes	39	22
Net Income (a)	\$ 64	\$ 38

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 64	\$ 38
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	46	48
Amortization	4	
Defined benefit plans - expense	5	3
Deferred income taxes and investment tax credits	35	25
Other	9	6
Change in current assets and current liabilities		
Accounts receivable	(31)	(7)
Accounts payable	32	10
Accounts payable to affiliates	8	3
Unbilled revenues	(1)	13
Fuel, materials and supplies	10	10
Taxes	(17)	4
Accrued interest	15	15
Other	(20)	(3)
Other operating activities		
Defined benefit plans - funding	(60)	(17)
Other assets	1	(1)
Other liabilities	(15)	5
Net cash provided by operating activities	<u>85</u>	<u>152</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(172)	(113)
Net cash provided by (used in) investing activities	<u>(172)</u>	<u>(113)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	45	
Payment of common stock dividends to parent	(13)	(24)
Contributions from parent	50	
Net cash provided by (used in) financing activities	<u>82</u>	<u>(24)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(5)</u>	<u>15</u>
Cash and Cash Equivalents at Beginning of Period	<u>21</u>	<u>31</u>
Cash and Cash Equivalents at End of Period	<u>\$ 16</u>	<u>\$ 46</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 16	\$ 21
Accounts receivable (less reserve: 2013, \$2; 2012, \$2)		
Customer	119	74
Other	3	13
Unbilled revenues	85	84
Accounts receivable from affiliates	1	7
Fuel, materials and supplies	124	134
Prepayments	7	10
Price risk management assets from affiliates	12	7
Deferred income taxes	3	3
Regulatory assets	11	
Other current assets	5	3
Total Current Assets	<u>386</u>	<u>356</u>
Property, Plant and Equipment		
Regulated utility plant	4,911	4,886
Less: accumulated depreciation - regulated utility plant	<u>327</u>	<u>299</u>
Regulated utility plant, net	4,584	4,587
Other, net	1	1
Construction work in progress	<u>596</u>	<u>490</u>
Property, Plant and Equipment, net	<u>5,181</u>	<u>5,078</u>
Other Noncurrent Assets		
Regulatory assets	216	230
Goodwill	607	607
Other intangibles	120	127
Other noncurrent assets	<u>58</u>	<u>57</u>
Total Other Noncurrent Assets	<u>1,001</u>	<u>1,021</u>
Total Assets	<u>\$ 6,568</u>	<u>\$ 6,455</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 115	\$ 70
Accounts payable	151	147
Accounts payable to affiliates	41	33
Customer deposits	25	25
Taxes	9	26
Regulatory liabilities	1	5
Interest	25	10
Other current liabilities	27	33
Total Current Liabilities	394	349
Long-term Debt	1,842	1,842
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	621	587
Investment tax credits	98	98
Accrued pension obligations	45	104
Asset retirement obligations	70	69
Regulatory liabilities	532	531
Other deferred credits and noncurrent liabilities	82	92
Total Deferred Credits and Other Noncurrent Liabilities	1,448	1,481
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,398	2,348
Accumulated other comprehensive income (loss)	1	1
Earnings reinvested	177	126
Total Equity	2,884	2,783
Total Liabilities and Equity	\$ 6,568	\$ 6,455

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at March 31, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2012	37,818	\$ 308	\$ 2,348	\$ 126	\$ 1	\$ 2,783
Net income				64		64
Capital contributions from LKE			50			50
Cash dividends declared on common stock				(13)		(13)
March 31, 2013	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,398</u>	<u>\$ 177</u>	<u>\$ 1</u>	<u>\$ 2,884</u>
December 31, 2011	37,818	\$ 308	\$ 2,348	\$ 89		\$ 2,745
Net income				38		38
Cash dividends declared on common stock				(24)		(24)
Other comprehensive income (loss)					\$ (4)	(4)
March 31, 2012	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 103</u>	<u>\$ (4)</u>	<u>\$ 2,755</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with accounting principles generally accepted in the U.S. are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2012 is derived from that Registrant's 2012 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2012 Form 10-K. The results of operations for the three months ended March 31, 2013, are not necessarily indicative of the results to be expected for the full year ending December 31, 2013, or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the March 31, 2013 financial statements.

2. Summary of Significant Accounting Policies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2012 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable *(PPL, PPL Energy Supply and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three months ended March 31, 2013, PPL Electric purchased \$259 million of accounts receivable from unaffiliated third parties and \$77 million from PPL EnergyPlus. During the three months ended March 31, 2012, PPL Electric purchased \$238 million of accounts receivable from unaffiliated third parties and \$82 million from PPL EnergyPlus.

Depreciation *(PPL, LKE, LG&E and KU)*

The KPSC approved new lower depreciation rates for LG&E and KU as part of the rate-case settlement agreement reached in November 2012. The new rates became effective January 1, 2013 and will result in lower depreciation of approximately \$19 million (\$9 million for LG&E and \$10 million for KU) in 2013, exclusive of net additions to PP&E.

New Accounting Guidance Adopted *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Improving Disclosures about Offsetting Balance Sheet Items

Effective January 1, 2013, the Registrants retrospectively adopted accounting guidance issued to enhance disclosures about derivative instruments that either (1) offset on the balance sheet or (2) are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the balance sheet.

The adoption of this guidance resulted in enhanced disclosures but did not have a significant impact on the Registrants. See Note 14 for the new disclosures.

Testing Indefinite-Lived Intangible Assets for Impairment

Effective January 1, 2013, the Registrants prospectively adopted accounting guidance that allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of an indefinite-lived intangible asset. If, based on this assessment, the entity determines that it is more likely than not that the fair value of the indefinite-lived intangible asset exceeds the carrying amount, a quantitative impairment test does not need to be performed. If the entity concludes otherwise, a quantitative impairment test must be performed by determining the fair value of the asset and comparing it with the carrying value. The entity would record an impairment charge, if necessary.

The adoption of this guidance did not have a significant impact on the Registrants.

Reporting Amounts Reclassified Out of AOCI

Effective January 1, 2013, the Registrants prospectively adopted accounting guidance issued to improve the reporting of reclassifications out of AOCI. The Registrants are required to provide information about the effects on net income of significant amounts reclassified out of AOCI by their respective statement of income line item, if the item is required to be reclassified to net income in its entirety. For items not reclassified to net income in their entirety, the Registrants are required to reference other disclosures that provide greater detail about these reclassifications.

The adoption of this guidance resulted in enhanced disclosures but did not have a significant impact on the Registrants. See Note 18 for the new disclosures.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2012 Form 10-K for a discussion of reportable segments. "Corporate and Other" primarily represents costs incurred at the corporate level that have not been allocated or assigned to the segments, which is presented to reconcile segment information to PPL's consolidated results. For 2012, there were no significant costs or assets in this category.

Beginning in 2013, PPL anticipates more costs to be included in the Corporate and Other category primarily due to an anticipated increase in financing at PPL Capital Funding not directly attributable to a particular segment. PPL's recent growth in rate-regulated businesses provides the organization an enhanced corporate-level financing alternative, through PPL Capital Funding, that further enables PPL to support targeted credit profiles cost effectively across all of PPL's rated companies. As a result, PPL plans to further utilize PPL Capital Funding in addition to continued direct financing by the operating companies, as appropriate. The financing costs associated primarily with PPL Capital Funding's future securities issuances are not expected to be directly assignable or allocable to any segment and generally will be reflected in Corporate and Other beginning in 2013.

Financial data for the segments for the periods ended March 31 are:

	Three Months	
	2013	2012
Income Statement Data		
Revenues from external customers		
Kentucky Regulated	\$ 800	\$ 705
U.K. Regulated	648	562
Pennsylvania Regulated	512	457
Supply (a)	494	2,388
Corporate and Other	3	
Total	<u>\$ 2,457</u>	<u>\$ 4,112</u>
Intersegment electric revenues		
Pennsylvania Regulated	\$ 1	\$ 1
Supply	14	21
Net Income Attributable to PPL Shareowners		
Kentucky Regulated	\$ 85	\$ 42
U.K. Regulated (a)	313	165
Pennsylvania Regulated	64	33
Supply (a)	(46)	301
Corporate and Other	(3)	
Total	<u>\$ 413</u>	<u>\$ 541</u>

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Balance Sheet Data		
Assets		
Kentucky Regulated	\$ 10,870	\$ 10,670
U.K. Regulated	13,816	14,073
Pennsylvania Regulated	6,267	6,023
Supply	12,041	12,868
Corporate and Other (b)	347	
Total assets	<u>\$ 43,341</u>	<u>\$ 43,634</u>

(a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.

(b) Primarily consists of unallocated assets, including cash, PP&E and the elimination of inter-segment transactions.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method or the If-Converted Method, as applicable. The If-Converted Method was applied to the Equity Units beginning in the first quarter of 2013. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended March 31 used in the EPS calculation are:

	<u>Three Months</u>	
	<u>2013</u>	<u>2012</u>
Income (Numerator)		
Net income attributable to PPL shareowners	\$ 413	\$ 541
Less amounts allocated to participating securities	2	3
Net income available to PPL common shareowners - Basic	411	538
Plus interest charges (net of tax) related to Equity Units	15	
Net income available to PPL common shareowners - Diluted	<u>\$ 426</u>	<u>\$ 538</u>
Shares of Common Stock (Denominator)		
Weighted-average shares - Basic EPS	582,640	579,041
Add incremental non-participating securities:		
Share-based payment awards	810	486
Equity Units	71,990	
Forward sale agreements	1,580	
Weighted-average shares - Diluted EPS	<u>657,020</u>	<u>579,527</u>
Basic EPS		
Net Income Available to PPL common shareowners	<u>\$ 0.70</u>	<u>\$ 0.93</u>
Diluted EPS		
Net Income Available to PPL common shareowners	<u>\$ 0.65</u>	<u>\$ 0.93</u>

For the periods ended March 31, PPL issued common stock related to stock-based compensation plans, ESOP and DRIP as follows:

(Shares in thousands)

	<u>Three Months</u>	
	<u>2013</u>	<u>2012</u>
Stock-based compensation plans (a)	446	277
ESOP	275	280
DRIP	549	558

(a) Includes stock options exercised, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

In April 2013, PPL settled certain forward sale agreements. See Note 7 for additional information.

For the periods ended March 31, the following were excluded from the computations of diluted EPS because the effect would have been antidilutive.

(Shares in thousands)

	Three Months	
	2013	2012
Stock options	6,589	5,682
Performance units	206	195
Restricted stock units	116	

5. Income Taxes

Reconciliations of income taxes for the periods ended March 31 are:

(PPL)

	Three Months	
	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 197	\$ 281
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	3	24
Impact of lower U.K. income tax rates	(38)	(21)
U.S. income tax on foreign earnings - net of foreign tax credit	2	2
Foreign tax reserve adjustments		3
Federal income tax credits	(3)	(4)
Amortization of investment tax credit	(3)	(2)
Depreciation not normalized	(3)	(2)
State deferred tax rate change (a)		(11)
Net operating loss carryforward adjustments (b)		(6)
Other	(4)	(5)
Total increase (decrease)	(46)	(22)
Total income taxes	\$ 151	\$ 259

(a) During the three months ended March 31, 2012, PPL recorded adjustments related to state deferred tax liabilities.

(b) During the three months ended March 31, 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.

(PPL Energy Supply)

	Three Months	
	2013	2012
Federal income tax on Income (Loss) Before Income Taxes at statutory tax rate - 35%	\$ (26)	\$ 170
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	(6)	23
Federal income tax credits	(3)	(4)
State deferred tax rate change (a)		(11)
Other		(1)
Total increase (decrease)	(9)	7
Total income taxes	\$ (35)	\$ 177

(a) During the three months ended March 31, 2012, PPL Energy Supply recorded adjustments related to state deferred tax liabilities.

(PPL Electric)

	Three Months	
	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 34	\$ 20
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	5	2
Federal and state tax reserve adjustments	(2)	(1)
Depreciation not normalized	(3)	(1)
Other	(1)	
Total increase (decrease)	(1)	
Total income taxes	\$ 33	\$ 20

(LKE)

	Three Months	
	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 54	\$ 26
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	5	2
Net operating loss carryforward adjustments (a)		(6)
Other	(2)	(1)
Total increase (decrease)	3	(5)
Total income taxes	\$ 57	\$ 21

(a) During the three months ended March 31, 2012, LKE recorded adjustments to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

(LG&E)

	Three Months	
	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 24	\$ 14
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	3	1
Other	(2)	
Total increase (decrease)	1	1
Total income taxes	\$ 25	\$ 15

(KU)

	Three Months	
	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 36	\$ 21
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	4	2
Other	(1)	(1)
Total increase (decrease)	3	1
Total income taxes	\$ 39	\$ 22

Unrecognized Tax Benefits (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Changes to unrecognized tax benefits for the periods ended March 31 were as follows:

	Three Months	
	2013	2012
PPL		
Beginning of period	\$ 92	\$ 145
Additions based on tax positions of prior years		4
Reductions based on tax positions of prior years		(27)
Additions based on tax positions related to the current year		1
Lapse of applicable statutes of limitations	(2)	(2)
End of period	\$ 90	\$ 121
PPL Energy Supply		
Beginning of period	\$ 30	\$ 28
Additions based on tax positions of prior years		4
Reductions based on tax positions of prior years		(1)
End of period	\$ 30	\$ 31
PPL Electric		
Beginning of period	\$ 26	\$ 73
Reductions based on tax positions of prior years		(26)
Additions based on tax positions related to the current year		1
Lapse of applicable statutes of limitations	(2)	(2)
End of period	\$ 24	\$ 46

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant for the three months ended March 31, 2013 and 2012.

At March 31, 2013, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

	<u>Increase</u>	<u>Decrease</u>
PPL	\$ 10	\$ 88
PPL Energy Supply		30
PPL Electric	10	22

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

At March 31, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective income tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	<u>2013</u>	<u>2012</u>
PPL	\$ 37	\$ 41
PPL Energy Supply	13	14
PPL Electric	3	6

Other (PPL, PPL Energy Supply and PPL Electric)

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for Pennsylvania operations. PPL made the same change for its Montana operations for 2009. In 2011, the IRS issued guidance on repair expenditures related to network assets providing a safe harbor method of determining whether the repair expenditures can be currently deducted for tax purposes. On April 30, 2013, the IRS issued Revenue Procedure 2013-24 providing guidance to taxpayers to determine whether expenditures to maintain, replace or improve steam or electric generation property must be capitalized for tax purposes. PPL is evaluating the impact of this guidance. The IRS may assert, and ultimately conclude, that PPL's deduction for generation-related expenditures should be disallowed in whole or in part. PPL believes that it has established an adequate reserve for this contingency.

Tax Litigation (PPL)

In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result, and with finalization of other issues, PPL recorded a \$42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in the fourth quarter of 2011. In February 2012, PPL filed a petition for rehearing of the Third Circuit's opinion. In March 2012, the Third Circuit denied PPL's petition. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition on October 29, 2012, and oral argument was held on February 20, 2013. PPL expects the case to be decided before the end of the Supreme Court's current term in June 2013 and cannot predict the outcome of this matter.

6. Utility Rate Regulation

(PPL, PPL Electric, LKE, LG&E and KU)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric			
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012		
Current Regulatory Assets:						
Transmission formula rate	\$ 5		\$ 5			
Gas supply clause	12	\$ 11				
Fuel adjustment clause	14	6				
Other	6	2				
Total current regulatory assets	\$ 37	\$ 19	\$ 5			
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 714	\$ 730	\$ 356	\$ 362		
Taxes recoverable through future rates	295	293	295	293		
Storm costs	163	168	58	59		
Unamortized loss on debt	94	96	63	65		
Interest rate swaps	62	67				
Accumulated cost of removal of utility plant	85	71	85	71		
AROs	30	26				
Other	21	32	3	3		
Total noncurrent regulatory assets	\$ 1,464	\$ 1,483	\$ 860	\$ 853		
Current Regulatory Liabilities:						
Generation supply charge	\$ 28	\$ 27	\$ 28	\$ 27		
ECR		4				
Gas supply clause	1	4				
Transmission service charge	12	6	12	6		
Universal service rider	15	17	15	17		
Other	5	3	2	2		
Total current regulatory liabilities	\$ 61	\$ 61	\$ 57	\$ 52		
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 687	\$ 679				
Coal contracts (a)	130	141				
Power purchase agreement - OVEC (a)	107	108				
Net deferred tax assets	33	34				
Act 129 compliance rider	13	8	\$ 13	\$ 8		
Defined benefit plans	17	17				
Interest rate swaps	24	14				
Other	5	9				
Total noncurrent regulatory liabilities	\$ 1,016	\$ 1,010	\$ 13	\$ 8		
LKE						
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Current Regulatory Assets:						
Gas supply clause	\$ 12	\$ 11	\$ 12	\$ 11		
Fuel adjustment clause	14	6	7	6	\$ 7	
Other	6	2	2	2	4	
Total current regulatory assets	\$ 32	\$ 19	\$ 21	\$ 19	\$ 11	
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 358	\$ 368	\$ 225	\$ 232	\$ 133	\$ 136
Storm costs	105	109	57	59	48	50
Unamortized loss on debt	31	31	20	20	11	11
Interest rate swaps	62	67	62	67		
AROs	30	26	17	15	13	11
Other	18	29	7	7	11	22
Total noncurrent regulatory assets	\$ 604	\$ 630	\$ 388	\$ 400	\$ 216	\$ 230

	LKE		LG&E		KU	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Current Regulatory Liabilities:						
ECR		\$ 4				\$ 4
DSM	\$ 1				\$ 1	
Gas supply clause	1	4	\$ 1	\$ 4		
Gas line tracker	2		2			
Other		1				1
Total current regulatory liabilities	\$ 4	\$ 9	\$ 3	\$ 4	\$ 1	\$ 5
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal						
of utility plant	\$ 687	\$ 679	\$ 299	\$ 297	\$ 388	\$ 382
Coal contracts (a)	130	141	57	61	73	80
Power purchase agreement - OVEC (a)	107	108	74	75	33	33
Net deferred tax assets	33	34	27	28	6	6
Defined benefit plans	17	17			17	17
Interest rate swaps	24	14	12	7	12	7
Other	5	9	2	3	3	6
Total noncurrent regulatory liabilities	\$ 1,003	\$ 1,002	\$ 471	\$ 471	\$ 532	\$ 531

(a) Recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE.

Regulatory Matters

Kentucky Activities (PPL, LKE, LG&E and KU)

Rate Case Proceedings

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million for LG&E and \$51 million for KU and an increase in annual base gas rates of \$15 million for LG&E using a 10.25% return on equity. The approved rates became effective January 1, 2013.

Pennsylvania Activities (PPL and PPL Electric)

Rate Case Proceeding

In December 2012, the PUC approved a total distribution revenue increase of about \$71 million, using a 10.4% return on equity. The approved rates became effective January 1, 2013.

Storm Damage Expense Rider

In its December 28, 2012 final rate case proceeding order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider within 90 days following the order. PPL Electric filed its proposed Storm Damage Expense Rider with the PUC on March 28, 2013, including requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy which were previously approved by the PUC for deferral. PPL Electric proposed that the Storm Damage Expense Rider become effective on January 1, 2013 for storm costs incurred in 2013, with those costs and the 2012 Hurricane Sandy costs included in rates effective on January 1, 2014. Several parties have filed comments opposing the Storm Damage Expense Rider. PPL Electric will file reply comments by May 6, 2013.

ACT 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are exposed to significant penalties.

Under Act 129, EDCs must file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. Act 129 requires EDCs to reduce overall electricity consumption by 1.0% by May 2011 and, by May 2013, reduce overall electricity consumption by 3.0% and reduce peak demand by 4.5%. Although PPL Electric believes it has met the May 2011 requirement, the PUC is not expected formally to determine compliance for any EDC before the first quarter of 2014. The peak demand reduction must occur for the 100 hours of highest demand, which is determined by actual demand reduction during the June 2012 through September 2012 period. EDCs are able to recover the costs (capped at 2.0% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's EE&C Plan. PPL Electric will determine if it met the peak demand reduction target and the May 2013 energy reduction target after it completes the final program evaluation in the fourth quarter of 2013.

Act 129 requires the PUC to evaluate the costs and benefits of the EE&C program by November 30, 2013 and adopt additional reductions if the benefits of the program exceed the costs. In August 2012, after receiving input from stakeholders, the PUC issued a Final Implementation Order establishing a three-year Phase II program, ending May 31, 2016, with individual consumption reduction targets for each EDC. PPL Electric's Phase II reduction target is 2.1% of the total energy consumption forecasted by the PUC for the June 1, 2009 through May 31, 2010 baseline year. The PUC did not establish demand reduction targets for the Phase II program. PPL Electric filed its Phase II EE&C Plan with the PUC on November 15, 2012 and the PUC issued its decision in March 2013, approving PPL Electric's Phase II program with minor modifications to a related tariff provision.

Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. The DSP will be able to recover the costs associated with a competitive procurement plan.

The PUC has approved PPL Electric's procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric concluded all competitive solicitations to procure power for its PLR obligations under that plan.

The PUC has directed all EDCs to file default service procurement plans for the period June 1, 2013 through May 31, 2015. PPL Electric filed its plan in May 2012. In that plan, PPL Electric proposed a process to obtain supply for its default service customers and a number of initiatives designed to encourage more customers to purchase electricity from the competitive retail market. In its January 24, 2013 final order, the PUC approved PPL Electric's plan with modifications and directed PPL Electric to establish collaborative processes to address several retail competition issues. In February 2013, PPL Electric filed a revised Default Service Supply Master Agreement and a revised Request for Proposals Process and Rules which the PUC approved. PPL Electric has filed revised retail competition initiatives and a revised plan consistent with the PUC's January order. These filings remain pending before the PUC. See Note 10 for additional information.

Smart Meter Rider

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric continues to conduct pilot projects to determine if its current advanced metering technology satisfies the requirements of Act 129. PPL Electric recovers the cost of its pilot projects through a cost recovery mechanism, the Smart Meter Rider (SMR). In August 2012, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter Plan in 2012 and its planned actions for 2013. PPL Electric also submitted revised SMR charges which became effective January 1, 2013. PPL Electric will submit its final Smart Meter Plan by June 30, 2014.

PUC Investigation of Retail Electricity Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market to be conducted in two phases. Phase one addressed the status of the existing retail market and explored potential changes. Questions issued by the PUC for phase one of the investigation focused primarily on default service issues. Phase two was initiated in July 2011 to develop specific proposals for changes to the retail market and default service model. From December 2011 through the end of 2012, the PUC issued several orders and other pronouncements related to the investigation. A final implementation order was issued on February 15, 2013. Although the final implementation order contains provisions that will require numerous modifications to PPL Electric's current default service model for retail customers, those modifications are not expected to have a material adverse effect on PPL Electric's results of operations.

Legislation - Regulatory Procedures and Mechanisms

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC. In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC.

The PUC approved the LTIP on January 10, 2013 and, on January 15, 2013, PPL Electric filed a petition requesting permission to establish a DSIC. Several parties have filed responses to PPL Electric's petition. The case remains pending before the PUC. PPL Electric does not expect any new rates to be effective before the third quarter of 2013.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form No. 1, filed under FERC's Uniform System of Accounts (USOA). PPL Electric must follow FERC's USOA, which requires subsidiaries to be presented, for FERC reporting purposes, using the equity method of accounting unless a waiver has been issued. The FERC has granted waivers of this requirement to other utilities when such waiver would more accurately present the integrated operations of the utilities and their subsidiaries. In March 2013, as part of a routine FERC audit of PPL and its subsidiaries, PPL Electric determined that it never obtained a waiver of the use of the equity method of accounting for PPL Receivables Corporation (PPL Receivables). PPL Receivables is a wholly owned subsidiary of PPL Electric, formed in 2004 to purchase eligible accounts receivable and unbilled revenue of PPL Electric to collateralize commercial paper issuances to reduce borrowing costs. In March 2013, PPL Electric filed a request for waiver with FERC that, if approved, would allow it to continue to consolidate the results of PPL Receivables with the results of PPL Electric, as it has done since 2004. While PPL Electric may ultimately be successful in obtaining a waiver from FERC, FERC may require PPL Electric to re-issue one or more of its prior FERC Form No. 1 filings in either the audit proceeding or the waiver proceeding. If re-issuance of FERC Form No. 1 filings were required by FERC, PPL Electric's revenue requirement calculated under the formula rate could be negatively impacted. The impact, if any, is not known at this time but could range between \$0 and \$40 million, pre-tax. PPL Electric cannot predict the outcome of the waiver or audit proceedings, which remain pending before the FERC.

PPL Electric has initiated its formula rate 2012, 2011 and 2010 Annual Updates. Each update has been subsequently challenged by a group of municipal customers, which challenges have been opposed by PPL Electric. In August 2011, the FERC issued an order substantially rejecting the 2010 formal challenge and the municipal customers filed a request for rehearing of that order. In September 2012, the FERC issued an order setting for evidentiary hearings and settlement judge procedures a number of issues raised in the 2010 and 2011 formal challenges. Settlement conferences were held in late 2012 and early 2013. In February 2013, the FERC set for evidentiary hearings and settlement judge procedures a number of issues in the 2012 formal challenge and consolidated that challenge with the 2010 and 2011 challenges. PPL Electric filed a request for rehearing of the February Order which remains pending before the FERC. PPL Electric anticipates that there will be additional settlement conferences held in 2013. Several of the municipal customers have filed Notice of Withdrawal of Intervention. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings, which remain pending before the FERC.

U.K. Activities (PPL)

Ofgem Review of Line Loss Calculation

Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentive/penalty for the DPCR4. In April 2013, Ofgem stated that their current expectation was to issue a decision in the second half of 2013. PPL cannot predict when this matter will be resolved. WPD had an \$89 million liability recorded at March 31, 2013 compared with \$94 million at December 31, 2012, related to the close-out of line losses for the DPCR4, with the change due to foreign exchange movements.

7. Financing Activities

Credit Arrangements and Short-term Debt

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants maintain credit facilities to enhance liquidity, provide credit support, and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities of PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL and the credit facilities of LG&E and KU also apply to LKE. The following credit facilities were in place at:

	Expiration Date	March 31, 2013				December 31, 2012	
		Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup
PPL							
<i>WPD Credit Facilities</i>							
PPL WW Syndicated Credit Facility (b) (c)	Dec. 2016	£ 210	£ 109	n/a	£ 101	£ 106	n/a
WPD (South West) Syndicated Credit Facility	Jan. 2017	245		n/a	245		n/a
WPD (East Midlands) Syndicated Credit Facility (c)	Apr. 2016	300	65		235		
WPD (West Midlands) Syndicated Credit Facility	Apr. 2016	300			300		
Uncommitted Credit Facilities		84		£ 4	80		£ 4
Total WPD Credit Facilities (d)		£ 1,139	£ 174	£ 4	£ 961	£ 106	£ 4
PPL Energy Supply							
Syndicated Credit Facility	Nov. 2017	\$ 3,000		\$ 641	\$ 2,359		\$ 499
Letter of Credit Facility (e)	Mar. 2014	200	n/a	123	77	n/a	132
Uncommitted Credit Facilities		200	n/a	88	112	n/a	40
Total PPL Energy Supply Credit Facilities		\$ 3,400		\$ 852	\$ 2,548		\$ 671
PPL Electric							
Syndicated Credit Facility	Oct. 2017	\$ 300		\$ 126	\$ 174		\$ 1
Asset-backed Credit Facility (f)	Sept. 2013	100		n/a	100		n/a
Total PPL Electric Credit Facilities		\$ 400		\$ 126	\$ 274		\$ 1
LG&E							
Syndicated Credit Facility	Nov. 2017	\$ 500		\$ 70	\$ 430		\$ 55
KU							
Syndicated Credit Facility	Nov. 2017	\$ 400		\$ 115	\$ 285		\$ 70
Letter of Credit Facility (g)	Apr. 2014	198		198			198
Total KU Credit Facilities		\$ 598		\$ 313	\$ 285		\$ 268

- (a) Amounts borrowed are recorded as "Short-term debt" on the Balance Sheets.
- (b) In December 2012, the PPL WW syndicated credit facility that was set to expire in January 2013 was replaced and the capacity was increased from £150 million.
- (c) PPL WW's amounts borrowed at March 31, 2013 and December 31, 2012 were USD-denominated borrowings of \$171 million, which equated to £109 million and £106 million at the time of borrowings and bore interest at 1.9034% and 0.8452%. WPD (East Midlands) amount borrowed at March 31, 2013 was a GBP-denominated borrowing of £65 million, which equated to \$99 million and bore interest at 1.30%.
- (d) At March 31, 2013, the USD equivalent of unused capacity under WPD's credit facilities was \$1.5 billion.
- (e) In February 2013, PPL Energy Supply extended the expiration date from March 2013 and, effective April 2013, the capacity was reduced to \$150 million.
- (f) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.

At March 31, 2013 and December 31, 2012, \$277 million and \$238 million of accounts receivable and \$98 million and \$106 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at March 31, 2013, the amount available for borrowing under the facility was \$100 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

(g) In May 2013, KU extended the letter of credit facility to May 2016.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At March 31, 2013, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an \$800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2017, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at March 31, 2013.

PPL Energy Supply maintains a commercial paper program for up to \$750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At March 31, 2013 and December 31, 2012, PPL Energy Supply had \$481 million and \$356 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.38% and 0.50%.

(PPL and PPL Electric)

PPL Electric maintains a commercial paper program for up to \$300 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. At March 31, 2013, PPL Electric had \$125 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of 0.39%. PPL Electric had no commercial paper outstanding at December 31, 2012.

(PPL, LKE, LG&E and KU)

In April 2013, LG&E and KU each increased the capacity of their commercial paper programs from \$250 million to \$350 million to provide an additional financing source to fund their short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by LG&E's and KU's Syndicated Credit Facilities. At March 31, 2013 and December 31, 2012, LG&E had \$70 million and \$55 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.36% and 0.42%. At March 31, 2013 and December 31, 2012, KU had \$115 million and \$70 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.36% and 0.42%.

(LKE)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt and Equity Securities

(PPL)

In connection with an April 2012 registered public offering of 9.9 million shares of PPL common stock, PPL entered into forward sale agreements with two counterparties. In conjunction with that offering, the underwriters exercised an overallotment option and PPL entered into additional forward sale agreements covering 591 thousand shares of PPL common stock.

In April 2013, PPL settled the initial forward sale agreements by the issuance of 8.4 million shares of PPL common stock and cash settlement of the remaining 1.5 million shares. PPL received net cash proceeds of \$205 million, which was calculated based on an initial forward price of \$27.02 per share reduced during the period the contracts were outstanding as specified in the forward sale agreements. PPL used the net proceeds to repay short-term debt obligations and for other general corporate purposes. Settlement of the forward sale agreements covering 591 thousand remaining shares will occur no later than July 2013. PPL may elect to issue common stock, cash settle or net share settle all or a portion of its rights or obligations under the forward sale agreements.

The forward sale agreements are classified as equity transactions. As a result, no amounts were recorded in the consolidated financial statements until the April 2013 settlement of the initial forward sale agreements. However, prior to the April 2013 settlement, incremental shares were included within the calculation of diluted EPS using the treasury stock method. See Note 4 for the impact on the calculation of diluted EPS.

In March 2013, PPL Capital Funding issued \$450 million of its 5.90% Junior Subordinated Notes due 2073. PPL Capital Funding received proceeds of \$436 million, net of underwriting fees, which will be loaned to or invested in affiliates of PPL Capital Funding and used to fund their capital expenditures and other general corporate purposes.

See Note 7 in PPL's 2012 Form 10-K for information on the 2010 Equity Units (with respect to which the related \$1.150 billion of Notes are expected to be remarketed in the second quarter of 2013) and the 2011 Equity Units.

(PPL and PPL Energy Supply)

In February 2013, PPL Energy Supply completed an offer to exchange up to all, but not less than a majority, of PPL Ironwood's 8.857% Senior Secured Bonds due 2025, (Ironwood Bonds), for newly issued PPL Energy Supply Senior Notes, Series 4.60% due 2021. A total of \$167 million aggregate principal amount of outstanding Ironwood Bonds was exchanged for \$212 million aggregate principal amount of Senior Notes, Series 4.60% due 2021. This transaction was accounted for as a modification of the existing debt. As a result, no gain or loss was recorded and the exchange was considered non-cash activity that was excluded from the 2013 Statement of Cash Flows.

Legal Separateness

(PPL, PPL Energy Supply, PPL Electric and LKE)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay such creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions and Capital Contributions

(PPL)

In February 2013, PPL declared its quarterly common stock dividend, payable April 1, 2013, at 36.75 cents per share (equivalent to \$1.47 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

During the three months ended March 31, 2013, the following distributions and capital contributions occurred:

	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Dividends/distributions paid to parent/member	\$ 313	\$ 25	\$ 4	\$ 19	\$ 13
Capital contributions received from parent/member		60	75	25	50

8 . Acquisitions, Development and Divestitures

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results.

Acquisitions

Ironwood Acquisition *(PPL and PPL Energy Supply)*

See Note 10 in PPL's and PPL Energy Supply's 2012 Form 10-K for information on the April 13, 2012 Ironwood Acquisition. See Note 7 for information on the February 2013 exchange of a portion of long-term debt assumed through consolidation as a result of the acquisition.

Development

(PPL and PPL Energy Supply)

Bell Bend COLA

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) for the proposed Bell Bend nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. PPL Bell Bend does not expect to complete the COLA review process with the NRC prior to 2015. PPL Bell Bend has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized to spend up to \$205 million through 2015 on the COLA and other permitting costs necessary for construction, which is expected to be sufficient to fund the project through receipt of the license. At March 31, 2013 and December 31, 2012, \$159 million and \$154 million of costs, which includes capitalized interest, associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL Bell Bend believes that the estimated fair value of the COLA currently exceeds the costs expected to be capitalized associated with the licensing application. See Note 8 in PPL's and PPL Energy Supply's 2012 Form 10-K for additional information.

Hydroelectric Expansion Project

In the first quarter of 2013, the redevelopment of the Rainbow hydroelectric facility at Great Falls, Montana was placed in service and added 28 MW of capacity to the facility.

Regional Transmission Line Expansion Plan *(PPL and PPL Electric)*

Susquehanna-Roseland

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas Company as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the United States District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation, and on December 6, 2012, the groups filed a petition for injunctive relief seeking to prohibit all construction activities until the court issues a final decision on the complaint. PPL Electric has intervened in the lawsuit. On February 25, 2013, the District Court denied Plaintiffs' Motion for Preliminary Injunction and set a briefing schedule. However, plaintiffs have the right to reinstate the motion if the District Court has not ruled on the lawsuit and construction is imminent. The chosen route had previously been approved by the PUC and the New Jersey Board of Public Utilities.

On December 13, 2012, PPL Electric received federal construction and right of way permits to build on National Park Service lands.

Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be completed before the peak summer demand period of 2015. At March 31, 2013, PPL Electric's estimated share of the project cost was \$630 million.

PPL and PPL Electric cannot predict the ultimate outcome or timing of any legal challenges to the project or what additional actions, if any, PJM might take in the event of a further delay to the scheduled in-service date for the new line.

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line that includes three new substations and upgrades to adjacent facilities). The FERC granted the incentive for inclusion of all prudently incurred construction work in progress (CWIP) costs in rate base but denied the request for a 100 basis point adder to the return on equity incentive. The order required a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project, which PPL Electric submitted to the FERC in March 2013 and the FERC subsequently approved in April 2013.

In December 2012, PPL Electric submitted an application to the PUC requesting permission to site and construct the project. A number of parties have protested the application, which has been assigned to an Administrative Law Judge. Evidentiary hearings are scheduled in July 2013. A final Commission order is expected in the first quarter of 2014. PPL Electric expects the project to be completed in 2017. At March 31, 2013, PPL Electric estimates the total project costs to be approximately \$200 million with approximately \$190 million qualifying for the CWIP incentive.

See Note 8 in PPL's and PPL Electric's 2012 Form 10-K for additional information.

9. Defined Benefits

(PPL, PPL Energy Supply, LKE and LG&E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed between capital and expense, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL, PPL Energy Supply, LKE and LG&E for the periods ended March 31:

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2013	2012
	Three Months					
	2013	2012	2013	2012		
PPL						
Service cost	\$ 31	\$ 26	\$ 18	\$ 13	\$ 4	\$ 3
Interest cost	54	56	81	84	7	8
Expected return on plan assets	(74)	(66)	(118)	(111)	(6)	(6)
Amortization of:						
Transition obligation						1
Prior service cost	6	6		1		
Actuarial (gain) loss	20	10	38	20	1	1
Net periodic defined benefit costs (credits)	\$ 37	\$ 32	\$ 19	\$ 7	\$ 6	\$ 7

	Pension Benefits	
	Three Months	
	2013	2012
PPL Energy Supply		
Service cost	\$ 2	\$ 1
Interest cost	2	2
Expected return on plan assets	(3)	(2)
Amortization of:		
Actuarial (gain) loss	1	1
Net periodic defined benefit costs (credits)	\$ 2	\$ 2

	Pension Benefits		Other Postretirement Benefits	
	Three Months			
	2013	2012	2013	2012
LKE				
Service cost	\$ 7	\$ 6	\$ 1	\$ 1
Interest cost	16	17	2	2
Expected return on plan assets	(21)	(18)	(1)	(1)
Amortization of:				
Prior service cost	1	1	1	1
Actuarial (gain) loss	8	5		
Net periodic defined benefit costs (credits)	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ 3</u>	<u>\$ 3</u>

LG&E				
Service cost	\$ 1			
Interest cost	3	\$ 4		
Expected return on plan assets	(5)	(5)		
Amortization of:				
Prior service cost	1	1		
Actuarial (gain) loss	3	3		
Net periodic defined benefit costs (credits)	<u>\$ 3</u>	<u>\$ 3</u>		

(PPL Energy Supply, PPL Electric, LG&E and KU)

In addition to the specific plans they sponsor, PPL Energy Supply subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services, and LG&E is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services, and KU is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. For the periods ended March 31, PPL Services allocated the following net periodic defined benefit costs to PPL Energy Supply subsidiaries and PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU.

	Three Months	
	2013	2012
PPL Energy Supply	\$ 11	\$ 10
PPL Electric	9	8
LG&E	3	3
KU	4	4

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL and PPL Electric)

In May 2012, PPL Electric filed a plan with the PUC to purchase its electric supply for default customers for the period June 2013 through May 2015. The PUC approved the plan in January 2013. The approved plan proposes that PPL Electric procure this electricity through competitive solicitations twice each plan year beginning in April 2013. The solicitations will include layered short-term full-requirement products ranging from three months to 12 months for residential and small commercial and industrial PLR customers as well as a recurring 12 month spot market product for large commercial and industrial PLR customers. To date, one of four solicitations has been completed.

(PPL Electric)

See Note 11 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Legal Matters

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification (PPL and LKE)

See footnote (1) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(PPL and PPL Energy Supply)

Montana Hydroelectric Litigation

In November 2004, PPL Montana, Avista Corporation (Avista) and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydroelectric facilities' use and occupancy of certain riverbeds in Montana can be collected by the State of Montana. This lawsuit followed dismissal on jurisdictional grounds of an earlier federal lawsuit seeking such compensation in the U.S. District Court of Montana. The federal lawsuit alleged that the beds of Montana's navigable rivers became state-owned trust property upon Montana's admission to statehood, and that the use of them should, under a 1931 regulatory scheme enacted after all but one of the hydroelectric facilities in question were constructed, trigger lease payments for use of land beneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it was not seeking compensation for the period prior to PPL Montana's December 1999 acquisition of the hydroelectric facilities.

Following a number of adverse trial court rulings, in 2007 Pacificorp and Avista each entered into settlement agreements with the State of Montana providing, in pertinent part, that each company would make prospective lease payments for use of the State's navigable riverbeds (subject to certain future adjustments), resolving the State's claims for past and future compensation.

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately \$35 million for the 2000-2006 period and approximately \$6 million for 2007 compensation. Those unpaid amounts accrue interest at 10% per year. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods. In March 2010, the Montana Supreme Court substantially affirmed the June 2008 Montana District Court decision.

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition, and in February 2012 issued a decision overturning the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. In April 2012, the case was returned by the Montana Supreme Court to the Montana First Judicial District Court. Further proceedings have not yet been scheduled by the District Court. PPL Montana has concluded it is not probable, but it remains reasonably possible, that a loss has been incurred. While unable to estimate a range of loss, PPL Montana believes that any such amount would not be material.

Sierra Club Litigation

In July 2012, PPL Montana received a Notice of Intent to Sue (Notice) for violations of the Clean Air Act at Colstrip Steam Electric Station (Colstrip) from counsel on behalf of the Sierra Club and the Montana Environmental Information Center (MEIC). An Amended Notice was received on September 4, 2012, and a Second Amended Notice was received in October 2012. A Supplemental Notice was received in December 2012. The Notice, Amended Notice, Second Amended Notice and Supplemental Notice (the Notices) were all addressed to the Owner or Managing Agent of Colstrip, and to the other Colstrip co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, Northwestern Energy and PacificCorp. The Notices allege certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements.

On March 6, 2013, the Sierra Club and MEIC filed a complaint against PPL Montana and the other Colstrip co-owners in the U.S. District Court, District of Montana, Billings Division. PPL Montana operates Colstrip on behalf of the co-owners. The complaint is generally consistent with the prior Notices and lists 39 separate claims for relief. All but three of the claims allege Prevention of Significant Deterioration (PSD) related violations under the federal Clean Air Act for various plant maintenance projects completed since 1992. For each such project or set of projects, there are separate claims for failure to obtain a PSD permit, for failure to obtain a Montana Air Quality Permit to operate after the project(s) were completed and for operating after completion of such project(s) without "Best Available Control Technology". The remaining three claims relate to the alleged failure to update the Title V operating permit for Colstrip to reflect the alleged major modifications described in the other claims, allege that the previous Title V compliance certifications were incomplete because they did not address the major plant modifications, and that numerous opacity violations have occurred at the plant since 2007.

The complaint requests injunctive relief and civil penalties on average of \$36,000 per day per violation, including a request that the owners remediate environmental damage and that \$100,000 of the civil penalties be used for beneficial mitigation projects. PPL Montana believes it and the other co-owners have numerous defenses to the allegations set forth in this complaint and will vigorously deny the same. PPL Montana cannot predict the ultimate outcome of this matter at this time.

Regulatory Issues

(PPL, PPL Electric, LKE, LG&E and KU)

See Note 6 for information on regulatory matters related to utility rate regulation. See Note 15 to the Registrants' 2012 Form 10-K for a discussion of Enactment of Financial Reform Legislation.

(PPL, PPL Energy Supply and PPL Electric)

New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as the generation that may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. Several parties have filed appeals of the FERC's order. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution and requesting declaratory and injunctive relief barring implementation of the Act by the BPU Commissioners. In October 2011, the court denied the BPU's motion to dismiss the proceeding and in September 2012 the U.S. District Court denied all summary judgment motions. Trial on this matter is expected to be completed in May 2013 and is pending decision. Any decision is expected to be appealed to the U.S. Court of Appeals for the Third Circuit. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electric generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution, and requested declaratory and injunctive relief barring implementation of the order by the Commissioners of the MD PSC. In August 2012, the court denied the MD PSC and CPV Maryland, LLC motions to dismiss the proceeding. Trial on this matter was completed in March 2013 and a decision is expected in the second quarter of 2013. Any decision is expected to be appealed to the U.S. Court of Appeals for the Fourth Circuit. PPL, PPL Energy Supply, and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Pacific Northwest Markets (PPL and PPL Energy Supply)

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence. In July 2012, PPL Montana and the City of Tacoma, one of the two parties claiming refunds at FERC, reached a settlement whereby PPL Montana paid \$75 thousand to resolve the City of Tacoma's \$23 million claim. The settlement does not resolve the remaining claim outstanding at March 31, 2013, by the City of Seattle, for approximately \$50 million. In April 2013, the FERC issued an order on reconsideration allowing the parties to seek refunds for the period January 2000 through December 2000. As a result, the City of Seattle may be able to seek refunds from PPL Montana for such period.

Although PPL and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

FERC Market-Based Rate Authority

In 1998, the FERC authorized LG&E, KU and PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In those orders, the FERC directed LG&E, KU and PPL EnergyPlus, respectively, to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by LG&E, KU, PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In June 2011, FERC approved PPL's market-based rate update for the Eastern and Western regions. Also, in June 2011, PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. In June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the BREC balancing area and removing restrictions on their market-based rate authority in such region.

Currently, a seller granted FERC market-based rate authority may enter into power contracts during an authorized time period. If the FERC determines that the market is not workably competitive or that the seller possesses market power or is not charging "just and reasonable" rates, it may institute prospective action, but any contracts entered into pursuant to the FERC's market-based rate authority remain in effect and are generally subject to a high standard of review before the FERC can order changes.

Electric - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards. The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In October 2012, the FERC issued a Notice of Proposed Rulemaking (NOPR) concerning Reliability Standards for Geomagnetic Disturbances. The FERC proposes to direct NERC to submit for approval Reliability Standards that address the impact of geomagnetic disturbances on the reliable operation of the bulk-power system including one or more measures to protect against damage to the bulk-power system, such as the installation of equipment that blocks geomagnetically induced currents on implicated transformers. If the NOPR is adopted by the FERC, it is expected to require the Registrants either or both to make significant expenditures in new equipment or modifications to their facilities. The Registrants are unable to predict whether the NOPR will be adopted as proposed by the FERC or the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for geomagnetic disturbances.

Environmental Matters - Domestic

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operating certain facilities or operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act as amended and those federal, state, or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal in accordance with their approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before their respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to environmental compliance costs is reduced. As PPL Energy Supply is not a rate regulated entity, it does not have any mechanism for seeking rate recovery of environmental compliance costs. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Air

CSAPR (formerly Clean Air Transport Rule) and CAIR

In July 2011, the EPA adopted the CSAPR. The CSAPR replaced the EPA's previous CAIR which was invalidated by the U.S. Court of Appeals for the District of Columbia Circuit (the Court) in July 2008. CAIR subsequently was effectively reinstated by the Court in December 2008, pending finalization of the Transport Rule. Like CAIR, CSAPR only applied to PPL's fossil-fueled generating plants located in Kentucky and Pennsylvania and required reductions in sulfur dioxide and nitrogen oxides in two phases (2012 and 2014).

In December 2011, the Court stayed implementation of the CSAPR and left CAIR in effect pending a final decision on the validity of the rule. In August 2012, the Court issued a ruling invalidating CSAPR, remanding the rule to the EPA for further action, and leaving CAIR in place during the interim. A further revised rule is not expected from the EPA for at least two years.

The Kentucky fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements by utilizing sulfur dioxide allowances (including banked allowances). To meet nitrogen oxide standards, under the CAIR, the Kentucky companies will need to buy allowances and/or make operational changes. LG&E and KU do not currently anticipate that the costs of meeting these reinstated CAIR requirements or standards will be significant.

PPL Energy Supply's Pennsylvania fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet nitrogen oxide standards, under the CAIR, PPL Energy Supply will need to buy allowances and/or make operational changes, the costs of which are not anticipated to be significant.

National Ambient Air Quality Standards

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the CAIR for its Pennsylvania and Kentucky plants, PPL's fossil-fueled generating plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates.

In 2010, the EPA finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. On February 15, 2013, the EPA proposed to designate Yellowstone County in Montana (Billings area), and part of Jefferson County in Kentucky, as non-attainment. Final designations of non-attainment areas are due in June 2013, and attainment must be achieved by 2018.

In December 2012, the EPA issued final rules that strengthen the particulate standards. Under the final rule, states and the EPA have until 2015 to identify non-attainment areas, and states have until 2020 to achieve attainment status for those areas.

PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR, the MATS, or the Regional Haze requirements, such as upgraded or new sulfur dioxide scrubbers at some of their plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant.

Until particulate matter and sulfur dioxide maintenance and compliance plans are developed by the EPA and state or local agencies, including identification of and finalization of attainment designations, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the impact of the new standards.

MATS

In May 2011, the EPA published a proposed regulation providing for stringent reductions of mercury and other hazardous air pollutants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 16, 2012. The rule is being challenged by industry groups and states. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute.

Although the EPA had proposed certain modifications to the final rule, it has not finalized those proposed rule modifications and has not provided an expected completion date. PPL does not expect the modifications to significantly impact its compliance plans even if finalized.

At the time the MATS rule was proposed, LG&E and KU filed requests with the KPSC for environmental cost recovery based on their expectation of needing to install environmental controls including chemical additive and fabric-filter baghouses to remove certain hazardous air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. LG&E's and KU's anticipated retirement of certain coal-fired electric generating units is in response to this and other environmental regulations. With the publication of the final MATS rule, LG&E and KU are currently assessing whether any revisions of their approved compliance plans will be necessary.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that certain coal-fired plants may require installation of chemical additive systems, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact on operating cost. With respect to PPL Energy Supply's Montana plants, modifications to the current air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. For the Corette plant, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant asset group's carrying amount at March 31, 2013 was \$65 million. Although the Corette plant asset group was not determined to be impaired at March 31, 2013, it is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below.

On March 29, 2013, the EPA released its final rule revising certain emission limits and related requirements for new power plants under the MATS. The revised limits are somewhat less onerous than the original proposals, and thereby pose less of an impediment to the construction of new coal-fired power plants.

Regional Haze and Visibility

The Clean Air Act requires protection of visibility in Class I areas and, as such, the EPA's regional haze programs were developed to eliminate man-made visibility degradation by 2064. Under the programs, states are required to take action via state plans to make reasonable progress every decade, including the application of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977.

To date, the focus of regional haze activity has been the western U.S. because, until recently, BART requirements for sulfur dioxide and nitrogen oxide reductions in the eastern U.S. were largely addressed through compliance with other regulatory programs, such as CSAPR and CAIR. More specifically, the EPA had determined, and the U.S. Court of Appeals for the District of Columbia Circuit (Court) had affirmed, that a state could accept region-wide reductions under the CAIR trading program to satisfy BART requirements. Also, when CAIR was invalidated in 2008, the EPA subsequently completed a final rule providing that states subject to CSAPR (which replaced CAIR) may rely on participation in the CSAPR trading program as an alternative to BART. However, the Court's August 2012 decision to vacate and remand CSAPR will likely expose power plants located in the eastern U.S., including PPL's plants in Pennsylvania and Kentucky, to reductions in sulfur dioxide and nitrogen oxides required by BART.

In addition to this exposure stemming from the remand of CSAPR, LG&E's Mill Creek Units 3 and 4 are required to reduce sulfuric acid mist emissions because they were determined to have a significant regional haze impact. These reductions are in the Kentucky Division of Air Quality's regional haze state implementation plan which it submitted to the EPA. The costs of these reductions are not expected to be significant. LG&E intends to make these reductions through installation of sorbent injection technology after approval of the Kentucky plan by the EPA and revision of the Mill Creek plant's air permit under Title V.

In Montana, the EPA Region 8 developed the regional haze plan as the Montana Department of Environmental Quality declined to develop a BART state implementation plan at the time. In September 2012, the EPA issued its final Federal Implementation Plans (FIP) for the Montana regional haze rule. The final FIP indicated that no additional controls were assumed for Corette or Colstrip Units 3 and 4 but proposed tighter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply expects to meet these tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015. See "Mercury and Other Hazardous Air Pollutants" discussion above. Under the final FIP, Colstrip Units 1 and 2 may require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxide and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. In November 2012, PPL filed a petition for review of the Montana Regional Haze FIP with the U.S. Court of Appeals for the Ninth Circuit. Environmental groups have also filed a petition for review. The two matters have been consolidated, and PPL Montana and the environmental groups have each filed opening briefs.

New Source Review (NSR)

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. The requests are similar to those that PPL received in the early 2000s for its Colstrip, Corette and Martins Creek plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL, PPL Energy Supply and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during the Spring 2012 maintenance outage at Colstrip Unit 1. In September 2012, PPL Montana received an information request from the Montana Department of Environmental Quality regarding Colstrip Unit 1 and other projects. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received a notice alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent plant without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request on this matter. In September 2012, the parties reached a tentative settlement addressing the Ghent NSR matter and a September 2007 notice of violation alleging opacity violations at the plant. A consent decree was entered in the U.S. District Court for the Eastern District of Kentucky in December 2012. PPL, LKE and KU cannot predict the outcome of this matter until the consent decree is entered by the Court, but currently do not expect such outcome to result in costs in excess of amounts already accrued, which amounts are not material.

In addition, in August 2007, LG&E received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. See "Legal Matters" above for information on an environmental group's lawsuit filed March 6, 2013 against PPL Montana and other owners of Colstrip.

If PPL subsidiaries are found to have violated NSR regulations, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

Colstrip and Corette Air Permits (PPL and PPL Energy Supply)

In January 2013, Earthjustice, on behalf of the Sierra Club and the MEIC filed an administrative appeal with the Board of Environmental Review, setting forth challenges to certain components of the Title V permits for Colstrip and Corette. These challenges include: 1) the regional haze requirements should have been included in the Title V permits for Corette and Colstrip; 2) the MATS requirements should have been included in the Title V permits for Corette and Colstrip; 3) the particulate monitoring methodology is inadequate at Corette and Colstrip; and 4) sulfur dioxide monitoring is inadequate at Corette. PPL Montana is participating in these proceedings as an intervenor, but cannot predict the outcomes.

On January 31, 2013, the Sierra Club and the MEIC alleged identical claims in their joint petition to the EPA, requesting that the EPA object to the MDEQ's issuance of Colstrip's and Corette's Title V permits. PPL Montana cannot predict the outcome of this parallel matter pending before the EPA.

TC2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which were incorporated into a final revised permit issued by the KDAQ in January 2010. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the capital costs of this project, if any.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

GHG Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that apply beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. As a result, any new sources or major modifications to existing GHG sources causing a net significant emissions increase will require adherence to the BACT permit limits for GHGs. The rules were challenged, and in June 2012, the U.S. Court of Appeals for the District of Columbia Circuit upheld the EPA's regulations. In December 2012, the Court denied petitions for rehearing pertaining to the Court's June 2012 opinion.

In addition, in April 2012, the EPA proposed New Source Performance Standards (NSPS) for carbon dioxide emissions from new coal-fired generating units, combined-cycle natural gas units, and integrated gasification combined-cycle units. The proposal would require new coal plants to achieve the same stringent limitations on carbon dioxide emissions as the best performing new gas plants. There presently is no commercially available technology to allow new coal plants to achieve these limitations and, as a result, the EPA's proposal would effectively preclude future construction of new coal-fired generation and could even be difficult for new gas-fired plants to meet. In December 2012, the U.S. Court of Appeals for the District of Columbia Circuit dismissed consolidated challenges to the NSPS holding that the proposed rule is not a final agency action. The EPA is expected to finalize the NSPS for new power plants in 2013 and is expected to begin working on a proposal for such emissions from existing power plants. With respect to existing power plants, the impact could be significant, depending on the structure and stringency of the final rule.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction, by 2019, in carbon dioxide emissions from base levels.

Pennsylvania has not stated an intention to join the RGGI, but enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report and identified specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced that would, if enacted, accelerate solar supply requirements, restrict eligible solar projects to those located in Pennsylvania and increase the percentage of electricity that must come from Tier 1 resources. PPL and PPL Energy Supply cannot predict at this time whether any such legislation will be enacted.

Eleven western states and certain Canadian provinces established the Western Climate Initiative (WCI) in 2003. The WCI established a goal of reducing carbon dioxide emissions by 15% below 2005 levels by 2020 and developed GHG emission allocations, offsets, and reporting recommendations. Montana was once a partner in the WCI, but by 2011 withdrew, along with several other western states.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. To date, the state has not issued a final plan. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants, and the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the lower court and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in *Comer v. Murphy Oil* (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal court granted defendants' motions to dismiss the state common law claims because plaintiffs had previously raised the same claims, plaintiffs lacked standing, plaintiffs' claims were displaced by the Clean Air Act, and on other grounds. In April 2012, plaintiffs filed a notice of appeal in the Fifth Circuit. Additional litigation in federal and state courts over these issues is continuing. PPL, LKE and KU cannot predict the outcome of this litigation or estimate a range of reasonably possible losses, if any.

Renewable Energy Legislation (PPL, PPL Energy Supply, LKE, LG&E and KU)

There has been interest in renewable energy legislation at both the state and federal levels. Federal legislation on renewable energy is not expected to be introduced this year. In Pennsylvania, bills were recently introduced calling for an increase in AEPS Tier 1 obligations and to create a \$25 million permanent funding program for solar generation. Bills adding new hydropower to Montana's renewable portfolio standard have moved through the legislative process. PPL cannot predict the ultimate outcome of this legislation at this time.

PPL, PPL Energy Supply, LKE, LG&E and KU believe there are financial, regulatory and logistical uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their competitive plants' future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The first approach would regulate CCRs as a hazardous waste under Subtitle C of the RCRA. This approach would materially increase costs and result in early retirements of many coal-fired plants, as it would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through generation, transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The second approach would regulate CCRs as a solid (non-hazardous) waste under Subtitle D of the RCRA. This approach would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the requirements of Subtitle D of the RCRA, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented or is implementing certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) that requests comments on selected documents that the EPA received during the comment period for the proposed regulations. In addition, the U.S. House of Representatives in September 2012 approved a bill that was revised in the Senate to modify Subtitle D of the RCRA to provide for the proper management and disposal of CCRs and to preclude the EPA from regulating CCRs under Subtitle C of the RCRA. Similar legislation is being considered in the 2013 Congress and the prospect for passage is uncertain.

In January 2012, a coalition of environmental groups filed a 60-day notice of intent to sue the EPA for failure to perform nondiscretionary duties under RCRA, which could require a deadline for the EPA to issue strict CCR regulations. In February 2012, two CCR recycling companies also issued a 60-day notice of intent to sue the EPA over its timeliness in issuing CCR regulations, but they requested that the EPA take a Subtitle D approach that would allow for continued recycling of CCRs. The coalition filed its lawsuit in April 2012 and litigation is continuing.

A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by the outcome of the above litigation, which could require the EPA to issue its regulations sooner.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the financial impact could be material if CCRs are regulated as hazardous waste under Subtitle C and significant if regulated as non-hazardous under Subtitle D.

Trimble County Landfill Permit (PPL, LKE, LG&E and KU)

In May 2011, LG&E submitted an application for a special waste landfill permit to handle coal combustion residuals generated at the Trimble County plant. After extensive review of the permit application, on March 20, 2013, the Kentucky Division of Waste Management issued a preliminary notice of intent to deny the permit on the grounds that the proposed facility would violate the Kentucky Cave Protection Act because it would eliminate an on-site karst feature considered to be a cave. The preliminary decision to deny the permit will be subject to public notice and comment before a final decision is made. If the Division makes a final decision to deny the permit, the Company will assess additional options for managing coal combustion residuals including construction of a landfill at an alternate site adjacent to the plant. Submittal of a new permit application for an alternative site may result in additional environmental considerations in the course of the permitting process and substantial additional costs. The Company is unable to determine the precise impact of this matter until the Division makes a final decision on the permit application and the Company selects an alternate management option and completes a detailed engineering design.

Martins Creek Fly Ash Release (PPL and PPL Energy Supply)

In 2005, approximately 100 million gallons of water containing fly ash was released from a disposal basin at the Martins Creek plant used in connection with the operation of the plant's two 150 MW coal-fired generating units. This resulted in ash being deposited onto adjacent roadways and fields, and into a nearby creek and the Delaware River. PPL determined that the release was caused by a failure in the disposal basin's discharge structure. PPL conducted extensive clean-up and completed studies, in conjunction with a group of natural resource trustees and the Delaware River Basin Commission, evaluating the effects of the release on the river's sediment, water quality and ecosystem.

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the PADEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies. Subsequently, in August 2011 the PADEP submitted its National Resource Damage Assessment report to the court and to the interveners. In December 2011, the interveners commented on the PADEP report and in February 2012 the PADEP and PPL filed separate responses with the court. In March 2012, the court dismissed the interveners' case, but the interveners have appealed the dismissal to the Pennsylvania Supreme Court and a decision by the court is still pending.

Through March 31, 2013, PPL Energy Supply has spent \$28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the nature of any other regulatory or legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in significant losses above the amounts currently recorded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to implement abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage due to seepage from plant wastewater ponds. A settlement agreement was reached in July 2010 which would have resulted in a payment by PPL Montana, but certain of the plaintiffs later argued the settlement was not final. The Colstrip plant owners filed a motion to enforce the settlement and in October 2011 the court granted the motion and ordered the settlement to be completed in 60 days. The plaintiffs appealed the October 2011 order to the Montana Supreme Court, which affirmed the district court's order enforcing the settlement on December 31, 2012 and denied plaintiff's motion for rehearing on February 5, 2013. The parties are still in negotiations regarding the final settlement documents. PPL Montana's share of the settlement is not expected to be significant.

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years, PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER), on behalf of the Sierra Club, the MEIC, and the National Wildlife Federation (NWF). In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County.

In late October 2012, Earthjustice filed a second complaint against the MDEQ and PPL Montana in state district court in Lewis and Clark County on behalf of the Sierra Club, the MEIC and the NWF. This complaint alleges that the defendants have failed to take action under the MFSA and the Montana Water Quality Act to effectively monitor and correct issues of coal ash disposal and wastewater ponds at the Colstrip plant. The complaint seeks a declaration that the operations of the impoundments violate the statutes addressed above, requests a writ of mandamus directing the MDEQ to enforce the same, and seeks recovery of attorneys' fees and costs. PPL is vigorously defending these allegations, and PPL and PPL Energy Supply cannot predict the outcome of this matter. The petition filed in Rosebud County has been stayed pending the outcome of this matter.

Clean Water Act 316(b) (PPL, PPL Energy Supply, LKE, LG&E and KU)

The EPA published the proposed 316(b) rule for existing facilities in April 2011. The industry and PPL reviewed the proposed rule and submitted comments. The EPA has been evaluating comments and meeting with industry groups to discuss options. The proposed rule contains two requirements to reduce impact to aquatic organisms at cooling water intake structures. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens (impingement) regardless of the levels of mortality actually occurring or the cost of achieving the requirements. The second requirement is to determine and install the best technology available to reduce mortality of aquatic organisms that are pulled through the plant's cooling water system (entrainment). A form of cost-benefit analysis is allowed for this second requirement, involving a site-specific evaluation based on nine factors, including impacts to energy delivery reliability and the remaining useful life of the plant. The final rule is expected to be issued in June 2013. PPL, PPL Energy Supply, LKE, LG&E and KU cannot reasonably estimate a range of reasonably possible costs, if any, until the final rule is issued, the required studies have been completed, and each state in which they operate has decided how to implement the rule.

Effluent Limitations Guidelines and Standards (PPL, PPL Energy Supply, LKE, LG&E and KU)

On April 19, 2013, the EPA issued proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash handling and metal cleaning wastes, as well as new limits for scrubber wastewater, gasification wastewater and landfill leachate. The proposal contains several alternative approaches, some of which could significantly impact PPL's coal-fired plants. PPL will work with industry groups to comment on the proposed regulation. The final regulation is expected to be issued in May 2014. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

Other Issues (PPL, PPL Energy Supply, LKE, LG&E and KU)

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxics Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. The EPA is planning to propose the revised regulations in 2014. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

A PPL Energy Supply subsidiary has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant, but the subsidiary and the PADEP have concluded that a barrier method to exclude fish is not workable. In June 2012, a Consent Order and Agreement (COA) was signed that allows the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. Should this approach fail, the COA requires a retrofit of impingement control technology at the intakes to the cooling towers, the cost of which could be significant.

In May 2010, the subsidiary received a draft NPDES permit (renewed) for the Brunner Island plant from the PADEP. This permit includes new water quality-based limits for the scrubber wastewater plant. Some of these limits may not be achievable with the existing treatment system. Several agencies and environmental groups commented on the draft permit, raising issues that must be resolved to obtain a final permit for the plant. PPL Energy Supply cannot predict the outcome of the final resolution of the permit issues at this time, or what impact, if any, they would have on this facility, but the costs could be significant.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

The EPA and the Army Corps of Engineers are working on a guidance document that will expand the federal government's interpretation of what constitutes "waters of the United States" subject to regulation under the Clean Water Act. This change has the potential to affect generation and delivery operations, with the most significant effect being the potential elimination of the existing regulatory exemption for plant waste water treatment systems. The costs that may be imposed on the Registrants as a result of any eventual expansion of this interpretation cannot reliably be estimated at this time but could be significant.

Superfund and Other Remediation (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL Electric is potentially responsible for costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase substantially more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL Energy Supply, PPL Electric, LG&E and KU undertake remedial action in response to spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on their operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for the Registrants.

Environmental Matters - WPD (PPL)

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

Other

Nuclear Insurance (PPL and PPL Energy Supply)

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Effective April 1, 2013, facilities at the Susquehanna plant are insured against property damage losses up to \$2.50 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. Effective April 1, 2013, this maximum assessment was \$46 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to \$12.6 billion under provisions of The Price-Anderson Act as amended. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act as amended, PPL Susquehanna could be assessed up to \$235 million per incident, payable at \$35 million per year.

Guarantees and Other Assurances

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The table below details guarantees provided at March 31, 2013. The total recorded liability at March 31, 2013 and December 31, 2012, was \$24 million for PPL and \$20 million for LKE. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<u>Exposure at March 31, 2013 (a)</u>	<u>Expiration Date</u>
PPL		
Indemnifications related to the WPD Midlands acquisition	(b)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 10 (c)	2018
WPD guarantee of pension and other obligations of unconsolidated entities	85 (d)	2015

	Exposure at March 31, 2013 (a)	Expiration Date
<u>PPL Energy Supply</u>		
Letters of credit issued on behalf of affiliates	23 (e)	2013 - 2014
Retrospective premiums under nuclear insurance programs	48 (f)	
Nuclear claims assessment under The Price-Anderson Act as amended	235 (g)	
Indemnifications for sales of assets	250 (h)	2025
Indemnification to operators of jointly owned facilities	6 (i)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (j)	2018
<u>PPL Electric</u>		
Guarantee of inventory value	24 (k)	2016
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301 (l)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(m)	

- (a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.
- (b) Prior to PPL's acquisition, WPD Midlands Holdings Limited had agreed to indemnify certain former directors of a Turkish entity, in which WPD Midlands Holdings Limited previously owned an interest, for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (c) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (d) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At March 31, 2013, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.
- (e) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.
- (f) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance" above for additional information.
- (g) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance" above for additional information.
- (h) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits. The indemnification provisions described below are in each case subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions for most representations and warranties expired in the third quarter of 2011.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification provisions for most representations and warranties expired in the fourth quarter of 2012.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions for most representations and warranties expired in the first quarter of 2012.

- (i) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating plants. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating plants, based upon their ownership percentages. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The exposure shown reflects the PPL Energy Supply subsidiary's share of the maximum obligation. The agreements do not have an expiration date.
- (j) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser, secured by a lien on the purchaser's stock of Safe Harbor, in the event PPL Energy Supply is required to make a payment under the guarantee. The exposure noted reflects principal only.
- (k) PPL Electric entered into a contract with a third party logistics firm that provides inventory procurement and fulfillment services. Under the contract, the logistics firm has title to the inventory purchased for PPL Electric's use. Upon termination of the contract, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold by the logistics firm at the weighted-average cost at which the logistics firm purchased the inventory.
- (l) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE Agreement covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing the December 2012 order of the Henderson Circuit Court confirming the arbitration award. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including the potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.
- (m) Pursuant to the OVEC power purchase contract, expiring in June 2040, LG&E and KU are obligated to pay a demand charge which includes, among other charges, debt service and amortization toward principal retirement, decommissioning costs, post-retirement and post-employment benefits costs (other than pensions), and reimbursement of plant operating, maintenance and other expenses. The demand charge is expected to cover LG&E's and KU's shares of the cost of the listed items over the term of the contract. However, in the event there is a shortfall in covering these costs, LG&E and KU are obligated to pay their share of the excess debt service, post-retirement and decommissioning costs. The maximum exposure and the expiration date of these potential obligations are not presently determinable.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a maximum \$4 million deductible for PPL, PPL Energy Supply and PPL Electric and \$2 million for LKE, LG&E and KU, per occurrence and provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable (*PPL Energy Supply and PPL Electric*)

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. The sales and purchases between PPL EnergyPlus and PPL Electric are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered; and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, PPL EnergyPlus' credit limit was \$35 million at March 31, 2013. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At March 31, 2013, PPL Energy Supply had a net credit exposure of \$23 million from PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Allocations of PPL Services Costs (PPL Energy Supply, PPL Electric and LKE)

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of such services when they can be specifically identified. The cost of the services that is not directly charged to PPL subsidiaries is allocated to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services charged the following amounts for the periods ended March 31, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

	Three Months	
	2013	2012
PPL Energy Supply	\$ 57	\$ 57
PPL Electric	38	42
LKE	4	5

Intercompany Billings by LKS (LG&E and KU)

LKS provides LG&E and KU with a variety of centralized administrative, management and support services. The cost of these services is directly charged to the company or, for general costs that cannot be directly attributed, charged based on predetermined allocation factors, including the following measures: number of customers, total assets, revenues, number of employees and/or other statistical information. LKS charged the amounts in the table below for the periods ended March 31, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense.

	Three Months	
	2013	2012
LG&E	\$ 39	\$ 41
KU	66	46

In addition, LG&E and KU provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings (LKE)

LKE maintains a \$300 million revolving demand note with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At March 31, 2013 and December 31, 2012, \$85 million and \$25 million was outstanding and was reflected in "Notes payable with affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at March 31, 2013 was 1.7%. Interest on the demand note was not significant for the three months ended March 31, 2013 and 2012.

Intercompany Derivatives (LKE, LG&E and KU)

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 14 for additional information on intercompany derivatives.

Other (PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

See Note 7 for a discussion regarding capital transactions by PPL Energy Supply, PPL Electric, LKE, LG&E and KU. For PPL Energy Supply, PPL Electric, LG&E and KU, refer to Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The breakdown of "Other Income (Expense) - net" for the periods ended March 31 was:

	Three Months	
	2013	2012
PPL		
Other Income		
Earnings on securities in NDT funds	\$ 5	\$ 8
Interest income	1	1
AFUDC - equity component	3	2
Miscellaneous - Domestic	2	2
Miscellaneous - U.K.	1	
Total Other Income	<u>12</u>	<u>13</u>
Other Expense		
Economic foreign currency exchange contracts (Note 14)	(119)	18
Charitable contributions	4	4
Miscellaneous - Domestic	4	6
Miscellaneous - U.K.	1	2
Total Other Expense	<u>(110)</u>	<u>30</u>
Other Income (Expense) - net	<u>\$ 122</u>	<u>\$ (17)</u>

The components of "Other Income (Expense) - net" for the three months ended March 31, 2013 and 2012 for PPL Energy Supply, PPL Electric, LKE, LG&E and KU are not significant.

13. Fair Value Measurements and Credit Concentration

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three months ended March 31, 2013 and 2012, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2012 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	March 31, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 853	\$ 853			\$ 901	\$ 901		
Restricted cash and cash equivalents (a)	186	186			135	135		
Price risk management assets:								
Energy commodities	1,676	3	\$ 1,651	\$ 22	2,068	2	\$ 2,037	\$ 29
Interest rate swaps	27		27		15		15	
Foreign currency contracts	96		96					
Cross-currency swaps	83		83		14		13	1
Total price risk management assets	<u>1,882</u>	<u>3</u>	<u>1,857</u>	<u>22</u>	<u>2,097</u>	<u>2</u>	<u>2,065</u>	<u>30</u>

	March 31, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
NDT funds:								
Cash and cash equivalents	8	8			11	11		
Equity securities								
U.S. large-cap	457	342	115		412	308	104	
U.S. mid/small-cap	68	28	40		60	25	35	
Debt securities								
U.S. Treasury	95	95			95	95		
U.S. government sponsored agency	9		9		9		9	
Municipality	83		83		82		82	
Investment-grade corporate	40		40		40		40	
Other	3		3		3		3	
Receivables (payables), net	1	(1)	2			(2)	2	
Total NDT funds	764	472	292		712	437	275	
Auction rate securities (b)	19		3	16	19		3	16
Total assets	\$ 3,704	\$ 1,514	\$ 2,152	\$ 38	\$ 3,864	\$ 1,475	\$ 2,343	\$ 46

Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,432	\$ 2	\$ 1,422	\$ 8	\$ 1,566	\$ 2	\$ 1,557	\$ 7
Interest rate swaps	69		69		80		80	
Foreign currency contracts	3		3		44		44	
Cross-currency swaps	1		1		4		4	
Total price risk management liabilities	\$ 1,505	\$ 2	\$ 1,495	\$ 8	\$ 1,694	\$ 2	\$ 1,685	\$ 7

PPL Energy Supply

Assets								
Cash and cash equivalents	\$ 147	\$ 147			\$ 413	\$ 413		
Restricted cash and cash equivalents (a)	122	122			63	63		
Price risk management assets:								
Energy commodities	1,676	3	\$ 1,651	\$ 22	2,068	2	\$ 2,037	\$ 29
Total price risk management assets	1,676	3	1,651	22	2,068	2	2,037	29

NDT funds:								
Cash and cash equivalents	8	8			11	11		
Equity securities								
U.S. large-cap	457	342	115		412	308	104	
U.S. mid/small-cap	68	28	40		60	25	35	
Debt securities								
U.S. Treasury	95	95			95	95		
U.S. government sponsored agency	9		9		9		9	
Municipality	83		83		82		82	
Investment-grade corporate	40		40		40		40	
Other	3		3		3		3	
Receivables (payables), net	1	(1)	2			(2)	2	
Total NDT funds	764	472	292		712	437	275	
Auction rate securities (b)	16		3	13	16		3	13
Total assets	\$ 2,725	\$ 744	\$ 1,946	\$ 35	\$ 3,272	\$ 915	\$ 2,315	\$ 42

Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,432	\$ 2	\$ 1,422	\$ 8	\$ 1,566	\$ 2	\$ 1,557	\$ 7
Total price risk management liabilities	\$ 1,432	\$ 2	\$ 1,422	\$ 8	\$ 1,566	\$ 2	\$ 1,557	\$ 7

PPL Electric

Assets								
Cash and cash equivalents	\$ 31	\$ 31			\$ 140	\$ 140		
Restricted cash and cash equivalents (c)	12	12			13	13		
Total assets	\$ 43	\$ 43			\$ 153	\$ 153		

LKE

Assets								
Cash and cash equivalents	\$ 52	\$ 52			\$ 43	\$ 43		
Restricted cash and cash equivalents (d)	27	27			32	32		
Price risk management assets:								
Interest rate swaps	24		\$ 24		14		\$ 14	
Total price risk management assets	24		24		14		14	
Total assets	\$ 103	\$ 79	\$ 24		\$ 89	\$ 75	\$ 14	

Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 54		\$ 54		\$ 58		\$ 58	
Total price risk management liabilities	\$ 54		\$ 54		\$ 58		\$ 58	

	March 31, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
LG&E								
Assets								
Cash and cash equivalents	\$ 34	\$ 34			\$ 22	\$ 22		
Restricted cash and cash equivalents (d)	27	27			32	32		
Price risk management assets:								
Interest rate swaps	12		\$ 12		7		\$ 7	
Total price risk management assets	12		12		7		7	
Total assets	\$ 73	\$ 61	\$ 12		\$ 61	\$ 54	\$ 7	

Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 54		\$ 54		\$ 58		\$ 58	
Total price risk management liabilities	\$ 54		\$ 54		\$ 58		\$ 58	

KU								
Assets								
Cash and cash equivalents	\$ 16	\$ 16			\$ 21	\$ 21		
Price risk management assets:								
Interest rate swaps	12		\$ 12		7		\$ 7	
Total price risk management assets	12		12		7		7	
Total assets	\$ 28	\$ 16	\$ 12		\$ 28	\$ 21	\$ 7	

- (a) Current portion is included in "Restricted cash and cash equivalents" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Included in "Other noncurrent assets" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the three months ended March 31 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	2013				2012			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
Balance at beginning of period	\$ 22	\$ 16	\$ 1	\$ 39	\$ 13	\$ 24	\$ 4	\$ 41
Total realized/unrealized gains (losses)								
Included in earnings	(8)			(8)	18			18
Included in OCI (a)			3	3	2		2	4
Settlements	(1)			(1)	(6)			(6)
Transfers into Level 3	1			1				
Transfers out of Level 3			(4)	(4)	(8)		(3)	(11)
Balance at end of period	\$ 14	\$ 16	\$	\$ 30	\$ 19	\$ 24	\$ 3	\$ 46

PPL Energy Supply								
Balance at beginning of period								
	\$ 22	\$ 13		\$ 35	\$ 13	\$ 19		\$ 32
Total realized/unrealized gains (losses)								
Included in earnings	(8)			(8)	18			18
Included in OCI (a)					2			2
Settlements	(1)			(1)	(6)			(6)
Transfers into Level 3	1			1				
Transfers out of Level 3					(8)			(8)
Balance at end of period	\$ 14	\$ 13		\$ 27	\$ 19	\$ 19		\$ 38

- (a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in and quantitative information about the fair value measurement of assets and liabilities classified as Level 3 are as follows:

March 31, 2013					
	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)	
PPL					
Energy commodities					
Retail natural gas sales contracts (b)	\$ 16	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	23% - 100% (96%)	
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	21% (21%)	
FTR purchase contracts (d)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)	
Auction rate securities (e)	16	Discounted cash flow	Modeled from SIFMA Index	55% - 74% (64%)	

PPL Energy Supply

Energy commodities					
Retail natural gas sales contracts (b)	\$ 16	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	23% - 100% (96%)	
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	21% (21%)	
FTR purchase contracts (d)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)	
Auction rate securities (e)	13	Discounted cash flow	Modeled from SIFMA Index	58% - 74% (65%)	

December 31, 2012

	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)	
PPL					
Energy commodities					
Retail natural gas sales contracts (b)	\$ 24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)	
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)	
FTR purchase contracts (d)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)	
Auction rate securities (e)	16	Discounted cash flow	Modeled from SIFMA Index	54% - 74% (64%)	
Cross-currency swaps (f)	1	Discounted cash flow	Credit valuation adjustment	22% (22%)	

PPL Energy Supply

Energy commodities					
Retail natural gas sales contracts (b)	\$ 24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)	
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)	
FTR purchase contracts (d)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)	
Auction rate securities (e)	13	Discounted cash flow	Modeled from SIFMA Index	57% - 74% (65%)	

- (a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs. For cross-currency swaps, the range and weighted average represent the percentage decrease in fair value due to the unobservable inputs used in the model to calculate the credit valuation adjustment.
- (b) At March 31, 2013, retail natural gas sales contracts extend through 2017, and \$3 million of the fair value is scheduled to deliver within the next 12 months. As the forward price of natural gas increases/(decreases), the fair value of the contracts (decreases)/increases.
- (c) At March 31, 2013, power sales contracts extend into 2014, and \$(4) million of the fair value is scheduled to deliver within the next 12 months. As the forward price of basis increases/(decreases), the fair value of the contracts (decreases)/increases.
- (d) At March 31, 2013, FTR purchase contracts extend through 2015, and \$1 million of the fair value is scheduled to deliver within the next 12 months. As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).
- (e) At March 31, 2013, auction rate securities have a weighted average contractual maturity of 23 years. The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).
- (f) The credit valuation adjustment incorporates projected probabilities of default and estimated recovery rates. As the credit valuation adjustment increases/(decreases), the fair value of the swaps (decreases)/increases.

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the periods ended March 31 are reported in the Statements of Income as follows:

	Three Months							
	Energy Commodities, net							
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases	
	2013	2012	2013	2012	2013	2012	2013	2012
PPL and PPL Energy Supply								
Total gains (losses) included in earnings	\$ (7)	\$ 16	\$ (2)	\$ 4	\$ (1)	\$ 1	\$ (1)	
Change in unrealized gains (losses) relating to positions still held at the reporting date	(7)	46	(2)	(18)	(1)	1	(5)	

Price Risk Management Assets/Liabilities - Energy Commodities (PPL and PPL Energy Supply)

Energy commodity contracts for electricity, gas, oil and/or emission allowances are generally valued using the income approach, except for exchange-traded derivative gas and oil contracts, which are valued using the market approach and are classified as Level 1. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. Energy commodity contracts include forwards, futures, swaps, options and structured transactions and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and standard industry models. For example, the fair value of a full-requirement sales contract that delivers power to an illiquid delivery point may be measured by valuing the nearest liquid trading point plus the value of the basis between the two points. The basis input may be from market quotes or historical prices.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Level 3 contracts are valued using PPL proprietary models which include significant unobservable inputs such as delivery at a location where pricing is unobservable, assumptions for customer migration or delivery dates that are beyond the dates for which independent quotes are available. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2013 and 2012 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. For PPL, the primary reason for the transfers during 2013 and 2012 was the change in the significance of the credit valuation adjustment. Cross-currency swaps classified as Level 3 are valued by PPL's Corporate Finance department, which reports to the CFO. Accounting personnel,

who also report to the CFO, interpret analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

(PPL and PPL Energy Supply)

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets and are comprised of securities that are representative of the Wilshire 5000 Total Market Index.
- Investments in commingled equity funds are classified as Level 2 and represent securities that track the S&P 500 Index, Dow Jones U.S. Total Stock Market Index and the Dow Jones U.S. Completion Total Stock Market Index. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data.

The debt securities held in the NDT funds at March 31, 2013 have a weighted-average coupon of 4.12% and a weighted-average maturity of 8.1 years.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The exposure to realize losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3.

Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

Financial Instruments Not Recorded at Fair Value *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The carrying amounts of contract adjustment payments related to the Purchase Contract component of the Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	<u>March 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>PPL</u>				
Contract adjustment payments (a)	\$ 81	\$ 82	\$ 105	\$ 106
Long-term debt	19,632	21,872	19,476	21,671
<u>PPL Energy Supply</u>				
Long-term debt	3,264	3,568	3,272	3,556
<u>PPL Electric</u>				
Long-term debt	1,967	2,304	1,967	2,333

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
LKE				
Long-term debt	4,075	4,413	4,075	4,423
LG&E				
Long-term debt	1,112	1,177	1,112	1,178
KU				
Long-term debt	1,842	2,052	1,842	2,056

(a) Reflected in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, represents or approximates fair value due to the variable interest rates associated with the financial instruments and is classified as Level 2.

Credit Concentration Associated with Financial Instruments

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Contracts are entered into with many entities for the purchase and sale of energy. Many of these contracts qualify for NPNS and, as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

(PPL)

At March 31, 2013, PPL had credit exposure of \$1.3 billion from energy trading partners, excluding the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, PPL's credit exposure was reduced to \$544 million. The top ten counterparties accounted for \$324 million, or 60%, of this exposure and all had investment grade credit ratings from S&P or Moody's.

(PPL Energy Supply)

At March 31, 2013, PPL Energy Supply had credit exposure of \$1.3 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, this credit exposure was reduced to \$543 million. The top ten counterparties accounted for \$324 million, or 60%, of this exposure and all had investment grade credit ratings from S&P or Moody's. See Note 11 for information regarding the related party credit exposure.

(PPL Electric)

PPL Electric is exposed to credit risk under energy supply contracts (including its supply contracts with PPL EnergyPlus); however, its PUC-approved cost recovery mechanism is anticipated to substantially eliminate this exposure.

(LKE, LG&E and KU)

At March 31, 2013, LKE's, LG&E's and KU's credit exposure was not significant.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL has a risk management policy approved by the Board of Directors to manage market risk (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses, and daily portfolio reporting, including open positions, determinations of fair value, and other risk management metrics.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions, such as tolling agreements, are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

The table below summarizes the market risks that affect PPL and its subsidiaries.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Commodity price risk (including basis and volumetric risk)	X	X	M	M	M	M
Interest rate risk:						
Debt issuances	X	X	M	M	M	M
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Equity securities price risk:						
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Future stock transactions	X					
Foreign currency risk - WPD investment	X					

X = PPL and PPL Energy Supply actively mitigate market risks through their risk management programs described above.

M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

Commodity price and volumetric risks

- PPL is exposed to market and commodity price, basis and volumetric risk through its domestic subsidiaries as described below. Volumetric risk is significantly mitigated at WPD as a result of the method of regulation in the U.K.
- PPL Energy Supply is exposed to commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities (including full-requirement sales contracts) and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities.
- PPL Electric is exposed to commodity price and volumetric risks from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to market risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. WPD holds over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt and LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with equity securities held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD. Additionally, PPL Energy Supply is exposed to equity securities price risk in the NDT funds.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in U.K. affiliates.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL Energy Supply is exposed to credit risk from "in-the-money" commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers and financial institutions.

LKE, LG&E and KU are exposed to credit risk from "in-the-money" interest rate derivatives with financial institutions.

The majority of PPL and PPL Energy Supply's credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with energy trading partners.

Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was \$49 million and \$112 million at March 31, 2013 and December 31, 2012.

PPL Electric, LKE and LG&E had no obligation to return cash collateral under master netting arrangements at March 31, 2013 and December 31, 2012.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of \$27 million and \$32 million at March 31, 2013 and December 31, 2012.

PPL Energy Supply, PPL Electric and KU had not posted any cash collateral under master netting arrangements at March 31, 2013 and December 31, 2012.

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

Commodity price risk, including basis and volumetric risk, is among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its wholesale and retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 7,298 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,316 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts qualify for NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their non-trading activities into two categories: cash flow hedges and economic activity, as discussed below.

Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. Certain cash flow hedge positions were dedesignated during the three months ended March 31, 2013. The fair value of the hedges at December 31, 2012 remained in AOCI because the original forecasted transaction is still expected to occur. There were no active cash flow hedges during the three months ended March 31, 2013. At March 31, 2013, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$99 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For the three months ended March 31, 2013 and 2012, such reclassifications were insignificant.

For the three months ended March 31, 2012, hedge ineffectiveness associated with energy derivatives was insignificant.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or because hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity would also include the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at March 31, 2013 range in maturity through 2019.

Examples of economic activity may include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally capped at the price at

which the generating unit would be dispatched and therefore does not expose PPL Energy Supply to uncovered market price risk.

The unrealized gains (losses) for economic activity for the periods ended March 31 were as follows.

	Three Months	
	2013	2012
Operating Revenues		
Unregulated retail electric and gas	\$ (8)	\$ 10
Wholesale energy marketing	(822)	852
Operating Expenses		
Fuel	(1)	2
Energy purchases	634	(591)

The net gains (losses) recorded in "Wholesale energy marketing" resulted primarily from hedges of baseload generation and from certain full-requirement sales contracts for which PPL Energy Supply did not elect NPNS; additionally, 2012 includes amounts related to the monetization of certain full-requirement sales contracts in 2010. The net gains (losses) recorded in "Energy purchases" resulted primarily from certain purchase contracts to supply the full-requirement sales contracts noted above for which PPL Energy Supply did not elect hedge treatment and 2012 includes amounts related to the monetization of certain full-requirement sales contracts in 2010.

Commodity Price Risk (Trading)

PPL Energy Supply also has a proprietary trading strategy which is utilized to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in losses if prices do not move in the manner or direction anticipated. The proprietary trading portfolio is not a significant part of PPL Energy Supply's business and is shown in "Net energy trading margins" on the Statements of Income.

Commodity Volumes

At March 31, 2013, the net volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

Commodity	Unit of Measure	Volume (a)			
		2013 (b)	2014	2015	Thereafter
Power	MWh	(27,422,031)	(22,385,959)	(490,995)	1,415,573
Capacity	MW-Month	(11,655)	(6,630)	(13)	525
Gas	MMBtu	(5,339,243)	(25,106,607)	(4,091,856)	(3,678,883)
Coal	Tons	(186,000)	186,000		
FTRs	MW-Month	14,224	5,063	1,465	
Oil	Barrels	46,118	240,000	300,000	240,000

(a) Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

(b) Represents balance of the current year.

Interest Rate Risk

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates.

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge

floating interest rate risk associated with both existing and anticipated debt issuances. At March 31, 2013, outstanding interest rate swap contracts range in maturity through 2024 for WPD and through 2043 for PPL's domestic interest rate swaps. These swaps had an aggregate notional value of \$1.1 billion at March 31, 2013 of which £295 million (approximately \$448 million based on spot rates) was related to WPD. Also included in this total are forward-starting interest rate swaps entered into by PPL on behalf of LG&E and KU. Realized gains and losses from these swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives have been reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt when the hedged transaction occurs.

At March 31, 2013, PPL held a notional position in cross-currency interest rate swaps totaling \$1.3 billion that range in maturity through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three months ended March 31, 2013 and 2012, hedge ineffectiveness associated with interest rate derivatives was insignificant.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL had no such reclassifications for the three months ended March 31, 2013 and 2012.

At March 31, 2013, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were \$(11) million. Amounts are reclassified as the hedged interest payments are made.

(LKE, LG&E and KU)

In November 2012, LG&E and KU entered into forward-starting interest rate swaps with PPL that hedge the interest payments on new debt that is expected to be issued in 2013. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. Realized gains and losses from the swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives were reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt when the hedged transaction occurs. For the three months ended March 31, 2013, there was no hedge ineffectiveness associated with the interest rate derivatives. At March 31, 2013, LG&E and KU each held contracts with aggregate notional amounts of \$150 million that range in maturity through 2043.

Fair Value Hedges (PPL)

PPL is exposed to changes in the fair value of its debt portfolios. To manage this risk, financial contracts may be entered into to hedge fluctuations in the fair value of existing debt issuances due to changes in benchmark interest rates. PPL did not hold any such contracts at March 31, 2013. PPL did not recognize gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness or from hedges of debt issuances that no longer qualified as fair value hedges for the three months ended March 31, 2013 and 2012.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the hedged transaction occurs. At March 31, 2013, LG&E held contracts with a notional amount of \$179 million that range in maturity through 2033. The fair values of these contracts were recorded as liabilities of \$54 million and \$58 million at March 31, 2013 and December 31, 2012 with equal offsetting amounts recorded as regulatory assets.

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at March 31, 2013 had a notional amount of £162 million (approximately \$261 million based on contracted rates). The settlement dates of these contracts range from May 2013 through December 2013. The net fair value of these contracts at March 31, 2013 and December 31, 2012 was an asset (liability) of \$15 million and \$(2) million.

Additionally, a PPL Global subsidiary that has a U.S. dollar functional currency entered into a GBP intercompany loan payable with a PPL WEM subsidiary that has a GBP functional currency. The loan qualifies as a net investment hedge for the PPL Global subsidiary. As such, the foreign currency gains and losses on the intercompany loan for the PPL Global subsidiary are recorded to the foreign currency translation adjustment component of AOCI. At March 31, 2013, the outstanding balance of the intercompany loan was £46 million (approximately \$69 million based on spot rates).

For the three months ended March 31, 2013 and 2012, PPL recognized after-tax net investment hedge gains (losses) of \$11 million and an insignificant loss in the foreign currency translation adjustment component of AOCI. At March 31, 2013, PPL had \$25 million of accumulated net investment hedge gains (losses), after-tax, in the foreign currency translation adjustment component of AOCI, compared to \$14 million of gains (losses), after-tax at December 31, 2012.

Cash Flow Hedges

PPL held no foreign currency derivatives that qualified as cash flow hedges during the three months ended March 31, 2013 and 2012.

Fair Value Hedges

PPL held no foreign currency derivatives that qualified as fair value hedges during the three months ended March 31, 2013 and 2012.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At March 31, 2013, the total exposure hedged by PPL was approximately £1.2 billion (approximately \$1.9 billion based on contracted rates) and the net fair value of these positions was an asset (liability) of \$78 million. These contracts had termination dates ranging from April 2013 through May 2015. Realized and unrealized gains (losses) on these contracts are included in "Other Income (Expense) - net" on the Statements of Income and were \$119 million for the three months ended March 31, 2013. At December 31, 2012, the total exposure hedged by PPL was £1.3 billion (approximately \$2.0 billion based on contracted rates) and the net fair value of these positions was an asset (liability) of \$(42) million. Realized and unrealized gains (losses) were \$(18) million for the three months ended March 31, 2012.

Accounting and Reporting

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless they qualify for NPNS. NPNS contracts for PPL and PPL Energy Supply include full-requirement sales contracts, other physical purchase and sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized currently in earnings unless specific hedge accounting criteria are met and designated as such, except for the change in fair value of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at March 31, 2013 and December 31, 2012.

See Notes 1 and 19 in each Registrant's 2012 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2013				December 31, 2012			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps	\$ 24	\$ 15	\$ 5	\$ 14	\$ 22		\$ 5	
Cross-currency swaps	2	1			3			
Foreign currency contracts	15		\$ 49		2			23
Commodity contracts			1,194	951	59		1,452	1,010
Total current	41	16	1,243	956	73	27	1,452	1,038
Noncurrent:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps	3			49	1			53
Cross-currency swaps	81				14	1		
Foreign currency contracts			32	3				19
Commodity contracts			482	481	27		530	556
Total noncurrent	84		514	533	42	1	530	628
Total derivatives	\$ 125	\$ 16	\$ 1,757	\$ 1,489	\$ 115	\$ 28	\$ 1,982	\$ 1,666

- (a) \$324 million and \$300 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at March 31, 2013 and December 31, 2012.
- (b) Represents the location on the Balance Sheets.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$114 million and \$132 million at March 31, 2013 and December 31, 2012. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$471 million and \$527 million at March 31, 2012 and December 31, 2011.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the three months ended March 31.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			2013	2012	2013	2012
Interest rate swaps	Fixed rate debt	Interest expense				\$ 1
Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	2013		2012	
			Gain (Loss) Recognized from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:						
Interest rate swaps	\$ 9	\$ 3	Interest expense	\$ (5)	\$ (4)	
Cross-currency swaps	73	12	Interest expense		(1)	
			Other income			
			(expense) - net	69	(19)	
Commodity contracts		113	Wholesale energy marketing	67	\$ 1	272
			Depreciation			1
			Energy purchases	(16)		(40)
Total	\$ 82	\$ 128		\$ 115	\$ 1	\$ 209
Net Investment Hedges:						
Foreign currency contracts	\$ 16	\$ (3)				

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2013		2012	
Foreign currency contracts	Other income (expense) - net	\$	119	\$	(18)
Interest rate swaps	Interest expense		(2)		(2)
Commodity contracts	Unregulated retail electric and gas		(7)		22
	Wholesale energy marketing		(699)		1,343
	Net energy trading margins (a)		(7)		9
	Fuel		1		6
	Energy purchases		586		(1,070)
	Total	\$	(9)	\$	290

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2013		2012	
Interest rate swaps	Regulatory assets - noncurrent	\$	4	\$	7

Derivatives Designated as Cash Flow Hedges	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2013		2012	
Interest rate swaps	Regulatory liabilities - noncurrent	\$	10		

(a) Differs from the Statements of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

(PPL Energy Supply)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2013				December 31, 2012			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Commodity contracts		\$ 1,194	\$ 951	\$ 59		\$ 1,452	\$ 1,010	
Total current		1,194	951	59		1,452	1,010	
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Commodity contracts		482	481	27		530	556	
Total noncurrent		482	481	27		530	556	
Total derivatives		\$ 1,676	\$ 1,432	\$ 86		\$ 1,982	\$ 1,566	

(a) \$324 million and \$300 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at March 31, 2013 and December 31, 2012.

(b) Represents the location on the Balance Sheets.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$181 million and \$211 million at March 31, 2013 and December 31, 2012. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$522 million and \$605 million at March 31, 2012 and December 31, 2011.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the three months ended March 31.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income on Derivative	2013		2012	
	2013	2012		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	\$	113	Wholesale energy marketing	\$ 67	\$ 1	\$ 272	\$ 4
			Energy purchases	(16)		(40)	(4)
Total	\$	113		\$ 51	\$ 1	\$ 232	

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	2013	2012
Commodity contracts	Unregulated retail electric and gas	\$ (7)	\$ 22
	Wholesale energy marketing	(699)	1,343
	Net energy trading margins (a)	(7)	9
	Fuel	1	6
	Energy purchases	586	(1,070)
	Total	\$ (126)	\$ 310

(a) Differs from the Statements of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

(LKE)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2013				December 31, 2012			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps	\$ 24		\$ 5		\$ 14		\$ 5	
Total current	24		5		14		5	
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps				49				53
Total noncurrent				49				53
Total derivatives	\$ 24		\$ 54		\$ 14		\$ 58	

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets and regulatory liabilities for the three months ended March 31.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	2013	2012
Interest rate swaps	Interest expense	\$ (2)	\$ (2)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2013	2012
Interest rate swaps	Regulatory assets - noncurrent	\$ 4	\$ 7

Derivatives Designated as Cash Flow Hedges	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2013	2012
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 10	

(LG&E)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2013				December 31, 2012			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps	\$ 12			\$ 5	\$ 7			\$ 5
Total current	12			5	7			5
Noncurrent:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps				49				53
Total noncurrent				49				53
Total derivatives	\$ 12			\$ 54	\$ 7			\$ 58

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets and regulatory liabilities for the three months ended March 31.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	2013	2012
Interest rate swaps	Interest expense	\$ (2)	\$ (2)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2013	2012
Interest rate swaps	Regulatory assets - noncurrent	\$ 4	\$ 7

Derivatives Designated as Cash Flow Hedges	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2013	2012
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 5	

(KU)

At March 31, 2013 and December 31, 2012, KU had interest rate swaps, which were designated as hedging instruments, of \$12 million and \$7 million recorded in "Price risk management assets from affiliates" on the Balance Sheets. KU recognized a \$5 million, pre-tax gain on the derivative instruments in "Noncurrent regulatory liabilities" for the three months ended March 31, 2013.

Offsetting Derivative Instruments (PPL, PPL Energy Supply, LKE, LG&E and KU)

PPL, PPL Energy Supply, LKE, LG&E, KU or certain of their subsidiaries have master netting arrangements or similar agreements in place including derivative clearing agreements with futures commission merchants (FCMs) to permit the trading of cleared derivative products on one or more futures exchanges. The clearing arrangements permit an FCM to use and apply any property in its possession as a set off to pay amounts or discharge obligations owed by a customer upon default of the customer and typically do not place any restrictions on the FCM's use of collateral posted by the customer. These registrants and their subsidiaries also enter into agreements pursuant to which they trade certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to setoff amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, PPL Energy Supply, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
March 31, 2013								
PPL								
Energy Commodities	\$ 1,676	\$ 1,306	\$ 48	\$ 322	\$ 1,432	\$ 1,306	\$ 15	\$ 111
Treasury Derivatives	206	16		190	73	16	26	31
Total	<u>\$ 1,882</u>	<u>\$ 1,322</u>	<u>\$ 48</u>	<u>\$ 512</u>	<u>\$ 1,505</u>	<u>\$ 1,322</u>	<u>\$ 41</u>	<u>\$ 142</u>
PPL Energy Supply								
Energy Commodities	<u>\$ 1,676</u>	<u>\$ 1,306</u>	<u>\$ 48</u>	<u>\$ 322</u>	<u>\$ 1,432</u>	<u>\$ 1,306</u>	<u>\$ 15</u>	<u>\$ 111</u>
LKE								
Treasury Derivatives	<u>\$ 24</u>			<u>\$ 24</u>	<u>\$ 54</u>		<u>\$ 26</u>	<u>\$ 28</u>
LG&E								
Treasury Derivatives	<u>\$ 12</u>			<u>\$ 12</u>	<u>\$ 54</u>		<u>\$ 26</u>	<u>\$ 28</u>
KU								
Treasury Derivatives	<u>\$ 12</u>			<u>\$ 12</u>				
December 31, 2012								
PPL								
Energy Commodities	\$ 2,068	\$ 1,413	\$ 111	\$ 544	\$ 1,566	\$ 1,413	\$ 9	\$ 144
Treasury Derivatives	29	19		10	128	19	30	79
Total	<u>\$ 2,097</u>	<u>\$ 1,432</u>	<u>\$ 111</u>	<u>\$ 554</u>	<u>\$ 1,694</u>	<u>\$ 1,432</u>	<u>\$ 39</u>	<u>\$ 223</u>
PPL Energy Supply								
Energy Commodities	<u>\$ 2,068</u>	<u>\$ 1,413</u>	<u>\$ 111</u>	<u>\$ 544</u>	<u>\$ 1,566</u>	<u>\$ 1,413</u>	<u>\$ 9</u>	<u>\$ 144</u>
LKE								
Treasury Derivatives	<u>\$ 14</u>			<u>\$ 14</u>	<u>\$ 58</u>		<u>\$ 30</u>	<u>\$ 28</u>
LG&E								
Treasury Derivatives	<u>\$ 7</u>			<u>\$ 7</u>	<u>\$ 58</u>		<u>\$ 30</u>	<u>\$ 28</u>
KU								
Treasury Derivatives	<u>\$ 7</u>			<u>\$ 7</u>				

Credit Risk-Related Contingent Features (PPL, PPL Energy Supply, LKE, LG&E and KU)

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E, KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

At March 31, 2013, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit risk-related contingent features and were in a net liability position is summarized as follows:

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 146	\$ 110	\$ 36	\$ 36
Aggregate fair value of collateral posted on these derivative instruments	27		27	27
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	151	141	10	10

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15. Goodwill

(PPL)

The change in the carrying amount of goodwill for the three months ended March 31, 2013 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

16. Asset Retirement Obligations

(PPL, PPL Energy Supply, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Balance at December 31, 2012	\$ 552	\$ 375	\$ 131	\$ 62	\$ 69
Accretion expense	9	7	2	1	1
Effect of foreign currency exchange rates	(2)				
Obligations settled	(3)	(2)	(1)	(1)	
Balance at March 31, 2013	<u>\$ 556</u>	<u>\$ 380</u>	<u>\$ 132</u>	<u>\$ 62</u>	<u>\$ 70</u>

Substantially all of the ARO balances are classified as noncurrent at March 31, 2013 and December 31, 2012.

(PPL, LKE, LG&E and KU)

Accretion and depreciation expense recorded by LG&E and KU is offset with a regulatory credit on the income statement, such that there is no net earnings impact.

(PPL and PPL Energy Supply)

The most significant ARO recorded by PPL and PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was \$322 million and \$316 million at March 31, 2013 and December 31, 2012.

Assets in the NDT funds are legally restricted for purposes of settling PPL's and PPL Energy Supply's ARO related to the decommissioning of the PPL Susquehanna nuclear plant. The aggregate fair value of these assets was \$764 million and \$712 million at March 31, 2013 and December 31, 2012, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 13 and 17 for additional information on these assets.

17. Available-for-Sale Securities

(PPL and PPL Energy Supply)

Securities held by the NDT funds and auction rate securities are classified as available-for-sale. Available-for-sale securities are carried on the Balance Sheets at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI, and the fair value of available-for-sale securities.

	March 31, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL								
NDT funds:								
Cash and cash equivalents	\$ 8			\$ 8	\$ 11			\$ 11
Equity securities:								
U.S. large-cap	225	\$ 232		457	222	\$ 190		412
U.S. mid/small-cap	32	36		68	30	30		60
Debt securities:								
U.S. Treasury	86	9		95	86	9		95
U.S. government sponsored agency								
Municipality	8	1		9	8	1		9
Municipality	80	4	\$ 1	83	78	5	\$ 1	82
Investment-grade corporate	37	3		40	36	4		40
Other	3			3	3			3
Receivables/payables, net	1			1				
Total NDT funds	480	285	1	764	474	239	1	712
Auction rate securities	20		1	19	20		1	19
Total	\$ 500	\$ 285	\$ 2	\$ 783	\$ 494	\$ 239	\$ 2	\$ 731

PPL Energy Supply

NDT funds:								
Cash and cash equivalents	\$ 8			\$ 8	\$ 11			\$ 11
Equity securities:								
U.S. large-cap	225	\$ 232		457	222	\$ 190		412
U.S. mid/small-cap	32	36		68	30	30		60
Debt securities:								
U.S. Treasury	86	9		95	86	9		95
U.S. government sponsored agency								
Municipality	8	1		9	8	1		9
Municipality	80	4	\$ 1	83	78	5	\$ 1	82
Investment-grade corporate	37	3		40	36	4		40
Other	3			3	3			3
Receivables/payables, net	1			1				
Total NDT funds	480	285	1	764	474	239	1	712
Auction rate securities	17		1	16	17		1	16
Total	\$ 497	\$ 285	\$ 2	\$ 780	\$ 491	\$ 239	\$ 2	\$ 728

There were no securities with credit losses at March 31, 2013 and December 31, 2012.

The following table shows the scheduled maturity dates of debt securities held at March 31, 2013.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 6-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	\$ 13	\$ 82	\$ 62	\$ 77	\$ 234
Fair value	13	85	68	83	249
PPL Energy Supply					
Amortized cost	\$ 13	\$ 82	\$ 62	\$ 74	\$ 231
Fair value	13	85	68	80	246

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended March 31.

	Three Months	
	2013	2012
PPL and PPL Energy Supply		
Proceeds from sales of NDT securities (a)	\$ 24	\$ 34
Gross realized gains (b)	4	6
Gross realized losses (b)	2	1

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.

(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

18. Accumulated Other Comprehensive Income (Loss)

(PPL, PPL Energy Supply, LKE and KU)

Effective January 1, 2013, PPL and its subsidiaries prospectively adopted accounting guidance issued to improve the reporting of reclassifications out of AOCI, as discussed in Note 2.

The after-tax changes in AOCI by component for the three months ended March 31, 2013 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans			Total
		Available- for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	Transition asset (obligation)	
PPL								
December 31, 2012	\$ (149)	\$ 112	\$ 132	\$ 1	\$ (14)	\$ (2,023)	\$ 1	\$ (1,940)
Amounts arising during the period	(245)	23	62					(160)
Reclassifications from AOCI		(1)	(80)		1	34		(46)
Net OCI during the period	(245)	22	(18)		1	34		(206)
March 31, 2013	\$ (394)	\$ 134	\$ 114	\$ 1	\$ (13)	\$ (1,989)	\$ 1	\$ (2,146)

PPL Energy Supply

December 31, 2012	\$ 112	\$ 211	\$ (10)	\$ (265)	\$ 48
Amounts arising during the period	23				23
Reclassifications from AOCI	(1)	(30)	1	4	(26)
Net OCI during the period	22	(30)	1	4	(3)
March 31, 2013	\$ 134	\$ 181	\$ (9)	\$ (261)	\$ 45

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the three months ended March 31, 2013. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income during the period; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 9 for additional information.

Details about AOCI	Affected Line Item on the Statements of Income						
	Wholesale energy marketing	Energy purchases	Other Income (Expense), net	Interest Expense	Total Pre-tax	Income Taxes	Total After-tax
PPL							
Available-for-sale securities			\$ 2		\$ 2	\$ (1)	\$ 1
Qualifying derivatives							
Interest rate swaps				\$ (5)	(5)	2	(3)
Cross-currency swaps			69		69	(17)	52
Energy Commodities	\$ 67	\$ (16)			51	(20)	31
Total	\$ 67	\$ (16)	\$ 69	\$ (5)	115	(35)	80
Defined benefit plans							
Prior service costs					(2)	1	(1)
Net actuarial loss					(47)	13	(34)
Total					\$ (49)	\$ 14	(35)
Total reclassifications during the period							\$ 46
PPL Energy Supply							
Available-for-sale securities			\$ 2		\$ 2	\$ (1)	\$ 1
Qualifying derivatives							
Energy Commodities	\$ 67	\$ (16)			51	(21)	30
Total	\$ 67	\$ (16)			51	(21)	30
Defined benefit plans							
Prior service costs					(2)	1	(1)
Net actuarial loss					(6)	2	(4)
Total					\$ (8)	\$ 3	(5)
Total reclassifications during the period							\$ 26

For the three months ended March 31, 2013, the changes in AOCI and the effect of reclassifications from AOCI on the statement of income for LKE and KU were insignificant.

19 . New Accounting Guidance Pending Adoption

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Accounting for Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Registrants will retrospectively adopt accounting guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements when the amount of the obligation is fixed at the reporting date. If the obligation is determined to be in the scope of this guidance, it will be measured as the sum of the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires additional disclosures for these obligations.

The Registrants are assessing the potential impact of adoption, which could be material.

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Effective January 1, 2014, PPL will prospectively adopt accounting guidance that requires a cumulative translation adjustment to be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For the step acquisition of previously held equity method investments that are foreign entities, this guidance clarifies that the amount of accumulated other comprehensive income that is reclassified and included in the calculation of a gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

The initial adoption of this guidance is not expected to have a significant impact on PPL; however, the impact in future periods could be material.

PPL CORPORATION AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with PPL's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

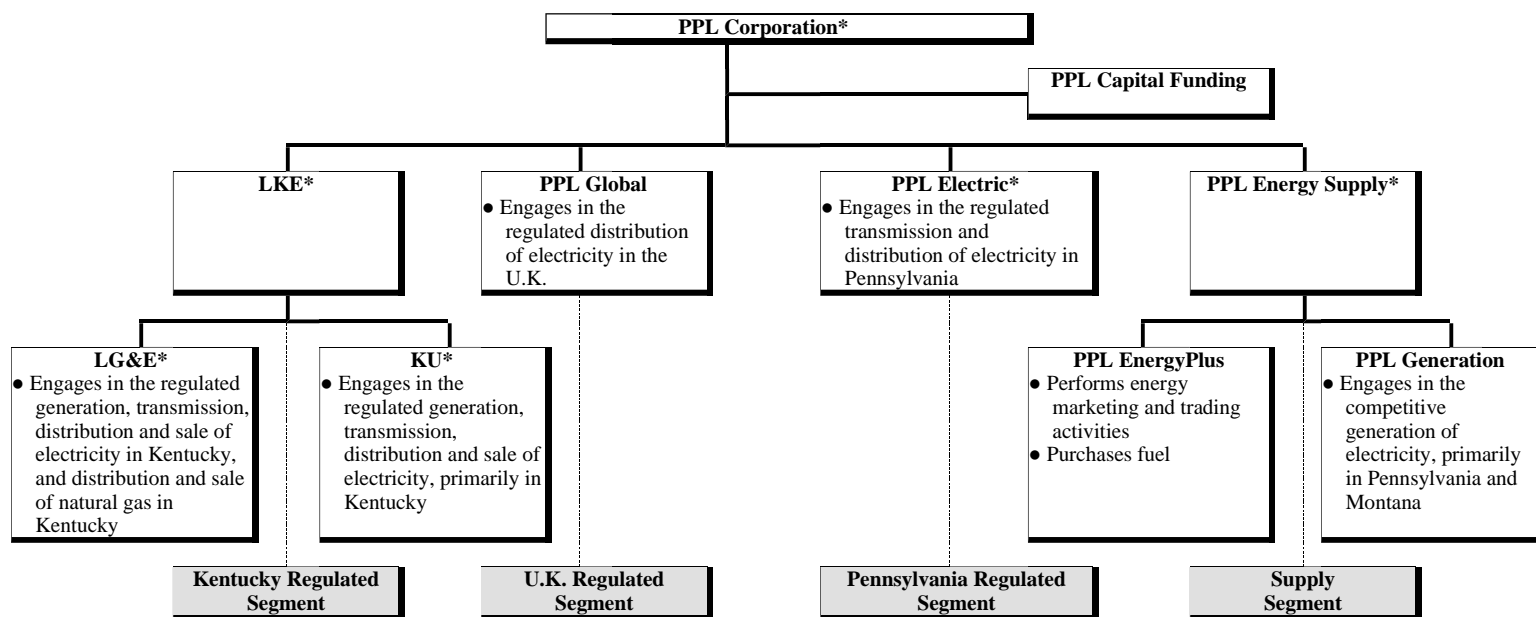
- "Overview" provides a description of PPL and its business strategy, a summary of Net Income Attributable to PPL Shareowners and a discussion of certain events related to PPL's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL's earnings, a review of results by reportable segment and a description of key factors by segment expected to impact future earnings. This section ends with explanations of significant changes in principal line items on PPL's Statements of Income, comparing the three months ended March 31, 2013 with 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of PPL's risk management programs relating to market and credit risk.

Overview

Introduction

PPL is an energy and utility holding company with headquarters in Allentown, Pennsylvania. Through subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S., markets wholesale and retail energy primarily in the northeastern and northwestern portions of the U.S., delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K. and delivers natural gas to customers in Kentucky.

PPL's principal subsidiaries are shown below (* denotes an SEC registrant):



Business Strategy

PPL's strategy for its regulated electricity and gas delivery businesses is to achieve stable, long-term growth in earnings and rate base. Rate base is expected to grow as a result of significant capital expenditure programs aimed at maintaining existing assets and improving system reliability at each of the regulated subsidiaries. These regulated businesses focus on timely recovery of costs, efficient operations, strong customer service and constructive regulatory relationships.

PPL's strategy for its energy supply business is to achieve disciplined optimization of energy supply margins while mitigating volatility in both cash flows and earnings. More specifically, PPL's strategy is to optimize the value from its competitive generation and marketing portfolios. PPL endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. PPL is focused on maintaining profitability for its energy supply business during the current and projected period of low commodity prices by controlling its capital and operation and maintenance expenditures.

To manage financing costs and access to credit markets and to fund its capital expenditure program, a key objective for PPL is to maintain strong credit profiles and liquidity positions. In addition, PPL has financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Developments

Net Income Attributable to PPL Shareowners

Net Income Attributable to PPL Shareowners for the periods ended March 31 by segment, and reconciled to PPL's consolidated results, was:

	Three Months	
	2013	2012
Kentucky Regulated	\$ 85	\$ 42
U.K. Regulated	313	165
Pennsylvania Regulated Supply	64	33
Corporate and Other (a)	(46)	301
	(3)	
Net Income Attributable to PPL Shareowners	<u>\$ 413</u>	<u>\$ 541</u>
EPS - basic	\$ 0.70	\$ 0.93
EPS - diluted (b)	\$ 0.65	\$ 0.93

(a) Primarily represents costs incurred at the corporate level that have not been allocated or assigned to the segments, which is presented to reconcile segment information to PPL's consolidated results. For 2012 there were no significant amounts in this category.

(b) See "Equity Units" below for information on the Equity Units' impact on the calculation of 2013 diluted EPS.

Earnings for the three months ended March 31, 2013 decreased 24% compared with 2012. See "Results of Operations" below for further discussion of PPL's business segments, details of special items and analysis of the consolidated results of operations.

Economic and Market Conditions

Unregulated Gross Energy Margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, fuel transportation costs and other costs. Current depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development. As a result of these factors, lower future energy margins are expected to continue compared to the energy margins in 2012. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, as well as its hedging strategies.

PPL Energy Supply continues to monitor its Corette plant (which as previously announced will be placed in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with the MATS beginning in April 2015) for impairment. The Corette plant asset group's carrying value at March 31, 2013 was \$65 million. Although the Corette plant was not impaired at March 31, 2013, it is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

PPL cannot predict the future impact that economic and market conditions and regulatory requirements may have on its financial condition or results of operations.

Susquehanna Turbine Blade Inspection

In the spring of 2013, PPL Energy Supply will begin making modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant that was first identified in 2011. The modifications will be made during the Unit 2 refueling outage and an additional planned outage for Unit 1. Following completion of the modifications, PPL Energy Supply plans to continue monitoring the turbine blades using enhanced diagnostic equipment.

Rate Case Proceedings

Pennsylvania

In December 2012, the PUC approved a total distribution revenue increase of about \$71 million, using a 10.4% return on equity. The approved rates became effective January 1, 2013.

Kentucky

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million for LG&E and \$51 million for KU and an increase in annual base gas rates of \$15 million for LG&E using a 10.25% return on equity. The approved rates became effective January 1, 2013.

RIIO-ED1

In October 2010, Ofgem announced changes to the regulatory framework that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. The next electricity distribution price control review is referred to as RIIO-ED1. Key components of the RIIO-ED1 are: an extension of the price review period to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, and continued use of a single weighted average cost of capital. Ofgem has also indicated that the depreciation of the RAV, for RAV additions after April 1, 2015, will change from 20 years to 45 years, but that they will consider transition arrangements. WPD published a draft of its 2015 - 2023 business plan on its website in March 2013 in order to solicit feedback from stakeholders on its plan prior to submission to Ofgem in July 2013. See "Item 1. Business - Background - U.K. Regulated Segment - Revenue and Regulation" in the 2012 Form 10-K for additional information. At this time, WPD cannot predict the outcome or the future financial impact of this matter.

Legislation - Regulatory Procedures and Mechanisms

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a final implementation order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC. In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC.

The PUC approved the LTIP on January 10, 2013 and, on January 15, 2013, PPL Electric filed a petition requesting permission to establish a DSIC. Several parties have filed responses to PPL Electric's petition. The case remains pending before the PUC. PPL Electric does not expect any new rates to be effective before the third quarter of 2013.

FERC Formula Rates

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form No. 1, filed under FERC's Uniform System of Accounts (USOA). PPL Electric must follow FERC's USOA, which requires subsidiaries to be presented, for FERC reporting purposes, using the equity method of accounting unless a waiver has been issued. The FERC has granted waivers of this requirement to other utilities when such waiver would more accurately present the integrated operations of the utilities and their subsidiaries. In March 2013, as part of a routine FERC audit of PPL and its subsidiaries, PPL Electric determined that it never obtained a waiver of the use of the equity method of accounting for PPL Receivables Corporation (PPL Receivables). PPL Receivables is a wholly owned subsidiary of PPL Electric, formed in 2004 to purchase eligible accounts receivable and unbilled revenue of PPL Electric to collateralize commercial paper issuances to reduce borrowing costs. In March 2013, PPL Electric filed a request for waiver with FERC that, if approved, would allow it to continue to consolidate the results of PPL Receivables with the results of PPL Electric, as it has done since 2004. While PPL Electric may ultimately be successful in obtaining a waiver from FERC, FERC may require PPL Electric to re-issue one or more of its prior FERC Form No. 1 filings in either the audit proceeding or the waiver proceeding. If re-issuance of FERC Form No. 1 filings were required by FERC, PPL Electric's revenue requirement calculated under the formula rate could be negatively impacted. The impact, if any, is not known at this time but could range between \$0 and \$40 million, pre-tax. PPL Electric cannot predict the outcome of the waiver or audit proceedings, which remain pending before the FERC.

Equity Forward Agreements

In connection with an April 2012 registered public offering of 9.9 million shares of PPL common stock, PPL entered into forward sale agreements with two counterparties. In conjunction with that offering, the underwriters exercised an overallotment option and PPL entered into additional forward sale agreements covering 591 thousand shares of PPL common stock.

In April 2013, PPL settled the initial forward sale agreements by the issuance of 8.4 million shares of PPL common stock and cash settlement of the remaining 1.5 million shares. PPL received net cash proceeds of \$205 million, which was calculated based on an initial forward price of \$27.02 per share reduced during the period the contracts were outstanding as specified in the forward sale agreements. PPL used the net proceeds to repay short-term debt obligations and for other general corporate purposes. Settlement of the forward sale agreements covering 591 thousand remaining shares will occur no later than July 2013. PPL may elect to issue common stock, cash settle or net share settle all or a portion of its rights or obligations under the forward sale agreements.

The forward sale agreements are classified as equity transactions. As a result, no amounts were recorded in the consolidated financial statements until the April 2013 settlement of the initial forward sale agreements. However, prior to the April 2013 settlement, incremental shares were included within the calculation of diluted EPS using the treasury stock method. See Note 4 to the Financial Statements for the impact on the calculation of diluted EPS.

Equity Units

During 2013, two events will occur related to the components of the 2010 Equity Units. On July 1, PPL will receive proceeds of \$1.150 billion through the issuance of PPL common stock to settle the 2010 Purchase Contracts, and in the second quarter of 2013, PPL Capital Funding expects to remarket the 4.625% Junior Subordinated Notes due 2018. During the first quarter of 2013, financing plans were finalized to remarket the debt component of the Equity Units.

The If-Converted Method of calculating diluted EPS was applied to the Equity Units beginning in the first quarter of 2013 resulting in \$15 million of interest charges (after-tax) being added back to net income available to PPL common shareowners and 72 million shares of PPL common stock being treated as outstanding. See Note 4 to the Financial Statements for the impact on the calculation of diluted EPS.

Results of Operations

The following discussion provides a review of results by reportable segment and a description of key factors by segment expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of Kentucky Gross Margins, Pennsylvania Gross Delivery Margins and Unregulated Gross Energy Margins and significant changes in principal line items on PPL's Statements of Income, comparing the three months ended March 31, 2013 with 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

Tables analyzing changes in amounts between periods within "Segment Results" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average U.K. foreign currency exchange rate.

Segment Results

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations. This segment also includes LKE's regulated distribution and sale of natural gas. In addition, the Kentucky Regulated segment is allocated certain financing costs.

Net Income Attributable to PPL Shareowners for the periods ended March 31 includes the following results:

	Three Months		
	2013	2012	% Change
Utility revenues	\$ 800	\$ 705	13
Fuel	231	213	8
Energy purchases	86	74	16
Other operation and maintenance	197	206	(4)
Depreciation	82	86	(5)
Taxes, other than income	12	11	9
Total operating expenses	608	590	3
Other Income (Expense) - net	(2)	(3)	(33)
Interest Expense	55	55	
Income Taxes	50	15	233
Net Income Attributable to PPL Shareowners	\$ 85	\$ 42	102

The changes in the components of the Kentucky Regulated segment's results between these periods were due to the following factors, which reflect reclassifications for items included in Kentucky Gross Margins and certain items that management considers special. See additional detail of these special items in the table below.

	Three Months
Kentucky Gross Margins	\$ 75
Other operation and maintenance	10
Depreciation	(9)
Taxes, other than income	(1)
Income Taxes	(29)
Special items, after-tax	(3)
Total	\$ 43

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Kentucky Gross Margins.
- Lower other operation and maintenance primarily due to \$14 million of lower costs due to the timing and scope of scheduled coal plant maintenance outages, partially offset by \$4 million of adjustments to regulatory assets and liabilities.
- Higher depreciation due to environmental costs related to the elimination of the 2005 and 2006 ECR plans now being included in base rates, which added \$13 million to depreciation that is excluded from Margins, partially offset by lower depreciation of \$5 million due to revised rates that were effective January 1, 2013. Both of these events are the result of the 2012 Kentucky rate case proceedings.
- Higher income taxes primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted the Kentucky Regulated segment's results during the periods ended March 31.

	Income Statement Line Item	Three Months	
		2013	2012
LKE acquisition-related adjustments:			
Net operating loss carryforward and other tax-related adjustments	Income Taxes and Other Operation and Maintenance		\$ 4
Other:			
EEl adjustments, net of tax of \$0, \$0	Other Income (Expense)-net	\$ 1	
Total		\$ 1	\$ 4

2013 Outlook

Excluding special items, PPL projects higher segment earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases, returns on additional environmental capital investments, and load growth, partially offset by higher operation and maintenance expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

U.K. Regulated Segment

The U.K. Regulated segment consists of WPD's regulated electricity distribution operations and PPL Global. In addition, the U.K. Regulated segment includes certain U.S. income taxes and certain administrative costs, as well as allocated financing costs.

Net Income Attributable to PPL Shareowners for the periods ended March 31 includes the following results:

	Three Months		
	2013	2012	% Change
Utility revenues	\$ 638	\$ 552	16
Energy-related businesses	10	10	
Total operating revenues	648	562	15
Other operation and maintenance	117	113	4
Depreciation	74	67	10
Taxes, other than income	37	36	3
Energy-related businesses	7	5	40
Total operating expenses	235	221	6
Other Income (Expense) - net	120	(20)	700
Interest Expense	107	103	4
Income Taxes	113	53	113
Net Income Attributable to PPL Shareowners	\$ 313	\$ 165	90

The changes in the components of the U.K. Regulated segment's results between these periods were due to the following factors, which reflect reclassifications for certain items that management considers special. See additional detail of these special items in the table below.

	Three Months
U.K.	
Utility revenues	\$ 75
Other operation and maintenance	(6)
Interest expense	(3)
Other	(3)
Income taxes	(10)
U.S.	
Income taxes	1
Foreign currency exchange rates, after-tax (a)	1
Special items, after-tax	93
Total	\$ 148

(a) Includes the effect of realized gains (losses) on foreign currency economic hedges.

U.K.

- Higher utility revenues due to the April 1, 2012 price increases that resulted in \$57 million of higher utility revenues, \$8 million of additional third-party engineering work, \$5 million of higher volumes due primarily to weather and a \$5 million reduction of regulatory over-recovery in 2013.
- Higher other operation and maintenance due to \$8 million of additional third-party engineering work and \$7 million of higher network maintenance expense, primarily tree trimming, partially offset by \$4 million of lower employee-related expenses.
- Higher income taxes due to higher pre-tax income, which increased income taxes by \$16 million, partially offset by \$6 million of lower income taxes due to lower tax rates.

The following after-tax gains (losses), which management considers special items, also impacted the U.K. Regulated segment's results during the periods ended March 31.

	Income Statement Line Item	Three Months	
		2013	2012
Foreign currency-related economic hedges, net of tax of (\$42), \$7 (a)	Other Income (Expense)-net	\$ 78	\$ (14)
WPD Midlands acquisition-related adjustments:			
Separation benefits, net of tax of \$1, \$2	Other Operation and Maintenance	(1)	(4)
Other acquisition-related adjustments, net of tax of \$0, \$0	Other Operation and Maintenance	(2)	
Total		\$ 75	\$ (18)

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated earnings denominated in GBP.

2013 Outlook

Excluding special items, PPL projects higher segment earnings in 2013 compared with 2012, primarily driven by higher electricity delivery revenue and lower income taxes, partially offset by higher operation and maintenance expense, higher depreciation and higher interest expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 5, 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes PPL Electric's regulated electricity transmission and distribution operations. In addition, the Pennsylvania Regulated segment is allocated certain financing costs.

Net Income Attributable to PPL Shareowners for the periods ended March 31 includes the following results:

	Three Months		
	2013	2012	% Change
Utility revenues			
External	\$ 512	\$ 457	12
Intersegment	1	1	
Total utility revenues	513	458	12
Energy purchases			
External	172	153	12
Intersegment	14	21	(33)
Other operation and maintenance	133	140	(5)
Depreciation	43	39	10
Taxes, other than income	30	26	15
Total operating expenses	392	379	3
Other Income (Expense) - net	1	2	(50)
Interest Expense	25	24	4
Income Taxes	33	20	65
Net Income	64	37	73
Net Income Attributable to Noncontrolling Interests		4	(100)
Net Income Attributable to PPL Shareowners	\$ 64	\$ 33	94

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the following factors, which reflect reclassifications for items included in Pennsylvania Gross Delivery Margins.

	Three Months
Pennsylvania Gross Delivery Margins	\$ 40
Other operation and maintenance	7
Depreciation	(4)
Other	(3)
Income Taxes	(13)
Noncontrolling Interests	4
Total	\$ 31

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Lower other operation and maintenance primarily due to lower corporate service costs.
- Higher depreciation due to PP&E additions.
- Higher income taxes primarily due to the impact of higher pre-tax income.
- Lower noncontrolling interests due to PPL Electric's June 2012 redemption of all 2.5 million shares of its preference stock.

2013 Outlook

Excluding special items, PPL projects higher segment earnings in 2013 compared with 2012, primarily driven by higher distribution revenues from a distribution base rate increase and higher transmission margins, partially offset by higher depreciation.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Supply Segment

The Supply segment primarily consists of PPL Energy Supply's energy marketing and trading activities, as well as its competitive generation operations. In addition, the Supply segment is allocated certain financing costs.

Net Income Attributable to PPL Shareowners for the periods ended March 31 includes the following results:

	Three Months		
	2013	2012	% Change
Energy revenues			
External (a)	\$ 381	\$ 2,290	(83)
Intersegment	14	21	(33)
Energy-related businesses	113	98	15
Total operating revenues	508	2,409	(79)
Fuel (a)	298	211	41
Energy purchases			
External (a)	(200)	1,247	(116)
Intersegment	1	1	
Other operation and maintenance	235	248	(5)
Depreciation	78	72	8
Taxes, other than income	17	18	(6)
Energy-related businesses	110	97	13
Total operating expenses	539	1,894	(72)
Other Income (Expense) - net	4	5	(20)
Interest Expense	60	48	25
Income Taxes	(41)	171	(124)
Net Income (Loss) Attributable to PPL Shareowners	\$ (46)	\$ 301	(115)

(a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.

The changes in the components of the Supply segment's results between these periods were due to the following factors, which reflect reclassifications for items included in Unregulated Gross Energy Margins and certain items that management considers special. See additional detail of these special items in the table below.

	<u>Three Months</u>
Unregulated Gross Energy Margins	\$ (107)
Other operation and maintenance	6
Depreciation	(6)
Interest expense	(12)
Other	2
Income Taxes	33
Special items, after-tax	(263)
Total	<u>\$ (347)</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Lower other operation and maintenance primarily due to \$15 million of lower costs at eastern fossil and hydroelectric plants largely due to outages in 2012, partially offset by \$3 million of additional costs due to the Ironwood Acquisition.
- Higher depreciation primarily due to the Ironwood Acquisition.
- Higher interest expense primarily due to financings associated with PPL Ironwood, acquired in April 2012, which increased interest expense by \$4 million, and \$4 million due to the allocation of interest from a June 2012 PPL Capital Funding debt issuance.
- Lower income taxes due to lower pre-tax income in 2013, which reduced income taxes by \$47 million, partially offset by an \$11 million benefit from a state tax rate change recorded in 2012.

The following after-tax gains (losses), which management considers special items, also impacted the Supply segment's results during the periods ended March 31.

	Income Statement Line Item	<u>Three Months</u>	
		<u>2013</u>	<u>2012</u>
Adjusted energy-related economic activity, net, net of tax of \$79, (\$102)	(a)	\$ (117)	\$ 150
Impairments:			
Adjustments - nuclear decommissioning trust investments, net of tax of \$0, (\$1)	Other Income (Expense)-net		1
Other:			
Counterparty bankruptcy, net of tax of \$0, \$5 (b)	Other Operation and Maintenance		(6)
Ash basin leak remediation adjustment, net of tax of \$0, (\$1)	Other Operation and Maintenance		1
Total		<u>\$ (117)</u>	<u>\$ 146</u>

(a) See "Reconciliation of Economic Activity" below.

(b) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) for the periods ended March 31, from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net."

	Three Months	
	2013	2012
Operating Revenues		
Unregulated retail electric and gas	\$ (8)	\$ 10
Wholesale energy marketing	(822)	852
Operating Expenses		
Fuel	(1)	2
Energy Purchases	634	(591)
Energy-related economic activity (a)	(197)	273
Option premiums	1	
Adjusted energy-related economic activity	(196)	273
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010		21
Adjusted energy-related economic activity, net, pre-tax	\$ (196)	\$ 252
Adjusted energy-related economic activity, net, after-tax	\$ (117)	\$ 150

(a) See Note 14 to the Financial Statements for additional information.

2013 Outlook

Excluding special items, PPL projects lower segment earnings in 2013 compared with 2012, primarily driven by lower energy prices, higher fuel costs, higher operation and maintenance expense, higher depreciation, and higher financing costs, partially offset by higher capacity prices and higher nuclear generation output despite scheduled outages for both Susquehanna units to implement a long-term solution to turbine blade issues.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as three non-GAAP financial measures: "Kentucky Gross Margins," "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins." These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL believes that these measures provide additional criteria to make investment decisions. These performance measures are used, in conjunction with other information, internally by senior management and the Board of Directors to manage the Kentucky Regulated, Pennsylvania Regulated and Supply segment operations, analyze each respective segment's actual results compared with budget and, in certain cases, to measure certain corporate financial goals used in determining variable compensation.

PPL's three non-GAAP financial measures include:

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. Certain costs associated with these mechanisms, primarily ECR, DSM and GLT, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from the Kentucky Regulated segment's operations.
- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL

EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the table below. As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's electric delivery operations.

- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's competitive energy non-trading and trading activities. In calculating this measure, the Supply segment's energy revenues are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges and gross receipts tax, which is recorded in "Taxes, other than income". This performance measure is relevant to PPL due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "PLR intersegment utility revenue (expense)" in the table below. PPL excludes from "Unregulated Gross Energy Margins" the Supply segment's adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in adjusted energy-related economic activity is the premium amortization associated with options and for 2012 the ineffective portion of qualifying cash flow hedges and economic activity realized associated with the monetization of certain full requirement sales contracts in 2010. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in Unregulated Gross Energy Margins over the delivery period that was hedged or upon realization.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles PPL's three non-GAAP financial measures to "Operating Income" for the periods ended March 31.

	2013 Three Months					2012 Three Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 800	\$ 512		\$ 638 (c)	\$ 1,950	\$ 705	\$ 457		\$ 552 (c)	\$ 1,714
PLR intersegment utility revenue (expense) (d)		(14)	\$ 14				(21)	\$ 21		
Unregulated retail electric and gas			246	(9)(f)	237			214	9 (f)	223
Wholesale energy marketing										
Realized			977	(1)	976			1,204	4 (e)	1,208
Unrealized economic activity				(822)(f)	(822)				852 (f)	852
Net energy trading margins			(11)		(11)			8		8
Energy-related businesses				127	127				107	107
Total Operating Revenues	800	498	1,226	(67)	2,457	705	436	1,447	1,524	4,112
Operating Expenses										
Fuel	231		299	(1)(f)	529	213		214	(3)(f)	424
Energy purchases										
Realized	86	172	436	(3)	691	74	153	636	20 (e)	883
Unrealized economic activity				(634)(f)	(634)				591 (f)	591
Other operation and maintenance	25	22	5	624	676	22	22	4	658	706
Depreciation				284	284	13			251	264
Taxes, other than income		28	8	60	96		25	8	58	91
Energy-related businesses				122	122				102	102
Intercompany eliminations		(1)	1				(1)	1		
Total Operating Expenses	342	221	749	452	1,764	322	199	863	1,677	3,061
Total	\$ 458	\$ 277	\$ 477	\$ (519)	\$ 693	\$ 383	\$ 237	\$ 584	\$ (153)	\$ 1,051

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) Primarily represents WPD's utility revenue.
(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.

- (e) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. For the three months ended March 31, 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" includes a net pre-tax loss of \$21 million related to the monetization of certain full-requirement sales contracts.
- (f) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.

Changes in Non-GAAP Financial Measures

The following table shows PPL's three non-GAAP financial measures for the periods ended March 31 as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months		
	2013	2012	Change
Kentucky Gross Margins	\$ 458	\$ 383	\$ 75
PA Gross Delivery Margins by Component			
Distribution	\$ 224	\$ 189	\$ 35
Transmission	53	48	5
Total	\$ 277	\$ 237	\$ 40
Unregulated Gross Energy Margins by Region			
Non-trading			
Eastern U.S.	\$ 430	\$ 489	\$ (59)
Western U.S.	58	87	(29)
Net energy trading	(11)	8	(19)
Total	\$ 477	\$ 584	\$ (107)

Kentucky Gross Margins

Margins increased for the three months ended March 31, 2013 compared with 2012 due to higher base rates of \$31 million, higher volumes of \$19 million, environmental costs added to base rates of \$18 million and increased environmental investments of \$7 million.

The increase in base rates was the result of new KPSC rates going into effect on January 1, 2013. The increase in volumes was attributable to colder weather in 2013 compared with 2012. Total heating degree days increased 41%. The environmental costs added to base rates was due to the elimination of the 2005 and 2006 ECR plans as a result of the 2012 Kentucky rate case. This elimination results in depreciation and other operation and maintenance expenses associated with the 2005 and 2006 ECR plans being excluded from Margins in 2013.

Pennsylvania Gross Delivery Margins

Distribution

Margins increased for the three months ended March 31, 2013 compared with 2012 primarily due to a \$13 million favorable effect of mild weather in 2012 and a \$19 million favorable effect of price, largely comprised of higher base rates, effective January 1, 2013 as a result of the 2012 rate case and higher volumes of \$3 million.

Transmission

Margins increased for the three months ended March 31, 2013 compared with 2012 primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

Unregulated Gross Energy Margins

Eastern U.S.

The change in non-trading margins for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Baseload energy prices	\$ (125)
Coal prices	(10)
Nuclear fuel prices	(6)
Full-requirement sales contracts	5
Intermediate and peaking capacity prices	5
Baseload capacity prices	6
Intermediate and peaking Spark Spreads	14
Ironwood acquisition which eliminated tolling expense	15
Net economic availability of coal and hydroelectric plants	32
Other	5
Total	\$ (59)

Western U.S.

Non-trading margins for the three months ended March 31, 2013 compared with 2012 were lower due to \$43 million of lower wholesale prices, partially offset by \$12 million of higher wholesale volumes.

Net Energy Trading Margins

Net energy trading margins for the three months ended March 31, 2013 compared with 2012 decreased as a result of lower margins of \$16 million on gas positions due to higher prices.

Utility Revenues

The increase (decrease) in utility revenues for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Domestic:	
PPL Electric (a)	\$ 55
LKE (b)	95
Total Domestic	150
U.K.:	
Price (c)	57
Volume	5
Recovery of allowed revenues	5
Foreign currency exchange rates	10
Other (d)	9
Total U.K.	86
Total	\$ 236

(a) See "Pennsylvania Gross Delivery Margins" for further information.

(b) See "Kentucky Gross Margins" for further information.

(c) Due to price increases effective April 1, 2012.

(d) This increase is primarily due to \$8 million of third-party engineering work, which is offset by expenses in "Other operation and maintenance".

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Domestic:	
Uncollectible accounts (a)	\$ (16)
LKE coal plant outages (b)	(14)
Costs at eastern fossil and hydroelectric plants (c)	(11)
Pension and postretirement costs	4
Other	2
U.K.:	
Third-party engineering work (d)	8
Network maintenance expense (e)	7
Employee related expenses	(4)
Severance compensation	(4)
Other	(2)
Total	\$ (30)

(a) The decrease is primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code in 2011. \$11 million of damages billed to SMGT were fully reserved in 2012.

- (b) The decrease is primarily due to the timing and scope of scheduled outages.
- (c) The decrease is primarily due to Brunner Island Unit 3 outage costs of \$15 million in 2012 compared with no major outage costs in 2013, partially offset by \$3 million of additional costs due to the Ironwood Acquisition.
- (d) These expenses are offset by revenues reflected in "Utility" on the Statements of Income.
- (e) The increase is primarily due to higher tree trimming expense.

Depreciation

The increase (decrease) in depreciation for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Additions to PP&E	\$ 21
LKE lower depreciation rates effective January 1, 2013	(5)
Ironwood Acquisition	6
Other	(2)
Total	<u>\$ 20</u>

Other Income (Expense) - net

The \$139 million increase in other income (expense) - net for the three months ended March 31, 2013 compared with 2012 was primarily due to \$119 million of realized and unrealized gains on economic foreign currency contracts compared with losses in 2012 of \$18 million.

See Note 12 to the Financial Statements for further details.

Interest Expense

The increase (decrease) in interest expense for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Long-term debt interest expense (a)	\$ 14
Ironwood Acquisition (b)	4
Other	3
Total	<u>\$ 21</u>

- (a) The increase was primarily due to PPL Capital Funding's June 2012 issuance of \$400 million, 4.2% Senior Notes due 2022 and October 2012 issuance of \$400 million, 3.5% Senior Notes due 2022. Also, contributing to the increase was higher accretion expense on WPD index linked bonds and interest on WPD (East Midlands') April 2012 issuance of £100 million, 5.25% Senior Notes due 2023.
- (b) The increase was due to financings associated with the Ironwood Acquisition.

Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Lower pre-tax book income	\$ (119)
Foreign tax reserve adjustments	(3)
Net operating loss carryforward adjustments (a)	6
State deferred tax rate change (b)	11
Other	(3)
Total	<u>\$ (108)</u>

- (a) During the three months ended March 31, 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
- (b) During the three months ended March 31, 2012, PPL recorded adjustments related to state deferred tax liabilities.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

PPL had the following at:

	March 31, 2013	December 31, 2012
Cash and cash equivalents	\$ 853	\$ 901
Short-term debt	\$ 1,061	\$ 652

At March 31, 2013, \$335 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL may be subject to additional U.S. taxes, net of allowable foreign tax credits. Historically, dividends paid by foreign subsidiaries have been distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2012 Form 10-K for additional information on undistributed earnings of WPD.

The \$48 million decrease in PPL's cash and cash equivalents position was primarily the net result of:

- capital expenditures of \$828 million;
- the payment of \$210 million of common stock dividends;
- a \$52 million net increase in restricted cash and cash equivalents; and
- \$24 million of contract adjustment payments; partially offset by
- proceeds of \$432 million from the issuance of long-term debt, net of costs;
- net increase in short-term debt of \$416 million; and
- net cash provided by operating activities of \$244 million.

PPL's cash provided by operating activities decreased by \$484 million for the three months ended March 31, 2013 compared with 2012. The decrease was primarily due to:

- a \$336 million increase in cash used by components of working capital (primarily due to changes in accounts receivable of \$219 million resulting from higher base rates and favorable effects of weather and counterparty collateral of \$129 million); and
- a \$221 million increase in defined benefit plans funding; partially offset by
- a \$72 million increase in net income, when adjusted for non-cash components.

Capital expenditures increased by \$146 million for the three months ended March 31, 2013 compared with 2012, primarily due to the Susquehanna-Roseland transmission project and environmental projects at Mill Creek and Ghent, and construction of Cane Run Unit 7.

Credit Facilities

PPL maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At March 31, 2013, PPL's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity
PPL Energy Supply Credit Facilities (a)	\$ 3,200		\$ 764	\$ 2,436
PPL Electric Credit Facilities (b)	400		126	274
LG&E Syndicated Credit Facility	500		70	430
KU Credit Facilities (c)	598		313	285
Total Domestic Credit Facilities (d)	\$ 4,698		\$ 1,273	\$ 3,425
PPL WW Syndicated Credit Facility (e)	£ 210	£ 109	n/a	£ 101
WPD (South West) Syndicated Credit Facility	245		n/a	245
WPD (East Midlands) Syndicated Credit Facility (f)	300	65		235
WPD (West Midlands) Syndicated Credit Facility	300			300
Total WPD Credit Facilities (g)	£ 1,055	£ 174		£ 881

- (a) In February 2013, PPL Energy Supply extended a letter of credit facility expiration date from March 2013 and, effective April 2013, the capacity was reduced to \$150 million.
- (b) Committed capacity includes a \$100 million credit facility related to an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of \$100 million from a commercial paper conduit sponsored by a financial institution. At March 31, 2013, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was \$100 million.
- (c) In May 2013, KU extended its \$198 million letter of credit facility to May 2016.
- (d) The commitments under PPL's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity.

- (e) In December 2012, the PPL WW syndicated credit facility that was set to expire in January 2013 was replaced and the capacity was increased from £150 million. The amount borrowed at March 31, 2013 was a USD-denominated borrowing of \$171 million, which equated to £109 million at the time of borrowing and bore interest at 1.9034%.
- (f) The amount borrowed at March 31, 2013 was a GBP-denominated borrowing of £65 million, which equated to \$99 million and bore interest at 1.30%.
- (g) At March 31, 2013, the USD equivalent of unused capacity under WPD's committed credit facilities was \$1.3 billion. The commitments under WPD's credit facilities are provided by a diverse bank group with no one bank providing more than 13% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL's credit facilities.

Commercial Paper

PPL Energy Supply maintains a commercial paper program for up to \$750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At March 31, 2013 and December 31, 2012, PPL Energy Supply had \$481 million and \$356 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.38% and 0.50%.

PPL Electric maintains a commercial paper program for up to \$300 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. At March 31, 2013, PPL Electric had \$125 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of 0.39%. PPL Electric had no commercial paper outstanding at December 31, 2012.

In April 2013, LG&E and KU each increased the capacity of their commercial paper programs from \$250 million to \$350 million to provide an additional financing source to fund their short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by LG&E's and KU's Syndicated Credit Facilities. At March 31, 2013 and December 31, 2012, LG&E had \$70 million and \$55 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.36% and 0.42%. At March 31, 2013 and December 31, 2012, KU had \$115 million and \$70 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.36% and 0.42%.

Long-term Debt and Equity Securities

See "Overview" above for information regarding equity forward agreements and the 2010 Equity Units.

In March 2013, PPL Capital Funding issued \$450 million of its 5.90% Junior Subordinated Notes due 2073. PPL Capital Funding received proceeds of \$436 million, net of underwriting fees, which will be loaned to or invested in affiliates of PPL Capital Funding and used to fund their capital expenditures and other general corporate purposes.

In addition, PPL has reduced the estimate of its plans to issue new shares of common stock in 2013 by \$100 million from the \$350 million reported in its 2012 Form 10-K.

Common Stock Dividends

In February 2013, PPL declared its quarterly common stock dividend, payable April 1, 2013, at 36.75 cents per share (equivalent to \$1.47 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of PPL and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL and its subsidiaries are based on information provided by PPL and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

A downgrade in PPL's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. PPL and its subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies took the following actions related to PPL and its subsidiaries during 2013:

In February 2013, Moody's upgraded its rating, from B2 to Ba1, and revised the outlook from under review to stable for PPL Ironwood.

In March 2013, S&P, Moody's and Fitch assigned ratings of BB+, Ba1 and BB+ to PPL Capital Funding's \$450 million 5.90% Junior Subordinated Notes due 2073. Fitch also assigned a stable outlook to these notes.

In April 2013, Fitch affirmed the BBB- rating and stable outlook at PPL Montana.

Ratings Triggers

PPL and PPL Energy Supply have various contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate and foreign currency instruments, which contain provisions that require PPL and PPL Energy Supply to post additional collateral or permit the counterparty to terminate the contract, if PPL's or PPL Energy Supply's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2013.

For additional information on PPL's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2012 Form 10-K.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL's energy-related assets, liabilities and other contractual arrangements, PPL both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL's non-trading commodity derivative contracts range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts for the periods ended March 31. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)	
	Three Months	
	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 473	\$ 1,082
Contracts realized or otherwise settled during the period	(137)	(279)
Fair value of new contracts entered into during the period (a)	9	(1)
Other changes in fair value	(116)	413
Fair value of contracts outstanding at the end of the period	<u>\$ 229</u>	<u>\$ 1,215</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at March 31, 2013, based on the observability of the information used to determine the fair value.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant observable inputs (Level 2)	\$ 238	\$ (21)	\$ (8)	\$ 6	\$ 215
Prices based on significant unobservable inputs (Level 3)	(1)	12	3		14
Fair value of contracts outstanding at the end of the period	<u>\$ 237</u>	<u>\$ (9)</u>	<u>\$ (5)</u>	<u>\$ 6</u>	<u>\$ 229</u>

PPL sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL's trading commodity derivative contracts range in maturity through 2017. The following table sets forth changes in the net fair value of trading commodity derivative contracts for the periods ended March 31. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)	
	Three Months	
	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 29	\$ (4)
Contracts realized or otherwise settled during the period	(2)	
Fair value of new contracts entered into during the period (a)	(12)	6
Fair value of contracts outstanding at the end of the period	<u>\$ 15</u>	<u>\$ 2</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at March 31, 2013, based on the observability of the information used to determine the fair value.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices quoted in active markets for identical instruments (Level 1)	\$ 1				\$ 1
Prices based on significant observable inputs (Level 2)	5	9			14
Fair value of contracts outstanding at the end of the period	<u>\$ 6</u>	<u>\$ 9</u>			<u>\$ 15</u>

VaR Models

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the periods was as follows.

	<u>Trading VaR</u>	<u>Non-Trading VaR</u>
	<u>Three Months Ended</u>	<u>Three Months Ended</u>
	<u>March 31, 2013</u>	<u>March 31, 2013</u>
95% Confidence Level, Five-Day Holding Period		
Period End	\$ 6	\$ 8
Average for the Period	5	9
High	6	9
Low	3	8

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at March 31, 2013.

Interest Rate Risk

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. PPL utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL's debt portfolio due to changes in the absolute level of interest rates.

At March 31, 2013, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL is also exposed to changes in the fair value of its domestic and international debt portfolios. PPL estimated that a 10% decrease in interest rates at March 31, 2013 would increase the fair value of its debt portfolio by \$563 million.

At March 31, 2013, PPL had the following interest rate hedges outstanding:

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability) (a)</u>	<u>Effect of a 10% Adverse Movement in Rates (b)</u>
Cash flow hedges			
Interest rate swaps (c)	\$ 1,148	\$ 12	\$ (35)
Cross-currency swaps (d)	1,262	82	(171)
Economic activity			
Interest rate swaps (e)	179	(55)	(3)

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes foreign currency exchange rates.

(c) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or liabilities, if recoverable through regulated rates. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. The positions outstanding at March 31, 2013 mature through 2043.

(d) PPL utilizes cross-currency swaps to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes. While PPL is exposed to changes in the fair value of these instruments, any change in the fair value of these instruments is recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings. The positions outstanding at March 31, 2013 mature through 2028.

(e) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic positions are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. The positions outstanding at March 31, 2013 mature through 2033.

Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

PPL had the following foreign currency hedges outstanding March 31, 2013:

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 162	\$ 15	\$ (25)
Economic activity (c)	1,175	78	(167)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP. The positions outstanding at March 31, 2013 mature through 2013. Excludes the amount of an intercompany loan classified as a net investment hedge. See Note 14 to the Financial Statements for additional information.

(c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP. The forwards and options outstanding at March 31, 2013 mature through 2015.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At March 31, 2013, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At March 31, 2013, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$55 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's 2012 Form 10-K for additional information.

Foreign Currency Translation

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation loss of \$256 million for the three months ended March 31, 2013, which primarily reflected a \$696 million decrease to PP&E and goodwill offset by a decrease of \$440 million to net liabilities. Changes in this exchange rate resulted in a foreign currency translation gain of \$76 million for the three months ended March 31, 2012, which primarily reflected a \$188 million increase to PP&E and goodwill offset by an increase of \$112 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions

PPL is not aware of any material ownership interests or operating responsibility by senior management of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL.

Acquisitions, Development and Divestitures

PPL from time to time evaluates opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to PPL's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of PPL's business. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the costs for their products or their demand for PPL's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL's generation assets, electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL has hydro generating facilities or where river water is used to cool its fossil and nuclear powered generators. PPL cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

The following is a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule.

Effluent Limitation Guidelines

On April 19, 2013, the EPA issued proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash handling and metal cleaning wastes, as well as new limits for scrubber wastewater, gasification wastewater and landfill leachate. The proposal contains several alternative approaches, some of which could significantly impact PPL's coal-fired plants. PPL will work with industry groups to comment on the proposed regulation. The final regulation is expected in May 2014. At the present time, PPL is unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: one requires installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment), and the second imposes standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected in June 2013. The proposed regulation would apply to nearly all PPL-owned steam electric plants in Pennsylvania, Kentucky, and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

GHG Regulations

In 2013, the EPA is expected to finalize limits on GHG emissions from new power plants and to begin working on a proposal for such emissions from existing power plants. The EPA's proposal on GHG emissions from new power plants would effectively preclude construction of any coal-fired plants and could even be difficult for new gas-fired plants to meet. With respect to existing power plants, the impact could be significant, depending on the structure and stringency of the final rule. PPL, along with others in the industry, filed comments on the EPA's proposal related to GHG emissions from new plants.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. PPL is generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls and approved ECR plans to install additional controls at some of its Kentucky plants. Additionally, PPL is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS. The anticipated retirements of certain coal-fired electric generating units are in response to this and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrous oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern United States. In December 2011, the U.S. Court of Appeals for the District of Columbia Circuit (the Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place. PPL plants in Pennsylvania and Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Court's August decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

Regional Haze - Montana

The EPA signed its final Federal Implementation Plan of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for Corette (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above).

See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL's 2012 Form 10-K for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment (excluding investments), loss accruals, AROs, income taxes, and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL's 2012 Form 10-K for a discussion of each critical accounting policy.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with PPL Energy Supply's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Energy Supply's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Energy Supply and its business strategy, a summary of Net Income Attributable to PPL Energy Supply Member and a discussion of certain events related to PPL Energy Supply's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL Energy Supply's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal line items on PPL Energy Supply's Statements of Income, comparing the three months ended March 31, 2013 with 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Energy Supply's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of PPL Energy Supply's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Energy Supply is an energy company with headquarters in Allentown, Pennsylvania. Through its subsidiaries, PPL Energy Supply is primarily engaged in the competitive generation and marketing of electricity in two key markets - the northeastern and northwestern U.S.

Business Strategy

PPL Energy Supply's strategy is to achieve disciplined optimization of energy supply margins while mitigating volatility in both cash flows and earnings. More specifically, PPL Energy Supply's strategy is to optimize the value from its competitive generation and marketing portfolios. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. PPL Energy Supply is focused on maintaining profitability during the current and projected period of low commodity prices by controlling its capital and operation and maintenance expenditures.

To manage financing costs and access to credit markets, a key objective for PPL Energy Supply is to maintain a strong credit profile and liquidity position. In addition, PPL Energy Supply has financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Developments

Net Income (Loss) Attributable to PPL Energy Supply Member

Net Income (Loss) Attributable to PPL Energy Supply Member for the three months ended March 31, 2013 was \$(38) million compared to \$309 million in 2012, representing a 112% decrease.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

Economic and Market Conditions

Unregulated Gross Energy Margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, fuel transportation costs and other costs. Current depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development. As a result of these factors, lower future energy margins are expected to continue compared to the energy margins in 2012. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, as well as its hedging strategies.

PPL Energy Supply continues to monitor its Corette plant (which as previously announced will be placed in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with the MATS beginning in April 2015) for impairment. The Corette plant asset group's carrying value at March 31, 2013 was \$65 million. Although the Corette plant was not impaired at March 31, 2013, it is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

PPL Energy Supply cannot predict the future impact that economic and market conditions and regulatory requirements may have on its financial condition or results of operations.

Susquehanna Turbine Blade Inspection

In the spring of 2013, PPL Energy Supply will begin making modifications to address the causes of turbine blade cracking at the Susquehanna nuclear plant that was first identified in 2011. The modifications will be made during the Unit 2 refueling outage and an additional planned outage for Unit 1. Following completion of the modifications, PPL Energy Supply plans to continue monitoring the turbine blades using enhanced diagnostic equipment.

Results of Operations

The following discussion provides a summary of PPL Energy Supply's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in Unregulated Gross Energy Margins by region and principal line items on PPL Energy Supply's Statements of Income, comparing the three months ended March 31, 2013 with 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

Earnings

Net Income (Loss) Attributable to PPL Energy Supply Member for the periods ended March 31 was:

	<u>Three Months</u>	
	<u>2013</u>	<u>2012</u>
Net Income (Loss) Attributable to PPL Energy Supply Member	\$ (38)	\$ 309

The changes in the components of Net Income (Loss) Attributable to PPL Energy Supply Member between these periods were due to the following factors, which reflect reclassifications for items included in Unregulated Gross Energy Margins and certain items that management considers special. See additional detail of these special items in the tables below.

	<u>Three Months</u>	
	<u>2013</u>	<u>2012</u>
Unregulated Gross Energy Margins	\$ (107)	
Other operation and maintenance		13
Depreciation		(14)
Interest Expense		(9)
Income Taxes		33
Special items, after-tax		(263)
Total	\$ (347)	

- See "Statement of Income Analysis - Unregulated Gross Energy Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.

- Lower other operation and maintenance primarily due to \$15 million of lower costs at eastern fossil and hydroelectric plants largely due to outages in 2012, partially offset by \$3 million of additional costs due to the Ironwood Acquisition.
- Higher depreciation primarily due to the Ironwood Acquisition.
- Higher interest expense primarily due to financings associated with PPL Ironwood, acquired in April 2012, which increased interest expense by \$4 million and \$3 million due to lower capitalized interest.
- Lower income taxes due to lower pre-tax income in 2013, which reduced income taxes by \$47 million, partially offset by an \$11 million benefit from a state tax rate change recorded in 2012.

The following after-tax gains (losses), which management considers special items, also impacted the results during the periods ended March 31.

	Income Statement Line Item	Three Months	
		2013	2012
Adjusted energy-related economic activity, net, net of tax of \$79, (\$102)	(a)	\$ (117)	\$ 150
Impairments:			
Adjustments - nuclear decommissioning trust investments, net of tax of \$0, (\$1)	Other Income (Expense)-net		1
Other:			
Counterparty bankruptcy, net of tax of \$0, \$5 (b)	Other Operation and Maintenance		(6)
Ash basin leak remediation adjustment, net of tax of \$0, (\$1)	Other Operation and Maintenance		1
Total		\$ (117)	\$ 146

(a) See "Reconciliation of Economic Activity" below.

(b) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) for the periods ended March 31, from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net."

	Three Months	
	2013	2012
Operating Revenues		
Unregulated retail electric and gas	\$ (8)	\$ 10
Wholesale energy marketing	(822)	852
Operating Expenses		
Fuel	(1)	2
Energy Purchases	634	(591)
Energy-related economic activity (a)	(197)	273
Option premiums	1	
Adjusted energy-related economic activity	(196)	273
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010		21
Adjusted energy-related economic activity, net, pre-tax	\$ (196)	\$ 252
Adjusted energy-related economic activity, net, after-tax	\$ (117)	\$ 150

(a) See Note 14 to the Financial Statements for additional information.

2013 Outlook

Excluding special items, PPL Energy Supply projects lower earnings in 2013 compared with 2012, primarily driven by lower energy prices, higher fuel costs, higher operation and maintenance expense, higher depreciation, and higher financing costs, partially offset by higher capacity prices and higher nuclear generation output despite scheduled outages for both Susquehanna units to implement a long-term solution to turbine blade issues.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL Energy Supply's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Unregulated Gross Energy Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Unregulated Gross Energy Margins." "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. In calculating this measure, PPL Energy Supply's energy revenues are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, and gross receipts tax, which is recorded in "Taxes, other than income". This performance measure is relevant to PPL Energy Supply due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "Wholesale energy marketing to affiliate" revenue. PPL Energy Supply excludes from "Unregulated Gross Energy Margins" adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in adjusted energy-related economic activity is the premium amortization associated with options and for 2012 the ineffective portion of qualifying cash flow hedges and economic activity realized associated with the monetization of certain full-requirement sales contracts in 2010. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in "Unregulated Gross Energy Margins" over the delivery period that was hedged or upon realization. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Energy Supply believes that "Unregulated Gross Energy Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage PPL Energy Supply's operations, analyze actual results compared with budget and measure certain corporate financial goals used in determining variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Unregulated Gross Energy Margins" as defined by PPL Energy Supply to "Operating Income" for the periods ended March 31.

	2013 Three Months			2012 Three Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	\$ 977	\$ (1)	\$ 976	\$ 1,204	\$ 4 (c)	\$ 1,208
Unrealized economic activity		(822) (d)	(822)		852 (d)	852
Wholesale energy marketing to affiliate	14		14	21		21
Unregulated retail electric and gas	246	(8) (d)	238	214	10 (d)	224
Net energy trading margins	(11)		(11)	8		8
Energy-related businesses		113	113		96	96
Total Operating Revenues	<u>1,226</u>	<u>(718)</u>	<u>508</u>	<u>1,447</u>	<u>962</u>	<u>2,409</u>
Operating Expenses						
Fuel	299	(1) (d)	298	214	(3) (d)	211
Energy purchases						
Realized	436	(2)	434	636	23 (c)	659
Unrealized economic activity		(634) (d)	(634)		591 (d)	591
Energy purchases from affiliate	1		1	1		1
Other operation and maintenance	5	230	235	4	251	255
Depreciation		78	78		64	64
Taxes, other than income	8	9	17	8	10	18
Energy-related businesses		110	110		92	92
Total Operating Expenses	<u>749</u>	<u>(210)</u>	<u>539</u>	<u>863</u>	<u>1,028</u>	<u>1,891</u>
Total	<u>\$ 477</u>	<u>\$ (508)</u>	<u>\$ (31)</u>	<u>\$ 584</u>	<u>\$ (66)</u>	<u>\$ 518</u>

- (a) Represents amounts excluded from Margins.
- (b) As reported on the Statements of Income.
- (c) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. For the three months ended March 31, 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" includes a net pre-tax loss of \$21 million related to the monetization of certain full-requirement sales contracts.
- (d) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.

Changes in Non-GAAP Financial Measures

Unregulated Gross Energy Margins are generated through PPL Energy Supply's competitive non-trading and trading activities. PPL Energy Supply's non-trading energy business is managed on a geographic basis that is aligned with its generation fleet. The following table shows PPL Energy Supply's non-GAAP financial measure, Unregulated Gross Energy Margins, for the periods ended March 31, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months		
	2013	2012	Change
Non-trading			
Eastern U.S.	\$ 430	\$ 489	\$ (59)
Western U.S.	58	87	(29)
Net energy trading	(11)	8	(19)
Total	<u>\$ 477</u>	<u>\$ 584</u>	<u>\$ (107)</u>

Unregulated Gross Energy Margins

Eastern U.S.

The change in non-trading margins for the period ended March 31, 2013 compared with 2012 was due to:

	Three Months
Baseload energy prices	\$ (125)
Coal prices	(10)
Nuclear fuel prices	(6)
Full-requirement sales contracts	5
Intermediate and peaking capacity prices	5
Baseload capacity prices	6
Intermediate and peaking Spark Spreads	14
Ironwood acquisition which eliminated tolling expense	15
Net economic availability of coal and hydroelectric plants	32
Other	5
Total	<u>\$ (59)</u>

Western U.S.

Non-trading margins for the three months ended March 31, 2013 compared with 2012 were lower due to \$43 million of lower wholesale prices, partially offset by \$12 million of higher wholesale volumes.

Net Energy Trading Margins

Net energy trading margins for the three months ended March 31, 2013 compared with 2012 decreased as a result of lower margins of \$16 million on gas positions due to higher prices.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2013 compared with 2012 was due to:

	Three Months
Uncollectible accounts (a)	\$ (11)
Costs at eastern fossil and hydroelectric plants (b)	(11)
Other	2
Total	<u>\$ (20)</u>

- (a) The decrease is primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code in 2011. \$11 million of damages billed to SMGT were fully reserved in 2012.
- (b) The decrease is primarily due to Brunner Island Unit 3 outage costs of \$15 million in 2012 compared with no major outage costs in 2013, partially offset by \$3 million of additional costs due to the Ironwood Acquisition.

Depreciation

Depreciation increased by \$14 million for the three months ended March 31, 2013 compared with 2012, primarily due to \$10 million related to PP&E additions and \$6 million attributable to the Ironwood Acquisition.

Interest Expense

The increase (decrease) in interest expense for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Ironwood Acquisition (a)	\$ 4
Capitalized interest	3
Other	2
Total	<u>\$ 9</u>

- (a) The increase was due to financings associated with the Ironwood Acquisition.

Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Lower pre-tax book income	\$ (225)
State deferred tax rate change (a)	11
Other	2
Total	<u>\$ (212)</u>

- (a) During the three months ended March 31, 2012, PPL Energy Supply recorded adjustments related to state deferred tax liabilities.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

PPL Energy Supply had the following at:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 147	\$ 413
Short-term debt	<u>\$ 481</u>	<u>\$ 356</u>

The \$266 million decrease in PPL Energy Supply's cash and cash equivalents position was primarily the net result of:

- distributions to member of \$313 million;
- capital expenditures of \$124 million;
- a net increase in restricted cash and cash equivalents of \$59 million;
- net cash provided by operating activities of \$125 million; and
- a net increase in short-term debt of \$125 million.

PPL Energy Supply's cash provided by operating activities decreased by \$129 million for the three months ended March 31, 2013, compared with 2012. This was primarily due to a \$45 million increase in cash used by working capital components, a decrease in net income when adjusted for non-cash components of \$31 million and a \$36 million increase in defined benefit plans funding.

Credit Facilities

PPL Energy Supply maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At March 31, 2013, PPL Energy Supply's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
Syndicated Credit Facility	\$ 3,000		\$ 641	\$ 2,359
Letter of Credit Facility (a)	200	n/a	123	77
Total PPL Energy Supply Credit Facilities (b)	<u>\$ 3,200</u>	<u></u>	<u>\$ 764</u>	<u>\$ 2,436</u>

- (a) In February 2013, PPL Energy Supply extended the expiration date from March 2013 and, effective April 2013, the capacity was reduced to \$150 million.
(b) The commitments under PPL Energy Supply's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL Energy Supply's credit facilities.

Commercial Paper

PPL Energy Supply maintains a commercial paper program up to \$750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At March 31, 2013 and December 31, 2012, PPL Energy Supply had \$481 million and \$356 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.38% and 0.50%.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of PPL Energy Supply and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Energy Supply and its subsidiaries are based on information provided by PPL Energy Supply and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Energy Supply or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

A downgrade in PPL Energy Supply's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. PPL Energy Supply and its subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies took the following actions related to PPL Energy Supply and its subsidiaries in 2013:

In February 2013, Moody's upgraded its rating, from B2 to Ba1, and revised the outlook from under review to stable for PPL Ironwood.

In April 2013, Fitch affirmed the BBB- rating and stable outlook at PPL Montana.

Ratings Triggers

PPL Energy Supply has various contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate instruments, which contain provisions that require PPL Energy Supply to post additional collateral or permit the counterparty to terminate the contract if PPL Energy Supply's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2013.

For additional information on PPL Energy Supply's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Energy Supply's 2012 Form 10-K.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL Energy Supply's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts for the period ended March 31. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)	
	Three Months	
	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 473	\$ 1,082
Contracts realized or otherwise settled during the period	(137)	(279)
Fair value of new contracts entered into during the period (a)	9	(1)
Other changes in fair value	(116)	413
Fair value of contracts outstanding at the end of the period	\$ 229	\$ 1,215

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at March 31, 2013, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 238	\$ (21)	\$ (8)	\$ 6	\$ 215
Prices based on significant unobservable inputs (Level 3)	(1)	12	3		14
Fair value of contracts outstanding at the end of the period	\$ 237	\$ (9)	\$ (5)	\$ 6	\$ 229

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2017. The following table sets forth changes in the net fair value of trading commodity derivative contracts for the period ended March 31. See Notes 13 and 14 to the Financial Statements for additional information.

	Three Months	
	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 29	\$ (4)
Contracts realized or otherwise settled during the period	(2)	
Fair value of new contracts entered into during the period (a)	(12)	6
Fair value of contracts outstanding at the end of the period	<u>\$ 15</u>	<u>\$ 2</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at March 31, 2013, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices quoted in active markets for identical instruments (Level 1)	\$ 1				\$ 1
Prices based on significant observable inputs (Level 2)	5	\$ 9			14
Fair value of contracts outstanding at the end of the period	<u>\$ 6</u>	<u>\$ 9</u>			<u>\$ 15</u>

VaR Models

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the periods was as follows.

	Trading VaR	Non-Trading VaR
	Three Months Ended March 31, 2013	Three Months Ended March 31, 2013
95% Confidence Level, Five-Day Holding Period		
Period End	\$ 6	\$ 8
Average for the Period	5	9
High	6	9
Low	3	8

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at March 31, 2013.

Interest Rate Risk

PPL Energy Supply and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. PPL and PPL Energy Supply utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates. PPL Energy Supply had no interest rate hedges outstanding at March 31, 2013.

At March 31, 2013, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. PPL Energy Supply estimated that a 10% decrease in interest rates at March 31, 2013 would increase the fair value of its debt portfolio by \$47 million.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At March 31, 2013, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At March 31, 2013, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$55 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 11, 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL Energy Supply's 2012 Form 10-K for additional information.

Related Party Transactions

PPL Energy Supply is not aware of any material ownership interests or operating responsibility by senior management of PPL Energy Supply in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL Energy Supply. See Note 11 to the Financial Statements for additional information on related party transactions.

Acquisitions, Development and Divestitures

PPL Energy Supply from time to time evaluates opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to PPL Energy Supply's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of PPL Energy Supply's business. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the costs of their products or their demand for PPL Energy Supply's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL Energy Supply's generation assets as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL Energy Supply has hydro generating facilities or where river water is used to cool its fossil and nuclear powered generators. PPL Energy Supply cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

The following is a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule.

Effluent Limitation Guidelines

On April 19, 2013, the EPA issued proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash handling and metal cleaning wastes, as well as new limits for scrubber wastewater, gasification wastewater and landfill leachate. The proposal contains several alternative approaches, some of which could significantly impact PPL Energy Supply's coal-fired plants. PPL Energy Supply will work with industry groups to comment on the proposed regulation. A final regulation is expected in May 2014. At the present time, PPL Energy Supply is unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structures Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: one requires installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plants cooling water system (entrainment), and the second imposes standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected in June 2013. The proposed regulation would apply to nearly all PPL Energy Supply-owned steam electric plants in Pennsylvania and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL Energy Supply's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

GHG Regulations

In 2013, the EPA is expected to finalize limits on GHG emissions from new power plants and to begin working on a proposal for such emissions from existing power plants. The EPA's proposal on GHG emissions from new power plants would effectively preclude construction on any coal-fired plants and could even be difficult for new gas-fired plants to meet. With respect to existing power plants, the impact could be significant, depending on the structure and stringency of the final rule. PPL Energy Supply, along with others in the industry, filed comments on the EPA's proposal related to GHG emissions from new plants.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. PPL Energy Supply is generally well-positioned to comply with MATS due to its recent investment in, and installation of, environmental controls such as wet flue gas desulfurization systems. PPL Energy Supply is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL Energy Supply announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrous oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern United States. In December 2011, the U.S. Court of Appeals for the District of Columbia Circuit (the Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place. PPL Energy Supply

plants in Pennsylvania will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Court's August decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

Regional Haze - Montana

The EPA signed its final Federal Implementation Plan of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for Corette (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL Energy Supply expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above).

See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL Energy Supply's 2012 Form 10-K for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment (excluding investments), loss accruals, AROs and income taxes. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Energy Supply's 2012 Form 10-K for a discussion of each critical accounting policy.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with PPL Electric's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Electric's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Electric and its business strategy, a summary of Net Income Available to PPL and a discussion of certain events related to PPL Electric's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL Electric's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal line items on PPL Electric's Statements of Income, comparing the three months ended March 31, 2013 with 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Electric's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of PPL Electric's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Electric is an electricity transmission and distribution service provider in eastern and central Pennsylvania with headquarters in Allentown, Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

Business Strategy

PPL Electric's strategy for its regulated electricity delivery business is to provide safe, reliable service to its customers and achieve stable, long-term growth in earnings and rate base. Rate base is expected to grow as a result of significant capital expenditure programs aimed at maintaining existing assets and improving system reliability. PPL Electric is focused on timely recovery of costs, efficient operations, strong customer service and constructive regulatory relationships.

To manage financing costs and access to credit markets and to fund its capital expenditure program, a key objective for PPL Electric is to maintain a strong credit profile and strong liquidity position.

Timely recovery of costs to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets, is required in order to maintain strong cash flows and a strong credit profile. Traditionally, such cost recovery would be pursued through periodic base rate case proceedings with the PUC. As such costs continue to increase, more frequent rate case proceedings may be required or an alternative rate making process would need to be implemented in order to achieve more timely recovery. See "Legislation - Regulatory Procedures and Mechanisms" below for information on Pennsylvania's new alternative rate-making mechanism.

Transmission costs are recovered through a FERC Formula Rate mechanism, which is updated annually for costs incurred and assets placed in service. Accordingly, increased costs, including those related to the replacement of aging transmission assets and the PJM-approved Regional Transmission Line Expansion Plan, are recovered on a timely basis.

Financial and Operational Developments

Net Income Available to PPL

Net Income Available to PPL for the three months ended March 31, 2013 was \$64 million compared to \$33 million in 2012, representing a 94% increase.

See "Results of Operations" below for further discussion and analysis of PPL Electric's earnings.

Rate Case Proceeding

In December 2012, the PUC approved a total distribution revenue increase of about \$71 million, using a 10.4% return on equity. The approved rates became effective January 1, 2013.

Legislation - Regulatory Procedures and Mechanisms

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a final implementation order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC. In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC.

The PUC approved the LTIP on January 10, 2013 and, on January 15, 2013, PPL Electric filed a petition requesting permission to establish a DSIC. Several parties have filed responses to PPL Electric's petition. The case remains pending before the PUC. PPL Electric does not expect any new rates to be effective before the third quarter of 2013.

FERC Formula Rates

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form No. 1, filed under FERC's Uniform System of Accounts (USOA). PPL Electric must follow FERC's USOA, which requires subsidiaries to be presented, for FERC reporting purposes, using the equity method of accounting unless a waiver has been issued. The FERC has granted waivers of this requirement to other utilities when such waiver would more accurately present the integrated operations of the utilities and their subsidiaries. In March 2013, as part of a routine FERC audit of PPL and its subsidiaries, PPL Electric determined that it never obtained a waiver of the use of the equity method of accounting for PPL Receivables Corporation (PPL Receivables). PPL Receivables is a wholly owned subsidiary of PPL Electric, formed in 2004 to purchase eligible accounts receivable and unbilled revenue of PPL Electric to collateralize commercial paper issuances to reduce borrowing costs. In March 2013, PPL Electric filed a request for waiver with FERC that, if approved, would allow it to continue to consolidate the results of PPL Receivables with the results of PPL Electric, as it has done since 2004. While PPL Electric may ultimately be successful in obtaining a waiver from FERC, FERC may require PPL Electric to re-issue one or more of its prior FERC Form No. 1 filings in either the audit proceeding or the waiver proceeding. If re-issuance of FERC Form No. 1 filings were required by FERC, PPL Electric's revenue requirement calculated under the formula rate could be negatively impacted. The impact, if any, is not known at this time but could range between \$0 and \$40 million, pre-tax. PPL Electric cannot predict the outcome of the waiver or audit proceedings, which remain pending before the FERC.

Results of Operations

The following discussion provides a summary of PPL Electric's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in Pennsylvania Gross Delivery Margins by component and principal line items on PPL Electric's Statements of Income, comparing the three months ended March 31, 2013 with 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

Earnings

Net Income Available to PPL for the periods ended March 31 was:

	Three Months	
	2013	2012
Net Income Available to PPL	\$ 64	\$ 33

The changes in the components of Net Income Available to PPL between these periods were due to the following factors which reflect reclassifications for items included in Pennsylvania Gross Delivery Margins.

	Three Months	
	2013	2012
Pennsylvania Gross Delivery Margins	\$ 40	
Other operation and maintenance	7	
Depreciation	(4)	
Other	(3)	
Income Taxes	(13)	
Distributions on Preference Stock	4	
Total	\$ 31	

- See "Statement of Income Analysis - Pennsylvania Gross Delivery Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Lower other operation and maintenance primarily due to lower corporate service costs.
- Higher depreciation due to PP&E additions.
- Higher income taxes primarily due to the impact of higher pre-tax income.
- Lower distributions on preference stock due to the June 2012 redemption of all 2.5 million shares of preference stock.

2013 Outlook

Excluding special items, PPL Electric projects higher earnings in 2013 compared with 2012, primarily driven by higher distribution revenues from a distribution base rate increase and higher transmission margins, partially offset by higher depreciation.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL Electric's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Pennsylvania Gross Delivery Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Pennsylvania Gross Delivery Margins." "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's Pennsylvania regulated electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Energy purchases from affiliate," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income" which is primarily gross receipts tax. As a result, this measure represents the net revenues from PPL Electric's Pennsylvania regulated electric delivery operations. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Electric believes that "Pennsylvania Gross Delivery Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage PPL Electric's operations and analyze actual results to budget.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Pennsylvania Gross Delivery Margins" as defined by PPL Electric to "Operating Income" for the periods ended March 31.

	2013 Three Months			2012 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	\$ 512		\$ 512	\$ 457		\$ 457
Electric revenue from affiliate	1		1	1		1
Total Operating Revenues	513		513	458		458
Operating Expenses						
Energy purchases	172		172	153		153
Energy purchases from affiliate	14		14	21		21
Other operation and maintenance	22	\$ 111	133	22	\$ 118	140
Depreciation		43	43		39	39
Taxes, other than income	28	2	30	25	1	26
Total Operating Expenses	236	156	392	221	158	379
Total	\$ 277	\$ (156)	\$ 121	\$ 237	\$ (158)	\$ 79

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL Electric's non-GAAP financial measure, "Pennsylvania Gross Delivery Margins" for the periods ended March 31, as well as the change between periods. The factors that gave rise to the change are described below the table.

PA Gross Delivery Margins by Component	Three Months		
	2013	2012	Change
Distribution	\$ 224	\$ 189	\$ 35
Transmission	53	48	5
Total	\$ 277	\$ 237	\$ 40

Distribution

Margins increased for the three months ended March 31, 2013 compared with 2012 primarily due to a \$13 million favorable effect of mild weather in 2012 and a \$19 million favorable effect of price, largely comprised of higher base rates, effective January 1, 2013 as a result of the 2012 rate case and higher volumes of \$3 million.

Transmission

Margins increased for the three months ended March 31, 2013 compared with 2012 primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2013 compared with 2012 was due to:

	Three Months
Uncollectible accounts	\$ (2)
Corporate service costs (a)	(5)
Total	\$ (7)

(a) The decrease is partially due to \$2 million of storm insurance policy premiums for coverage that was in place in 2012 but was not renewed in 2013.

Depreciation

Depreciation increased by \$4 million for the three months ended March 31, 2013 compared with 2012, primarily due to PP&E additions as part of ongoing investments to enhance system reliability.

Taxes, Other Than Income

Taxes, other than income increased by \$4 million for the three months ended March 31, 2013 compared with 2012, primarily due to higher Pennsylvania gross receipts tax expense due to higher retail electricity revenue. This tax is included in "Pennsylvania Gross Delivery Margins."

Financing Costs

Financing costs, which consist of "Interest Expense" and "Distributions on Preference Stock," decreased by \$3 million for the three months ended March 31, 2013, compared with 2012. The decrease was primarily due to the June 2012 redemption of all 2.5 million shares of preference stock.

Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Higher pre-tax book income	\$ 16
Depreciation not normalized	(2)
Other	(1)
Total	<u>\$ 13</u>

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

PPL Electric had the following at:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 31	\$ 140
Short-term debt	\$ 125	

The \$109 million decrease in PPL Electric's cash and cash equivalents position was primarily the net result of:

- capital expenditures of \$189 million;
- net cash used in operating activities of \$77 million;
- the payment of \$25 million of common stock dividends to parent; partially offset by
- a net increase in short-term debt of \$125 million; and
- contributions from parent of \$60 million.

PPL Electric's cash used in operating activities increased by \$67 million for the three months ended March 31, 2013 compared with 2012. The increase was a net effect of:

- a \$77 million increase in cash used by components of working capital (primarily due to a \$76 million change in accounts receivable resulting from higher base rates and favorable effects of weather); and
- a \$34 million increase in defined benefit plan funding; partially offset by
- a \$27 million increase in net income.

Credit Facilities

PPL Electric maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At March 31, 2013, PPL Electric's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a)	\$ 300		\$ 126	\$ 174
Asset-backed Credit Facility (b)	100		n/a	100
Total PPL Electric Credit Facilities	<u>\$ 400</u>		<u>\$ 126</u>	<u>\$ 274</u>

- (a) The commitments under this credit facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 5% of the total committed capacity.
- (b) PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of \$100 million from a commercial paper conduit sponsored by a financial institution. At March 31, 2013, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was \$100 million.

See Note 7 to the Financial Statements for further discussion of PPL Electric's credit facilities.

Commercial Paper

PPL Electric maintains a commercial paper program for up to \$300 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. At March 31, 2013, PPL Electric had \$125 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of 0.39%. PPL Electric had no commercial paper outstanding at December 31, 2012.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of PPL Electric. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Electric are based on information provided by PPL Electric and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

A downgrade in PPL Electric's credit ratings could result in higher borrowing costs and reduced access to capital markets. PPL Electric does not have credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies did not take any actions related to PPL Electric in 2013.

For additional information on PPL Electric's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Electric's 2012 Form 10-K.

Risk Management

Market Risk and Credit Risk

PPL Electric issues debt to finance its operations, which exposes it to interest rate risk. At March 31, 2013, PPL Electric's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Electric is also exposed to changes in the fair value of its debt portfolio. PPL Electric estimated that a 10% decrease in interest rates at March 31, 2013 would increase the fair value of its debt portfolio by \$71 million.

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management" in PPL Electric's 2012 Form 10-K for additional information on market and credit risk.

Related Party Transactions

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management of PPL Electric in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL Electric. See Note 11 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL Electric's electricity transmission and distribution systems, as well as impacts on customers. PPL Electric cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL Electric's 2012 Form 10-K for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: defined benefits, loss accruals, income taxes, regulatory assets and liabilities, and revenue recognition - unbilled revenue. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Electric's 2012 Form 10-K for a discussion of each critical accounting policy.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with LKE's Condensed Consolidated Financial Statements and the accompanying Notes and with LKE's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LKE and its business strategy, a summary of Net Income and a discussion of certain events related to LKE's results of operations and financial condition.
- "Results of Operations" provides a summary of LKE's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal line items on LKE's Statements of Income, comparing the three months ended March 31, 2013 with 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LKE's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of LKE's risk management programs relating to market and credit risk.

Overview

Introduction

LKE, headquartered in Louisville, Kentucky, is a holding company and a wholly owned subsidiary of PPL. LKE has regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electric energy. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

Business Strategy

LKE's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its member.

A key objective for LKE is to maintain a strong credit profile through managing financing costs and access to credit markets. LKE continually focuses on maintaining an appropriate capital structure and liquidity position.

Financial and Operational Developments

Net Income

Net Income for the three months ended March 31, 2013 was \$96 million compared to \$53 million in 2012 representing an 81% increase over 2012.

See "Results of Operations" for a discussion and analysis of LKE's earnings.

Rate Case Proceedings

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million for LG&E and \$51 million for KU and an increase in annual base gas rates of \$15 million for LG&E using a 10.25% return on equity. The approved rates became effective January 1, 2013.

Results of Operations

The following discussion provides a summary of LKE's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in Margins and principal line items on LKE's Statements of Income, comparing the three months ended March 31, 2013 with 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income for the period ended March 31 was:

	Three Months	
	2013	2012
Net Income	\$ 96	\$ 53

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins and certain items that management considers special. See additional detail of these special items in the table below.

	Three Months	
Margins	\$ 75	
Other operation and maintenance	10	
Depreciation	(9)	
Taxes, other than income	(1)	
Interest Expense	1	
Income Taxes	(30)	
Special items, after-tax	(3)	
Total	\$ 43	

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Lower other operation and maintenance primarily due to \$14 million of lower costs due to the timing and scope of scheduled coal plant maintenance outages, partially offset by \$4 million of adjustments to regulatory assets and liabilities.
- Higher depreciation due to environmental costs related to the elimination of the 2005 and 2006 ECR plans now being included in base rates, which added \$13 million to depreciation that is excluded from Margins, partially offset by lower depreciation of \$5 million due to revised rates that were effective January 1, 2013. Both of these events are the result of the 2012 Kentucky rate case proceedings.
- Higher income taxes primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted earnings during the periods ended March 31.

	Income Statement Line Item	Three Months	
		2013	2012
EEI adjustments	Other Income (Expense) - net	\$ 1	
Net operating loss carryforward and other tax-related adjustments	Income Taxes and Other O&M		\$ 4
Total		\$ 1	\$ 4

2013 Outlook

Excluding special items, LKE projects higher earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases, returns on additional environmental capital investments and load growth, partially offset by higher operation and maintenance expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in LKE's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margins is a single financial performance measure of LKE's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. Certain costs associated with these mechanisms, primarily ECR, DSM and GLT, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from LKE's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Margins" to "Operating Income" as defined by LKE for the periods ended March 31.

	2013 Three Months			2012 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 800		\$ 800	\$ 705		\$ 705
Operating Expenses						
Fuel	231		231	213		213
Energy purchases	86		86	74		74
Other operation and maintenance	25	\$ 172	197	22	\$ 184	206
Depreciation		82	82	13	73	86
Taxes, other than income		12	12		11	11
Total Operating Expenses	342	266	608	322	268	590
Total	\$ 458	\$ (266)	\$ 192	\$ 383	\$ (268)	\$ 115

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins increased by \$75 million for the three months ended March 31, 2013 compared with 2012 due to higher base rates of \$31 million, higher volumes of \$19 million, environmental costs added to base rates of \$18 million and increased environmental investments of \$7 million.

The increase in base rates was the result of new KPSC rates going into effect on January 1, 2013. The increase in volumes was attributable to colder weather in 2013 compared with 2012. Total heating degree days increased 41%. The environmental costs added to base rates was due to the elimination of the 2005 and 2006 ECR plans as a result of the 2012 Kentucky rate case. This elimination results in depreciation and other operation and maintenance expenses associated with the 2005 and 2006 ECR plans being excluded from Margins in 2013.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Coal plant outages (a)	\$ (14)
Bad debt expense	(3)
Adjustments to regulatory assets and liabilities	4
Other	4
Total	<u>\$ (9)</u>

(a) Decrease is primarily due to the timing and scope of scheduled outages.

Depreciation

The increase (decrease) in depreciation for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Lower depreciation rates effective January 1, 2013	\$ (5)
Additions to PP&E	2
Other	(1)
Total	<u>\$ (4)</u>

Income Taxes

Income taxes increased by \$36 million for the three months ended March 31, 2013 compared with 2012 primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

LKE had the following at:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 52	\$ 43
Short-term debt (a)	\$ 185	\$ 125
Notes payable with affiliates	\$ 85	\$ 25

(a) Represents borrowings under LG&E's and KU's commercial paper programs. See Note 7 to the Financial Statements for additional information.

The \$9 million increase in LKE's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of \$85 million;
- an increase in short term debt of \$60 million;
- an increase in notes payable with affiliates of \$60 million; and
- capital contributions from member of \$75 million; offset by
- capital expenditures of \$271 million.

LKE's cash provided by operating activities decreased by \$147 million for the three months ended March 31, 2013, compared with 2012, primarily as a result of:

- an increase in cash outflows from other operating activities of \$110 million driven by a \$96 million increase in discretionary defined benefit plan contributions; and
- a decline in working capital cash flow changes of \$98 million driven primarily by changes in accounts receivable and unbilled revenues due to higher sales volumes, higher rates and extended payment terms, offset by lower inventory levels in 2013 compared with 2012 driven by increased generation; offset by
- an increase in net income adjusted for non-cash items of \$61 million (deferred income taxes and investment tax credits of \$13 million, defined benefit plans - expense of \$7 million and other non-cash items of \$2 million, offset by depreciation of \$4 million).

Capital expenditures increased by \$97 million during the three months ended March 31, 2013 compared with 2012 primarily due to environmental air projects at Mill Creek and Ghent, and construction of Cane Run Unit 7.

Credit Facilities

At March 31, 2013, LKE's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
LKE Credit Facility with a subsidiary of PPL Energy Funding Corporation	\$ 300	\$ 85		\$ 215
LG&E Credit Facility (a)	500		\$ 70	430
KU Credit Facilities (a) (b)	598		313	285
Total Credit Facilities (c)	<u>\$ 1,398</u>	<u>\$ 85</u>	<u>\$ 383</u>	<u>\$ 930</u>

- (a) Each company pays customary fees under their respective syndicated credit facilities, as well as KU's letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (b) In May 2013, KU extended its \$198 million letter of credit facility to May 2016.
- (c) The \$1.098 billion of commitments under LG&E's and KU's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity; however, the PPL affiliate provided a commitment of approximately 21% of the total facilities listed above. The syndicated credit facilities, as well as KU's letter of credit facility, each contain a financial covenant requiring debt to total capitalization not to exceed 70% for LG&E or KU, as calculated in accordance with the facility, and other customary covenants.

See Note 7 to the Financial Statements for further discussion of LKE's credit facilities.

Long-term Debt Securities

LG&E and KU currently plan to issue, subject to market conditions, up to \$350 million for LG&E and \$300 million for KU, of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LKE and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LKE and its subsidiaries are based on information provided by LKE and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LKE or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of LKE and its subsidiaries affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The rating agencies did not take any actions related to LKE and its subsidiaries during the first quarter of 2013.

Ratings Triggers

LKE and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LKE and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if LKE's or its subsidiaries' credit ratings were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2013.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about LKE's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

LG&E's and KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LKE sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

LKE and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. LKE utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under LKE's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LKE's debt portfolio due to changes in the absolute level of interest rates.

At March 31, 2013, LKE's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LKE is also exposed to changes in the fair value of its debt portfolio. LKE estimated that a 10% decrease in interest rates at March 31, 2013, would increase the fair value of its debt portfolio by \$111 million.

At March 31, 2013, LKE had the following interest rate hedges outstanding:

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability) (a)</u>	<u>Effect of a 10% Adverse Movement in Interest Rates</u>
Economic activity			
Interest rate swaps (b)	\$ 179	\$ (55)	\$ (3)
Cash flow hedges			
Interest rate swaps (b)	300	24	(17)

(a) Includes accrued interest.

(b) LKE utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LKE is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic positions and cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. The positions outstanding at March 31, 2013 mature through 2043.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in LKE's 2012 Form 10-K for additional information.

Related Party Transactions

LKE is not aware of any material ownership interest or operating responsibility by senior management of LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with LKE. See Note 11 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of LKE's business. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for LG&E's and KU's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to LG&E's and KU's generation assets, electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where LG&E and KU have hydro generating facilities or where river water is used to cool its fossil-powered generators. LKE cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential costs of their related consequences.

The following is a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule.

Effluent Limitation Guidelines

On April 19, 2013, the EPA issued proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash handling and metal cleaning wastes as well as new limits for scrubber wastewater, gasification wastewater and landfill leachate. The proposal contains several alternative approaches, some of which could significantly impact LG&E's and KU's coal-fired plants. LG&E and KU will comment on the proposed regulation. The final regulation is expected in May 2014. At the present time, LKE is unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: one requires installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment), and the second imposes standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected in June 2013. The proposed regulation would apply to nearly all LG&E and KU-owned steam electric plants in Kentucky, potentially even including those equipped with closed-cycle cooling systems.

GHG Regulations

In 2013, the EPA is expected to finalize limits on GHG emissions from new power plants and to begin working on a proposal for such emissions from existing power plants. The EPA's proposal on GHG emissions from new power plants would effectively preclude construction of any coal-fired plants and could even be difficult for new gas-fired plants to meet. With respect to existing power plants, the impact could be very significant, depending on the structure and stringency of the final rule. On behalf of LG&E and KU, PPL, along with others in the industry, filed comments on the EPA's proposal related to GHG emissions from new plants.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. LG&E and KU are generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls and approved ECR plans to install additional controls at some of their Kentucky plants. LG&E and KU are evaluating, among other measures, chemical additive systems for mercury control at Trimble County and Brown plants. The anticipated retirements of certain coal-fired electric generating units is in response to this and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrous oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern United States. In December 2011, the U.S. Court of Appeals for the District of Columbia Circuit (the Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place. LG&E and KU plants in Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Court's August decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

National Ambient Air Quality Standards

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2013 and 2014, respectively. Existing environmental plans for LG&E's and KU's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. However, depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant.

See Note 10 to the Financial Statements in this Form 10-Q report and "Item 1. Business - Environmental Matters" in LKE's 2012 Form 10-K for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: revenue recognition - unbilled revenue, defined benefits, asset impairment (excluding investments), loss accruals, AROs, income taxes, and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in LKE's 2012 Form 10-K for a discussion of each critical accounting policy.

LOUISVILLE GAS AND ELECTRIC COMPANY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with LG&E's Condensed Financial Statements and the accompanying Notes and with LG&E's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LG&E and its business strategy, a summary of Net Income and a discussion of certain events related to LG&E's results of operations and financial condition.
- "Results of Operations" provides a summary of LG&E's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal line items on LG&E's Statements of Income, comparing the three months ended March 31, 2013 with 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LG&E's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of LG&E's risk management programs relating to market and credit risk.

Overview

Introduction

LG&E, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. LG&E and its affiliate, KU, are wholly owned subsidiaries of LKE. LKE is an intermediary holding company in PPL's group of companies.

Business Strategy

LG&E's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its shareowner.

A key objective for LG&E is to maintain a strong credit profile through managing financing costs and access to credit markets. LG&E continually focuses on maintaining an appropriate capital structure and liquidity position.

Financial and Operational Developments

Net Income

Net Income for the three months ended March 31, 2013 was \$44 million compared to \$25 million in 2012 representing a 76% increase over 2012.

See "Results of Operations" for a discussion and analysis of LG&E's earnings.

Rate Case Proceedings

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million and an increase in annual base gas rates of \$15 million using a 10.25% return on equity. The approved rates became effective January 1, 2013.

Results of Operations

The following discussion provides a summary of LG&E's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in Margins and principal line items on LG&E's Statements of Income, comparing the three months ended March 31, 2013 with 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income for the periods ended March 31 was:

	<u>Three Months</u>	
	<u>2013</u>	<u>2012</u>
Net Income	\$ 44	\$ 25

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins.

	<u>Three Months</u>	
	<u>2013</u>	<u>2012</u>
Margins	\$ 22	8
Other operation and maintenance	1	(1)
Depreciation	(2)	1
Taxes, other than income	(10)	19
Other Income (Expense) - net	1	(1)
Interest Expense	(1)	(1)
Income Taxes	(10)	(1)
Total	<u>\$ 19</u>	<u>19</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Lower other operation and maintenance primarily due to the timing and scope of scheduled coal plant maintenance outages.
- Higher income taxes primarily due to higher pre-tax income.

2013 Outlook

LG&E projects higher earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases, returns on additional environmental capital investments and retail load growth, partially offset by higher operation and maintenance expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in LG&E's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margins is a single financial performance measure of LG&E's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel

and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. Certain costs associated with these mechanisms, primarily ECR, DSM and GLT, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from LG&E's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Margins" to "Operating Income" as defined by LG&E for the periods ended March 31.

	2013 Three Months			2012 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 390		\$ 390	\$ 353		\$ 353
Operating Expenses						
Fuel	96		96	89		89
Energy purchases	81		81	73		73
Other operation and maintenance	11	\$ 80	91	10	\$ 88	98
Depreciation		36	36	1	37	38
Taxes, other than income		6	6		5	5
Total Operating Expenses	188	122	310	173	130	303
Total	\$ 202	\$ (122)	\$ 80	\$ 180	\$ (130)	\$ 50

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins increased by \$22 million for the three months ended March 31, 2013 compared with 2012 due to higher base rates of \$13 million, higher volumes of \$6 million, increased environmental investments of \$2 million and environmental costs added to base rates of \$1 million.

The increase in base rates was the result of new KPSC rates going into effect on January 1, 2013. The increase in volumes was attributable to colder weather in 2013 compared with 2012. Total heating degree days increased 48%. The environmental costs added to base rates was due to the elimination of the 2005 and 2006 ECR plans as a result of the 2012 Kentucky rate case. This elimination results in depreciation and other operation and maintenance expenses associated with the 2005 and 2006 ECR plans being excluded from Margins in 2013.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Coal plant outages (a)	\$ (8)
Other	1
Total	<u>\$ (7)</u>

(a) Decrease is due to the timing and scope of scheduled outages.

Income Taxes

Income taxes increased by \$10 million for the three months ended March 31, 2013 compared with 2012 primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

LG&E had the following at:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 34	\$ 22
Short-term debt (a)	\$ 70	\$ 55

(a) Represents borrowings under LG&E's commercial paper program. See Note 7 to the Financial Statements for additional information.

The \$12 million increase in LG&E's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of \$85 million;
- capital contributions from parent of \$25 million; and
- an increase in short term debt of \$15 million; partially offset by
- capital expenditures of \$98 million; and
- the payment of common stock dividends to parent of \$19 million.

LG&E's cash provided by operating activities decreased by \$17 million for the three months ended March 31, 2013, compared with 2012, primarily due to:

- an increase in cash outflows from other operating activities of \$18 million driven by a \$19 million increase in discretionary defined benefit plan contributions; and
- a decline in working capital cash flow changes of \$12 million driven primarily by changes in accounts receivable and unbilled revenues due to higher sales volume, higher rates and extended payment terms, partially offset by lower fuel levels in 2013 compared with 2012 driven by increased generation and a higher federal income tax accrual in 2013; offset by
- an increase in net income adjusted for non-cash items of \$13 million (amortization of \$3 million and defined benefit plans - expense of \$2 million partially offset by deferred income taxes and investment tax credits of \$5 million, other non-cash items of \$4 million and depreciation of \$2 million).

Capital expenditures increased by \$38 million during the three months ended March 31, 2013 compared with 2012 primarily due to environmental air projects at Mill Creek, and construction of Cane Run Unit 7.

Credit Facilities

At March 31, 2013, LG&E's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a) (b)	\$ 500	\$	70	\$ 430

(a) The commitments under LG&E's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity available to LG&E.

(b) LG&E pays customary fees under its syndicated credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At March 31, 2013 and December 31, 2012, there was no balance outstanding.

See Note 7 to the Financial Statements for further discussion of LG&E's credit facilities.

Long-term Debt Securities

LG&E currently plans to issue, subject to market conditions, up to \$350 million of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LG&E. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LG&E are based on information provided by LG&E and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LG&E. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of LG&E affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The rating agencies did not take any actions related to LG&E during the first quarter of 2013.

Ratings Triggers

LG&E has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LG&E to post additional collateral, or permitting the counterparty to terminate the contract, if LG&E's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2013.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about LG&E's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

LG&E's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E is subject to commodity price risk for only a small portion of on-going business operations. LG&E sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

LG&E issues debt to finance its operations, which exposes it to interest rate risk. LG&E utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under LG&E's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LG&E's debt portfolio due to changes in the absolute level of interest rates.

At March 31, 2013, LG&E's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LG&E is also exposed to changes in the fair value of its debt portfolio. LG&E estimated that a 10% decrease in interest rates at March 31, 2013, would increase the fair value of its debt portfolio by \$27 million.

At March 31, 2013, LG&E had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Interest Rates
Economic activity			
Interest rate swaps (b)	\$ 179	\$ (55)	\$ (3)
Cash flow hedges			
Interest rate swaps (b)	150	12	(8)

(a) Includes accrued interest.

(b) LG&E utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LG&E is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic positions and cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. The positions outstanding at March 31, 2013 mature through 2043.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in LG&E's 2012 Form 10-K for additional information.

Related Party Transactions

LG&E is not aware of any material ownership interest or operating responsibility by senior management of LG&E in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with LG&E. See Note 11 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of LG&E's business. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for LG&E's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to LG&E's generation assets, electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where LG&E has hydro generating facilities or where river water is used to cool its fossil-powered generators. LG&E cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential costs of their related consequences.

The following is a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule.

Effluent Limitation Guidelines

On April 19, 2013, the EPA issued proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash handling and metal cleaning wastes as well as new limits for scrubber wastewater, gasification wastewater and landfill leachate. The proposal contains several alternative approaches, some of which could significantly impact LG&E's coal-fired plants. LG&E will comment on the proposed regulation. The final regulation is expected in May 2014. At the present time, LG&E is unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: one requires installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment), and the second imposes standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected in June 2013. The proposed regulation would apply to nearly all LG&E-owned steam electric plants in Kentucky, potentially even including those equipped with closed-cycle cooling systems.

GHG Regulations

In 2013, the EPA is expected to finalize limits on GHG emissions from new power plants and to begin working on a proposal for such emissions from existing power plants. The EPA's proposal on GHG emissions from new power plants would effectively preclude construction of any coal-fired plants and could even be difficult for new gas-fired plants to meet. With respect to existing power plants, the impact could be very significant, depending on the structure and stringency of the final rule. On behalf of LG&E, PPL, along with others in the industry, filed comments on the EPA's proposal related to GHG emissions from new plants.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. LG&E is generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls and approved ECR plans to install additional controls at some of its Kentucky plants. LG&E is evaluating, among other measures, chemical additive systems for mercury control at Trimble County plant. The anticipated retirements of certain coal-fired electric generating units is in response to this and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrous oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern United States. In December 2011, the U.S. Court of Appeals for the District of Columbia Circuit (the Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place. LG&E plants in Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Court's August decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

National Ambient Air Quality Standards

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2013 and 2014, respectively. Existing environmental plans for LG&E's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. However, depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant.

See Note 10 to the Financial Statements in this Form 10-Q report and "Item 1. Business - Environmental Matters" in LG&E's 2012 Form 10-K for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: revenue recognition - unbilled revenue, defined benefits, asset impairment (excluding investments), loss accruals, AROs, income taxes, and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in LG&E's 2012 Form 10-K for a discussion of each critical accounting policy.

KENTUCKY UTILITIES COMPANY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with KU's Condensed Financial Statements and the accompanying Notes and with KU's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of KU and its business strategy, a summary of Net Income and a discussion of certain events related to KU's results of operations and financial condition.
- "Results of Operations" provides a summary of KU's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal line items on KU's Statements of Income, comparing the three months ended March 31, 2013 with 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of KU's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of KU's risk management programs relating to market and credit risk.

Overview

Introduction

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU and its affiliate, LG&E, are wholly owned subsidiaries of LKE. LKE is an intermediary holding company in PPL's group of companies.

Business Strategy

KU's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its shareowner.

A key objective for KU is to maintain a strong credit profile through managing financing costs and access to credit markets. KU continually focuses on maintaining an appropriate capital structure and liquidity position.

Financial and Operational Developments

Net Income

Net Income for the three months ended March 31, 2013 was \$64 million compared to \$38 million in 2012 representing a 68% increase over 2012.

See "Results of Operations" for a discussion and analysis of KU's earnings.

Rate Case Proceedings

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$51 million using a 10.25% return on equity. The approved rates became effective January 1, 2013.

Results of Operations

The following discussion provides a summary of KU's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in Margins and principal line items on KU's Statements of Income, comparing the three months ended March 31, 2013 with 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income for the periods ended March 31 was:

	<u>Three Months</u>	
	<u>2013</u>	<u>2012</u>
Net Income	\$ 64	\$ 38

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins.

	<u>Three Months</u>	
	<u>2013</u>	<u>2012</u>
Margins	\$ 53	
Depreciation		(10)
Other Income (Expense) - net		(1)
Income Taxes		(17)
Special item - EEI adjustments, after-tax		1
Total	<u>\$ 26</u>	

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Higher depreciation due to environmental costs related to the elimination of the 2005 and 2006 ECR plans now being included in base rates, which added \$12 million to depreciation that is excluded from Margins, partially offset by lower depreciation of \$3 million due to revised rates that were effective January 1, 2013. Both of these events are the result of the 2012 Kentucky rate case proceedings.
- Higher income taxes primarily due to higher pre-tax income.

2013 Outlook

Excluding special items, KU projects higher earnings in 2013 compared with 2012, primarily driven by electric base rate increases, returns on additional environmental capital investments and load growth, partially offset by higher operation and maintenance expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in KU's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margins is a single financial performance measure of KU's electricity generation, transmission and distribution operations. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from KU's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Margins" to "Operating Income" as defined by KU for the periods ended March 31.

	2013 Three Months			2012 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 432		\$ 432	\$ 380		\$ 380
Operating Expenses						
Fuel	135		135	124		124
Energy purchases	27		27	29		29
Other operation and maintenance	14	\$ 83	97	12	\$ 83	95
Depreciation		46	46	12	36	48
Taxes, other than income		6	6		6	6
Total Operating Expenses	176	135	311	177	125	302
Total	\$ 256	\$ (135)	\$ 121	\$ 203	\$ (125)	\$ 78

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins increased by \$53 million for the three months ended March 31, 2013 compared with 2012, due to higher base rates of \$18 million, environmental costs added to base rates of \$16 million, higher volumes of \$13 million and increased environmental investments of \$5 million.

The increase in base rates was the result of new KPSC rates going into effect on January 1, 2013. The increase in volumes was attributable to colder weather in 2013 compared with 2012. Total heating degree days increased 35%. The environmental costs added to base rates was due to the elimination of the 2005 and 2006 ECR plans as a result of the 2012 Kentucky rate case. This elimination results in depreciation and other operation and maintenance expenses associated with the 2005 and 2006 ECR plans being excluded from Margins in 2013.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the period ended March 31, 2013 compared with 2012 was due to:

	<u>Three Months</u>
Coal plant outages (a)	\$ (5)
Adjustments to regulatory assets and liabilities	4
Other	3
Total	<u>\$ 2</u>

(a) Decrease is due to the timing and scope of scheduled outages.

Income Taxes

Income taxes increased by \$17 million for the three months ended March 31, 2013 compared with 2012 primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

KU had the following at:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 16	\$ 21
Short-term debt (a)	\$ 115	\$ 70

(a) Represents borrowings made under KU's commercial paper program. See Note 7 to the Financial Statements for additional information.

The \$5 million decrease in KU's cash and cash equivalents position was the net result of:

- capital expenditures of \$172 million; and
- the payment of common stock dividends to parent of \$13 million; partially offset by
- cash provided by operating activities of \$85 million;
- capital contributions from parent of \$50 million; and
- an increase in short term debt of \$45 million.

KU's cash provided by operating activities decreased by \$67 million for the three months ended March 31, 2013, compared with 2012, primarily due to:

- an increase in cash outflows from other operating activities of \$61 million driven by a \$43 million increase in discretionary defined benefit plan contributions; and
- a decline in working capital cash flow changes of \$49 million driven primarily by changes in accounts receivable and unbilled revenues due to higher sales volumes, higher rates and extended payment terms and a lower federal income tax accrual in 2013 as a result of federal settlement payment, offset by an increase in cash from accounts payable primarily due to timing of fuel purchase commitments and payments; offset by
- an increase in net income adjusted for non-cash items of \$43 million (deferred income taxes and investment tax credits of \$10 million, amortization of \$4 million, other non-cash items of \$3 million and defined benefit plans - expense of \$2 million offset by depreciation of \$2 million)

Capital expenditures increased by \$59 million during the three months ended March 31, 2013 compared with 2012 primarily due to environmental air projects at Ghent and construction of Cane Run Unit 7.

Credit Facilities

At March 31, 2013, KU's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a)	\$ 400		\$ 115	\$ 285
Letter of Credit Facility (a) (b)	198		198	
Total Credit Facilities (c)	<u>\$ 598</u>		<u>\$ 313</u>	<u>\$ 285</u>

- (a) KU pays customary fees under its syndicated credit facility as well as its letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (b) In May 2013, KU extended its \$198 million letter of credit facility to May 2016.
- (c) The commitments under KU's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 19% of the total committed capacity available to KU.

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At March 31, 2013 and December 31, 2012, there was no balance outstanding.

See Note 7 to the Financial Statements for further discussion of KU's credit facilities.

Long-term Debt Securities

KU currently plans to issue, subject to market conditions, up to \$300 million of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of KU. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of KU are based on information provided by KU and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of KU. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of KU affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The rating agencies did not take any actions related to KU during the first quarter of 2013.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, and commodity transportation and storage, which contain provisions requiring KU to post additional collateral, or permitting the counterparty to terminate the contract, if KU's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2013.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about KU's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, KU is subject to commodity price risk for only a small portion of on-going business operations. KU sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

KU issues debt to finance its operations, which exposes it to interest rate risk. KU utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under KU's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of KU's debt portfolio due to changes in the absolute level of interest rates.

At March 31, 2013, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

KU is also exposed to changes in the fair value of its debt portfolio. KU estimated that a 10% decrease in interest rates at March 31, 2013, would increase the fair value of its debt portfolio by \$68 million.

At March 31, 2013, KU had the following interest rate hedges outstanding:

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability)</u>	<u>Effect of a 10% Adverse Movement in Interest Rates</u>
Cash flow hedges			
Interest rate swaps (a)	\$ 150	\$ 12	\$ (8)

- (a) KU utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While KU is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. The positions outstanding at March 31, 2013 mature through 2043.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in KU's 2012 Form 10-K for additional information.

Related Party Transactions

KU is not aware of any material ownership interest or operating responsibility by senior management of KU in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with KU. See Note 11 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of KU's business. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for KU's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to KU's generation assets, electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where KU has hydro generating facilities or where river water is used to cool its fossil-powered generators. KU cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential costs of their related consequences.

The following is a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule.

Effluent Limitation Guidelines

On April 19, 2013, the EPA issued proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash handling and metal cleaning wastes as well as new limits for scrubber wastewater, gasification wastewater and landfill leachate. The proposal contains several alternative approaches, some of which could significantly impact KU's coal-fired plants. KU will comment on the proposed regulation. The final regulation is expected in May 2014. At the present time, KU is unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: one requires installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment), and the second imposes standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected in June 2013. The proposed regulation would apply to nearly all KU-owned steam electric plants in Kentucky, potentially even including those equipped with closed-cycle cooling systems.

GHG Regulations

In 2013, the EPA is expected to finalize limits on GHG emissions from new power plants and to begin working on a proposal for such emissions from existing power plants. The EPA's proposal on GHG emissions from new power plants would effectively preclude construction of any coal-fired plants and could even be difficult for new gas-fired plants to meet. With respect to existing power plants, the impact could be very significant, depending on the structure and stringency of the final rule. On behalf of KU, PPL, along with others in the industry, filed comments on the EPA's proposal related to GHG emissions from new plants.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. KU is generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls and approved ECR plans to install additional controls at some of its Kentucky plants. KU is evaluating, among other measures, chemical additive systems for mercury control at Trimble County and Brown plants. The anticipated retirements of certain coal-fired electric generating units is in response to this and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrous oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern United States. In December 2011, the U.S. Court of Appeals for the District of Columbia Circuit (the Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place. KU plants in Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Court's August decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

National Ambient Air Quality Standards

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2013 and 2014, respectively. Existing environmental plans for KU's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. However, depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant.

See Note 10 to the Financial Statements in this Form 10-Q report and "Item 1. Business - Environmental Matters" in KU's 2012 Form 10-K for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: revenue recognition - unbilled revenue, defined benefits, asset impairment (excluding investments), loss accruals, AROs, income taxes, and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in KU's 2012 Form 10-K for a discussion of each critical accounting policy.

**PPL Corporation
PPL Energy Supply, LLC
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in each Registrant's "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of March 31, 2013, the registrants' disclosure controls and procedures are effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

- (b) Change in internal controls over financial reporting.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers have concluded that there were no changes in the registrants' internal control over financial reporting during the registrants' first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding various pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2012 Form 10-K; and
- Notes 5, 6 and 10 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrant's risk factors from those disclosed in "Item 1A. Risk Factors" of the 2012 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

- 4(a) - Supplemental Indenture No. 4, dated as of March 15, 2013, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (formerly known as The Bank of New York), as Trustee (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 15, 2013)
- *10(a) - Amendment No. 1, dated as of May 1, 2013, to \$198,309,583.05 Amended and Restated Letter of Credit Agreement dated as of August 16, 2012 among Kentucky Utilities Company, the Lenders from time to time party thereto, and Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent and Sumitomo Mitsui Banking Corporation, New York Branch as Issuing Lender
- *10(b) - Amendment No. 2, dated as of May 1, 2013, to \$198,309,583.05 Amended and Restated Letter of Credit Agreement dated as of August 16, 2012 among Kentucky Utilities Company, the Lenders from time to time party thereto, Sumitomo Mitsui Banking Corporation, New York Branch, as successor Administrative Agent and Sumitomo Mitsui Banking Corporation, New York Branch as Issuing Lender
- *12(a) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(b) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *12(c) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(d) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *12(e) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- *12(f) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2013, filed by the following officers for the following companies:

- *31(a) - PPL Corporation's principal executive officer
- *31(b) - PPL Corporation's principal financial officer
- *31(c) - PPL Energy Supply, LLC's principal executive officer
- *31(d) - PPL Energy Supply, LLC's principal financial officer
- *31(e) - PPL Electric Utilities Corporation's principal executive officer
- *31(f) - PPL Electric Utilities Corporation's principal financial officer
- *31(g) - LG&E and KU Energy LLC's principal executive officer
- *31(h) - LG&E and KU Energy LLC's principal financial officer
- *31(i) - Louisville Gas and Electric Company's principal executive officer
- *31(j) - Louisville Gas and Electric Company's principal financial officer
- *31(k) - Kentucky Utilities Company's principal executive officer
- *31(l) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2013, furnished by the following officers for the following companies:

- *32(a) - PPL Corporation's principal executive officer and principal financial officer
- *32(b) - PPL Energy Supply, LLC's principal executive officer and principal financial officer
- *32(c) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- *32(d) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
- *32(e) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
- *32(f) - Kentucky Utilities Company's principal executive officer and principal financial officer

- 101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation
(Registrant)

PPL Energy Supply, LLC
(Registrant)

Date: May 3, 2013

/s/ Vincent Sorgi

Vincent Sorgi
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation
(Registrant)

Date: May 3, 2013

/s/ Vincent Sorgi

Vincent Sorgi
Vice President and
Chief Accounting Officer
(Principal Financial and Accounting Officer)

LG&E and KU Energy LLC
(Registrant)

Louisville Gas and Electric Company
(Registrant)

Kentucky Utilities Company
(Registrant)

Date: May 3, 2013

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

AMENDMENT NO. 1 TO AMENDED AND RESTATED LETTER OF CREDIT AGREEMENT

AMENDMENT NO. 1 dated as of May 1, 2013 (this "**Amendment**") to the Amended and Restated Letter of Credit Agreement dated as of August 16, 2012 (the "**Credit Agreement**") among KENTUCKY UTILITIES COMPANY (the "**Borrower**"), the LENDERS from time to time party thereto (the "**Lenders**"), BANCO BILBAO VIZCAYA ARGENTARIA, S.A., NEW YORK BRANCH ("**BBVA**"), as Administrative Agent and SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH ("**SMBC**"), as Issuing Lender.

RECITALS:

WHEREAS, the parties hereto desire that BBVA shall resign as Administrative Agent and that SMBC shall be appointed as Administrative Agent, in each case as of the date hereof.

NOW THEREFOR, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby and each reference to "thereof", "thereunder", "therein" and "thereby" and each other similar reference to the Credit Agreement contained in any other Loan Document shall, after this treatment becomes effective refer to the Credit Agreement as amended hereby.

Section 2. *Resignation of Administrative Agent.* Pursuant to Section 8.09 of the Credit Agreement (notwithstanding any notice period set forth therein), the parties hereto agree that BBVA shall resign as Administrative Agent, effective as of the date hereof. The rights, powers and duties of BBVA as Administrative Agent shall be terminated as of the date hereof, without any other or further act or deed on the part of BBVA or any of the parties to the Credit Agreement or any other Loan Document. The provisions of Article VIII of the Credit Agreement shall inure to BBVA's benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under the Credit Agreement or any other Loan Document.

Section 3. *Appointment of Administrative Agent.* Pursuant to Section 8.09 of the Credit Agreement, SMBC and BBVA, constituting the Required Lenders, hereby appoint SMBC as Administrative Agent, the Borrower hereby approves such appointment, and SMBC hereby accepts such appointment, effective as of the date hereof. SMBC shall succeed to and become vested with all the rights, powers and duties of BBVA as the retiring Administrative Agent, and the term "Administrative Agent" shall include such SMBC effective as of the date hereof.

Section 4. *Amendments of Credit Agreement.*

(a) The definition of "Fee Letter" set forth in Section 1.01 of the Credit Agreement is hereby amended to read in its entirety:

"" Fee Letter " means the fee letter dated as of May 1, 2013 among the Borrower and SMBC, as amended, modified or supplemented from time to time."

(b) Each of (i) the introductory paragraph of the Credit Agreement, (ii) the definition of "Administrative Agent" in Section 1.01 of the Credit Agreement, (iii) Exhibit B attached to the Credit Agreement and (iv) Exhibit D attached to the Credit Agreement are hereby amended to replace the words "Banco Bilbao Vizcaya Argentaria, S.A., New York Branch", in each instance, with the words "Sumitomo Mitsui Banking Corporation, New York Branch".

(c) Section 9.01 of the Credit Agreement is hereby amended by deleting the contact information for the Administrative Agent and inserting in its place the following:

"Sumitomo Mitsui Banking Corporation, New York Branch
Antoinette Pontecorvo
277 Park Avenue
New York, NY 10172
Phone: 212-224-4856"

Section 5. *Governing Law.* This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

Section 6. *Full Force and Effect ; Ratification.* Except as expressly modified herein, all of the terms and conditions of the Credit Agreement are unchanged, and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Credit Agreement. This Amendment constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

Section 7. *Counterparts.* This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 8. *Effectiveness.* This Amendment shall become effective on the date when (i) the Administrative Agent shall have received from each of the Borrower, SMBC and BBVA a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Administrative Agent) that such party has signed a counterpart hereof and (ii) all costs, fees (including the Facility Fee and the Fronting Fee) and expenses due and/or accrued to the Administrative Agent and the Lenders on or before the date hereof shall have been paid or waived.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough
Name: Daniel K. Arbough
Title: Treasurer

BANCO BILBAO VIZCAYA ARGENTARIA, S.A., NEW YORK
BRANCH, as resigning Administrative Agent and Lender

By: /s/ Luca Sacchi

Name: Luca Sacchi

Title: Executive Director

By: /s/ Nurys Maleki

Name: Nurys Maleki

Title: Vice President

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK
BRANCH, as successor Administrative Agent, Issuing Lender and
Lender

By: /s/ James D. Weinstein

Name: James D. Weinstein

Title: ManagingDirector

AMENDMENT NO. 2 TO AMENDED AND RESTATED LETTER OF CREDIT AGREEMENT

AMENDMENT NO. 2 dated as of May 1, 2013 (this "**Amendment**") to the Amended and Restated Letter of Credit Agreement dated as of August 16, 2012 as amended pursuant to Amendment No. 1 dated as of the date hereof (the "**Credit Agreement**") among KENTUCKY UTILITIES COMPANY (the "**Borrower**"), the LENDERS from time to time party thereto (the "**Lenders**"), SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH (successor to Banco Bilbao Vizcaya Argentaria, S.A., New York Branch), as Administrative Agent and SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH, as Issuing Lender.

RECITALS:

WHEREAS, the Lenders and the Borrower desire to amend the Credit Agreement to extend the maturity date thereof and to modify the definition of "Applicable Percentage".

NOW THEREFOR, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby and each reference to "thereof", "thereunder", "therein" and "thereby" and each other similar reference to the Credit Agreement contained in any other Loan Document shall, after this treatment becomes effective refer to the Credit Agreement as amended hereby.

Section 2. *Amendments of Credit Agreement .*

(a) The definition of "Applicable Percentage" set forth in Section 1.01 of the Credit Agreement is hereby amended to read in its entirety:

" Applicable Percentage " means, for purposes of calculating the applicable rate for the Facility Fee for any day for purposes of Section 2.03(a), the appropriate applicable percentage set forth below corresponding to the then current highest Borrower's Ratings; provided, that, in the event that the Borrower's Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower's Ratings (S&P /Moody's)	Applicable Percentage for Facility Fees
Category A	≥ A from S&P / A2 from Moody's	0.800%
Category B	≥ A- from S&P / A3 from Moody's	0.900%
Category C	BBB+ from S&P / Baa1 from Moody's	1.000%
Category D	BBB from S&P / Baa2 from Moody's	1.125%
Category E	BBB- from S&P / Baa3 from Moody's	1.300%
Category F	≤BB+ from S&P / Ba1 from Moody's	1.425%

(b) The definition of "Termination Date" set forth in Section 1.01 of the Credit Agreement is hereby amended by replacing the words "April 29, 2014" with the words "May 1, 2016".

(c) Each of Section 5.04(a) and 5.04(b) of the Credit Agreement is hereby amended by replacing the words "December 31, 2010" with the words "December 31, 2012".

Section 3. *Representations of the Borrower* : The Borrower represents and warrants that:

(a) immediately before and after giving effect to this Amendment on the Effective Date, no Default or Event of Default shall have occurred and be continuing; and

(b) the representations and warranties of the Borrower contained in the Credit Agreement shall be true and correct on and as

of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

Section 4. *Conditions* . This Amendment shall become effective as of the date when each of the following conditions shall have been satisfied (the "**Effective Date** "):

(a) the Administrative Agent shall have received counterparts hereof signed by each of the parties hereto or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party);

(b) the representations and warranties set forth in Section 3 shall be true and correct and the Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Chief Administrative Officer, the Chief Financial Officer, the General Counsel, the Chief Compliance Officer, the Corporate Secretary, the Treasurer or any Assistant Treasurer of the Borrower stating that the representations and warranties set forth in Section 3 are true and correct;

(c) the Administrative Agent shall have received board resolutions and other customary closing certificates and documentation as the Administrative Agent may reasonably require;

(d) the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, in form and substance reasonably acceptable to the Administrative Agent and covering such matters relating to this Amendment and the Credit Agreement as the Administrative Agent shall reasonably request; and

(e) all costs, fees and expenses due to the Administrative Agent and the Lenders on or before the Effective Date shall have been paid or waived.

Section 5. *Governing Law*. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

Section 6. *Full Force and Effect ; Ratification* . Except as expressly modified herein, all of the terms and conditions of the Credit Agreement are unchanged, and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Credit Agreement. This Amendment constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

Section 7. *Counterparts*. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK
BRANCH, as Administrative Agent, Issuing Lender and Lender

By: /s/ James D. Weinstein

Name: James D. Weinstein

Title: Managing Director

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., as Lender

By: /s/ Bradford Joyce

Name: Bradford Joyce

Title: Director

UNION BANK, N.A., as Lender

By: /s/ Carmelo Restifo

Name: Carmelo Restifo

Title: Director

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	3 Months Ended March 31, 2013	Years Ended December 31,				
		2012	2011	2010	2009	2008
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 564	\$ 2,082	\$ 2,201	\$ 1,239	\$ 538	\$ 1,273
Adjustment to reflect earnings from equity method investments on a cash basis (a)		34	1	7	1	
	<u>564</u>	<u>2,116</u>	<u>2,202</u>	<u>1,246</u>	<u>539</u>	<u>1,273</u>
Total fixed charges as below	273	1,065	1,022	698	513	568
Less:						
Capitalized interest	13	53	51	30	43	57
Preferred security distributions of subsidiaries on a pre-tax basis		5	23	21	24	27
Interest expense and fixed charges related to discontinued operations			3	12	15	16
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>260</u>	<u>1,007</u>	<u>945</u>	<u>635</u>	<u>431</u>	<u>468</u>
Total earnings	<u>\$ 824</u>	<u>\$ 3,123</u>	<u>\$ 3,147</u>	<u>\$ 1,881</u>	<u>\$ 970</u>	<u>\$ 1,741</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 266	\$ 1,019	\$ 955	\$ 637	\$ 446	\$ 518
Estimated interest component of operating rentals	7	41	44	39	42	22
Preferred security distributions of subsidiaries on a pre-tax basis		5	23	21	24	27
Fixed charges of majority-owned share of 50% or less-owned persons				1	1	1
Total fixed charges (c)	<u>\$ 273</u>	<u>\$ 1,065</u>	<u>\$ 1,022</u>	<u>\$ 698</u>	<u>\$ 513</u>	<u>\$ 568</u>
Ratio of earnings to fixed charges	<u>3.0</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (d)	<u>3.0</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(c) Interest on unrecognized tax benefits is not included in fixed charges.

(d) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	3 Months Ended March 31,		Years Ended December 31,			
	2013	2012	2011	2010	2009	2008
Earnings, as defined:						
Income (Loss) from Continuing Operations Before Income Taxes	\$ (73)	\$ 738	\$ 1,213	\$ 881	\$ (13)	\$ 671
Adjustments to reflect earnings from equity method investments on a cash basis			1	7	1	
	<u>(73)</u>	<u>738</u>	<u>1,213</u>	<u>888</u>	<u>(12)</u>	<u>671</u>
Total fixed charges as below	61	238	259	426	364	390
Less:						
Capitalized interest	10	47	47	33	44	57
Interest expense and fixed charges related to discontinued operations			3	147	102	157
Total fixed charges included in Income (Loss) from Continuing Operations Before Income Taxes	<u>51</u>	<u>191</u>	<u>209</u>	<u>246</u>	<u>218</u>	<u>176</u>
Total earnings	<u>\$ (22)</u>	<u>\$ 929</u>	<u>\$ 1,422</u>	<u>\$ 1,134</u>	<u>\$ 206</u>	<u>\$ 847</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 57	\$ 214	\$ 223	\$ 387	\$ 321	\$ 374
Estimated interest component of operating rentals	4	24	36	38	42	15
Fixed charges of majority-owned share of 50% or less-owned persons				1	1	1
Total fixed charges (b)	<u>\$ 61</u>	<u>\$ 238</u>	<u>\$ 259</u>	<u>\$ 426</u>	<u>\$ 364</u>	<u>\$ 390</u>
Ratio of earnings to fixed charges (c)	<u>(0.4)</u>	<u>3.9</u>	<u>5.5</u>	<u>2.7</u>	<u>0.6</u>	<u>2.2</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) The amount of the deficiency, or the amount of fixed charges in excess of earnings, was approximately \$83 million for the three months ended March 31, 2013.

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Global's operating results were reclassified as Discontinued Operations. Upon reflecting this reclassification, earnings were less than fixed charges for 2009. See Note 9 in PPL Energy Supply's 2011 Form 10-K for additional information. The total amount of fixed charges for this period was approximately \$364 million and the total amount of earnings was approximately \$206 million. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was approximately \$158 million.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS*(Millions of Dollars)*

	3 Months Ended March 31, 2013	Years Ended December 31,				
		2012	2011	2010	2009	2008
Earnings, as defined:						
Income Before Income Taxes	\$ 97	\$ 204	\$ 257	\$ 192	\$ 221	\$ 278
Total fixed charges as below	28	107	105	102	121	114
Total earnings	<u>\$ 125</u>	<u>\$ 311</u>	<u>\$ 362</u>	<u>\$ 294</u>	<u>\$ 342</u>	<u>\$ 392</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 27	\$ 104	\$ 102	\$ 101	\$ 120	\$ 113
Estimated interest component of operating rentals	1	3	3	1	1	1
Total fixed charges (b)	<u>\$ 28</u>	<u>\$ 107</u>	<u>\$ 105</u>	<u>\$ 102</u>	<u>\$ 121</u>	<u>\$ 114</u>
Ratio of earnings to fixed charges	<u>4.5</u>	<u>2.9</u>	<u>3.4</u>	<u>2.9</u>	<u>2.8</u>	<u>3.4</u>
Preferred stock dividend requirements on a pre-tax basis						
		\$ 6	\$ 21	\$ 23	\$ 28	\$ 28
Fixed charges, as above	<u>\$ 28</u>	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>	<u>114</u>
Total fixed charges and preferred stock dividends	<u>\$ 28</u>	<u>\$ 113</u>	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 149</u>	<u>\$ 142</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>4.5</u>	<u>2.8</u>	<u>2.9</u>	<u>2.4</u>	<u>2.3</u>	<u>2.8</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of Dollars)

	Successor (a)				Predecessor (b)		
	3 Months Ended	Year Ended	Year Ended	2 Months Ended	10 Months Ended	Year Ended	
	Mar. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Oct. 31, 2010	December 31, 2009	December 31, 2008
Earnings, as defined:							
Income from Continuing Operations							
Before Income Taxes	\$ 153	\$ 331	\$ 419	\$ 70	\$ 300	\$ (1,235)	\$ (1,536)
Adjustment to reflect earnings from equity method investments on a cash basis (c)		33	(1)		(4)	11	
Loss on impairment of goodwill						1,493	1,806
Mark to market impact of derivative instruments				2	(20)	(19)	34
	<u>153</u>	<u>364</u>	<u>418</u>	<u>72</u>	<u>276</u>	<u>250</u>	<u>304</u>
Total fixed charges as below	<u>39</u>	<u>157</u>	<u>153</u>	<u>25</u>	<u>158</u>	<u>186</u>	<u>199</u>
Total earnings	<u>\$ 192</u>	<u>\$ 521</u>	<u>\$ 571</u>	<u>\$ 97</u>	<u>\$ 434</u>	<u>\$ 436</u>	<u>\$ 503</u>
Fixed charges, as defined:							
Interest charges (d)	\$ 37	\$ 151	\$ 147	\$ 24	\$ 153	\$ 176	\$ 184
Estimated interest component of operating rentals	2	6	6	1	5	5	5
Estimated discontinued operations interest component of rental expense						5	10
Total fixed charges	<u>\$ 39</u>	<u>\$ 157</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 158</u>	<u>\$ 186</u>	<u>\$ 199</u>
Ratio of earnings to fixed charges	<u>4.9</u>	<u>3.3</u>	<u>3.7</u>	<u>3.9</u>	<u>2.7</u>	<u>2.3</u>	<u>2.5</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes other-than-temporary impairment loss of \$25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)				Predecessor (b)		
	3 Months Ended Mar. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009 2008	
Earnings, as defined:							
Income Before Income Taxes	\$ 69	\$ 192	\$ 195	\$ 29	\$ 167	\$ 142	\$ 131
Mark to market impact of derivative instruments				1	(20)	(20)	35
	<u>69</u>	<u>192</u>	<u>195</u>	<u>30</u>	<u>147</u>	<u>122</u>	<u>166</u>
Total fixed charges as below	<u>11</u>	<u>44</u>	<u>46</u>	<u>8</u>	<u>40</u>	<u>46</u>	<u>60</u>
Total earnings	<u>\$ 80</u>	<u>\$ 236</u>	<u>\$ 241</u>	<u>\$ 38</u>	<u>\$ 187</u>	<u>\$ 168</u>	<u>\$ 226</u>
Fixed charges, as defined:							
Interest charges (c)	\$ 10	\$ 42	\$ 44	\$ 8	\$ 38	\$ 44	\$ 58
Estimated interest component of operating rentals	<u>1</u>	<u>2</u>	<u>2</u>		<u>2</u>	<u>2</u>	<u>2</u>
Total fixed charges	<u>\$ 11</u>	<u>\$ 44</u>	<u>\$ 46</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 46</u>	<u>\$ 60</u>
Ratio of earnings fixed charges	<u>7.3</u>	<u>5.4</u>	<u>5.2</u>	<u>4.8</u>	<u>4.7</u>	<u>3.7</u>	<u>3.8</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)				Predecessor (b)		
	3 Months Ended	Year Ended	Year Ended	2 Months Ended	10 Months Ended	Year Ended December 31,	
	Mar. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Oct. 31, 2010	2009	2008
Earnings, as defined:							
Income Before Income Taxes	\$ 103	\$ 215	\$ 282	\$ 55	\$ 218	\$ 200	\$ 226
Adjustment to reflect earnings from equity method investments on a cash basis (c)		33	(1)		(4)	11	
Mark to market impact of derivative instruments						1	(1)
	<u>103</u>	<u>248</u>	<u>281</u>	<u>55</u>	<u>214</u>	<u>212</u>	<u>225</u>
Total fixed charges as below	<u>18</u>	<u>72</u>	<u>73</u>	<u>11</u>	<u>71</u>	<u>79</u>	<u>77</u>
Total earnings	<u>\$ 121</u>	<u>\$ 320</u>	<u>\$ 354</u>	<u>\$ 66</u>	<u>\$ 285</u>	<u>\$ 291</u>	<u>\$ 302</u>
Fixed charges, as defined:							
Interest charges (d)	\$ 17	\$ 69	\$ 70	\$ 10	\$ 69	\$ 76	\$ 74
Estimated interest component of operating rentals	<u>1</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>3</u>
Total fixed charges	<u>\$ 18</u>	<u>\$ 72</u>	<u>\$ 73</u>	<u>\$ 11</u>	<u>\$ 71</u>	<u>\$ 79</u>	<u>\$ 77</u>
Ratio of earnings to fixed charges	<u>6.7</u>	<u>4.4</u>	<u>4.8</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>	<u>3.9</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes other-than-temporary impairment loss of \$25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Paul A. Farr

 Paul A. Farr
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)
 PPL Corporation

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ David G. DeCampli

 David G. DeCampli
 President
 (Principal Executive Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Paul A. Farr
 Paul A. Farr
 Executive Vice President
 (Principal Financial Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Gregory N. Dudkin

Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Vincent Sorgi

Vincent Sorgi
 Vice President and Chief Accounting Officer
 (Principal Financial and Accounting Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2013

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, David G. DeCampli, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2013

/s/ David G. DeCampli
David G. DeCampli
President
(Principal Executive Officer)
PPL Energy Supply, LLC

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
(Principal Financial Officer)
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial and Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2013

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer
(Principal Financial and Accounting Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

LG&E & KU ENERGY LLC

FORM 10-Q (Quarterly Report)

Filed 08/02/13 for the Period Ending 06/30/13

Address	220 WEST MAIN STREET LOUISVILLE, KY 40202
Telephone	502-672-2000
CIK	0001518339
SIC Code	4931 - Electric and Other Services Combined
Fiscal Year	12/31

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	PPL Energy Supply, LLC (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 631,700,409 shares outstanding at July 31, 2013.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 31, 2013.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at July 31, 2013.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at July 31, 2013.

This document is available free of charge at the Investor Center on PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.



**PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2013

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This combined Form 10-Q is separately filed by the following individual registrants: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf, and no registrant makes any representation as to information relating to any other registrant, except that information under "Forward-Looking Information" relating to PPL Corporation subsidiaries is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references within this Report, individually, to PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

Central Networks - collectively Central Networks East plc, Central Networks Limited and certain other related assets and liabilities. On April 1, 2011, PPL WEM Holdings plc (formerly WPD Investment Holdings Limited) purchased all of the outstanding ordinary share capital of these companies from E.ON AG subsidiaries. Central Networks West plc (subsequently renamed Western Power Distribution (West Midlands) plc), wholly owned by Central Networks Limited (subsequently renamed WPD Midlands Holdings Limited), and Central Networks East plc (subsequently renamed Western Power Distribution (East Midlands) plc) are British regional electricity distribution utility companies.

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries. Within the context of this document, references to LKE also relate to the consolidated entity.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services for LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Brunner Island - PPL Brunner Island, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electric supply to retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Energy Supply, PPL Global and other subsidiaries.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that primarily, through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Ironwood - PPL Ironwood, LLC, an indirect subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Martins Creek - PPL Martins Creek, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Montour - PPL Montour, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides services for PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, the nuclear generating subsidiary of PPL Generation.

PPL WEM - PPL WEM Holdings plc (formerly WPD Investment Holdings Limited), an indirect, U.K. subsidiary of PPL Global. PPL WEM indirectly owns both WPD (East Midlands) and WPD (West Midlands).

PPL WW - PPL WW Holdings Limited (formerly Western Power Distribution Holdings Limited), an indirect, U.K. subsidiary of PPL Global. PPL WW Holdings indirectly owns WPD (South Wales) and WPD (South West).

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company. The company (formerly Central Networks East plc) was acquired and renamed in April 2011.

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company. The company (formerly Central Networks West plc) was acquired and renamed in April 2011.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Purchase Contract(s) - a contract that is a component of a 2010 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to May 1, 2014.

2012 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2012.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and makes changes to the existing Alternative Energy Portfolio Standard.

AEPS - Alternative Energy Portfolio Standard.

AFUDC - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Baseload generation - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

CAIR - the EPA's Clean Air Interstate Rule.

Cane Run Unit 7 - a combined-cycle natural gas unit under construction in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 141 MW and 499 MW to LG&E and KU by 2015.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

COLA - license application for a combined construction permit and operating license from the NRC for a nuclear plant.

CSAPR - Cross-State Air Pollution Rule.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

DPCR4 - Distribution Price Control Review 4, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2005.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - a distribution system improvement charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of DSM programs and revenues lost by implementing those programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which apply to coal combustion and by-products from the production of energy from coal.

EEI - Electric Energy, Inc., owns and operates a coal-fired plant and a natural gas facility in southern Illinois. KU's 20% ownership interest in EEI is accounted for as an equity method investment.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ESOP - Employee Stock Ownership Plan.

Euro - the basic monetary unit among participating members of the European Union.

FERC - Federal Energy Regulatory Commission, the federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

Fitch - Fitch, Inc., a credit rating agency.

FTRs - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that they entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations (source and sink).

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved LG&E's recovery of costs associated with gas service lines, gas risers, leak mitigation, and gas main replacements. Rate recovery became effective on January 1, 2013.

If-Converted Method - A method applicable for calculating diluted EPS when a company has convertible debt outstanding. The method is applied as follows: Interest charges (after tax) applicable to the convertible debt shall be added back to net income and the convertible debt shall be assumed to have been converted to equity at the beginning of the period and the resulting common shares shall be included with outstanding shares. Both adjustments are only done for purposes of calculating diluted EPS. This method was applied to PPL's Equity Units beginning in the first quarter of 2013.

Intermediate and peaking generation - includes the output provided by PPL's competitive oil- and natural gas-fired units.

Ironwood Acquisition - In April 2012, PPL Ironwood Holdings, LLC, an indirect, wholly owned subsidiary of PPL Energy Supply, completed the acquisition from a subsidiary of The AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, a natural gas-fired power plant in Lebanon, Pennsylvania.

IRS - Internal Revenue Service, a U.S. government agency.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LIBOR - London Interbank Offered Rate.

LTIIP - Long Term Infrastructure Improvement Plan.

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NorthWestern - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

NPDES - National Pollutant Discharge Elimination System.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception receive accrual accounting treatment.

NRC - Nuclear Regulatory Commission, the federal agency that regulates nuclear power facilities.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

Opacity - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity in power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined nameplate capacities of 2,390 MW.

PADEP - the Pennsylvania Department of Environmental Protection, a state government agency.

PJM - PJM Interconnection, L.L.C., operator of the electric transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply to retail customers within its delivery area who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts (which are components of the 2010 and 2011 Equity Units.)

RAV - regulatory asset value. This term is also commonly known as RAB or regulatory asset base.

RECs - renewable energy credits.

Regional Transmission Line Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies what changes and additions to the grid are needed to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects that are needed to maintain reliability standards and that are reviewed and approved by the PJM Board.

Registrants - PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU, collectively.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - Reliability First Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RMC - Risk Management Committee.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

SCR - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency whose primary mission is to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

SMGT - Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus that was terminated effective April 1, 2012.

SNCR - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

Spark Spread - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

Superfund - federal environmental legislation that addresses remediation of contaminated sites; states also have similar statutes.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2 or 549 MW of the capacity.

Tolling agreement - agreement whereby the owner of an electric generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

VIE - variable interest entity.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2012 Form 10-K and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical, nuclear decommissioning liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery filings by PPL Electric, LG&E, KU or WPD;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions and our ability to successfully operate acquired businesses and realize expected benefits from business acquisitions.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating Revenues				
Utility	\$ 1,655	\$ 1,605	\$ 3,605	\$ 3,319
Unregulated retail electric and gas	257	179	494	402
Wholesale energy marketing				
Realized	811	1,083	1,787	2,291
Unrealized economic activity (Note 14)	590	(458)	(232)	394
Net energy trading margins		10	(11)	18
Energy-related businesses	137	130	264	237
Total Operating Revenues	<u>3,450</u>	<u>2,549</u>	<u>5,907</u>	<u>6,661</u>
Operating Expenses				
Operation				
Fuel	441	411	970	835
Energy purchases				
Realized	572	787	1,263	1,670
Unrealized economic activity (Note 14)	479	(442)	(155)	149
Other operation and maintenance	698	739	1,374	1,445
Depreciation	286	271	570	535
Taxes, other than income	86	87	182	178
Energy-related businesses	130	124	252	226
Total Operating Expenses	<u>2,692</u>	<u>1,977</u>	<u>4,456</u>	<u>5,038</u>
Operating Income	758	572	1,451	1,623
Other Income (Expense) - net	13	30	135	13
Other-Than-Temporary Impairments		1		1
Interest Expense	258	236	509	466
Income from Continuing Operations Before Income Taxes	513	365	1,077	1,169
Income Taxes	109	88	260	347
Income from Continuing Operations After Income Taxes	404	277	817	822
Income (Loss) from Discontinued Operations (net of income taxes)	1	(6)	1	(6)
Net Income	405	271	818	816
Net Income Attributable to Noncontrolling Interests				4
Net Income Attributable to PPL Shareowners	<u>\$ 405</u>	<u>\$ 271</u>	<u>\$ 818</u>	<u>\$ 812</u>
Amounts Attributable to PPL Shareowners:				
Income from Continuing Operations After Income Taxes	\$ 404	\$ 277	\$ 817	\$ 818
Income (Loss) from Discontinued Operations (net of income taxes)	1	(6)	1	(6)
Net Income	<u>\$ 405</u>	<u>\$ 271</u>	<u>\$ 818</u>	<u>\$ 812</u>
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes Available to PPL				
Common Shareowners:				
Basic	\$ 0.68	\$ 0.47	\$ 1.39	\$ 1.40
Diluted	\$ 0.63	\$ 0.47	\$ 1.28	\$ 1.40
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.68	\$ 0.46	\$ 1.39	\$ 1.39
Diluted	\$ 0.63	\$ 0.46	\$ 1.28	\$ 1.39

Dividends Declared Per Share of Common Stock	\$ 0.3675	\$ 0.36	\$ 0.735	\$ 0.72
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	589,834	579,881	586,683	579,462
Diluted	664,615	580,593	661,263	580,062

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$ 405	\$ 271	\$ 818	\$ 816
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of (\$1), (\$2), (\$7), \$0	(7)	(179)	(252)	(103)
Available-for-sale securities, net of tax of (\$2), \$8, (\$27), (\$18)	2	(7)	25	17
Qualifying derivatives, net of tax of (\$23), \$7, (\$43), (\$43)	24	2	86	80
Equity investees' other comprehensive income (loss), net of tax of \$0, \$0, \$0, \$2		1		(3)
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$28, \$0, \$28		(85)		(85)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$0, \$1, \$1, \$1	(1)	(1)	(2)	(6)
Qualifying derivatives, net of tax of \$22, \$84, \$57, \$159	(36)	(140)	(116)	(274)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$2), (\$2), (\$3)	2	2	3	5
Net actuarial loss, net of tax of (\$12), (\$7), (\$25), (\$11)	34	17	68	37
Total other comprehensive income (loss) attributable to PPL Shareowners	18	(390)	(188)	(332)
Comprehensive income (loss)	423	(119)	630	484
Comprehensive income attributable to noncontrolling interests				4
Comprehensive income (loss) attributable to PPL Shareowners	\$ 423	\$ (119)	\$ 630	\$ 480

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 818	\$ 816
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	570	535
Amortization	113	88
Defined benefit plans - expense	91	84
Deferred income taxes and investment tax credits	291	364
Unrealized (gains) losses on derivatives, and other hedging activities	(11)	(209)
Other	50	25
Change in current assets and current liabilities		
Accounts receivable	(189)	21
Accounts payable	(75)	(126)
Unbilled revenues	144	72
Prepayments	(64)	(97)
Counterparty collateral	(61)	57
Taxes	128	29
Uncertain tax positions	(98)	(4)
Accrued interest	(119)	(87)
Other	(113)	(67)
Other operating activities		
Defined benefit plans - funding	(468)	(493)
Other assets	(64)	(16)
Other liabilities	4	(45)
Net cash provided by operating activities	<u>947</u>	<u>947</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(1,797)	(1,309)
Ironwood Acquisition, net of cash acquired		(84)
Purchases of nuclear plant decommissioning trust investments	(66)	(85)
Proceeds from the sale of nuclear plant decommissioning trust investments	59	79
Net (increase) decrease in restricted cash and cash equivalents	(17)	54
Other investing activities	(13)	(8)
Net cash provided by (used in) investing activities	<u>(1,834)</u>	<u>(1,353)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	450	575
Repurchase of common stock	(28)	
Issuance of common stock	259	35
Payment of common stock dividends	(426)	(413)
Redemption of preference stock of a subsidiary		(250)
Debt issuance and credit facility costs	(33)	(9)
Contract adjustment payments	(48)	(48)
Net increase (decrease) in short-term debt	563	311
Other financing activities	(27)	(10)
Net cash provided by (used in) financing activities	<u>710</u>	<u>191</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>(13)</u>	<u>(6)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(190)</u>	<u>(221)</u>
Cash and Cash Equivalents at Beginning of Period	901	1,202
Cash and Cash Equivalents at End of Period	<u>\$ 711</u>	<u>\$ 981</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 711	\$ 901
Restricted cash and cash equivalents	84	54
Accounts receivable (less reserve: 2013, \$66; 2012, \$64)		
Customer	879	745
Other	129	79
Unbilled revenues	701	857
Fuel, materials and supplies	642	673
Prepayments	198	166
Price risk management assets	1,334	1,525
Regulatory assets	34	19
Other current assets	63	49
Total Current Assets	4,775	5,068
Investments		
Nuclear plant decommissioning trust funds	771	712
Other investments	47	47
Total Investments	818	759
Property, Plant and Equipment		
Regulated utility plant	25,620	25,196
Less: accumulated depreciation - regulated utility plant	4,424	4,164
Regulated utility plant, net	21,196	21,032
Non-regulated property, plant and equipment		
Generation	11,594	11,295
Nuclear fuel	590	524
Other	758	726
Less: accumulated depreciation - non-regulated property, plant and equipment	6,063	5,942
Non-regulated property, plant and equipment, net	6,879	6,603
Construction work in progress	2,525	2,397
Property, Plant and Equipment, net (a)	30,600	30,032
Other Noncurrent Assets		
Regulatory assets	1,443	1,483
Goodwill	3,991	4,158
Other intangibles	907	925
Price risk management assets	599	572
Other noncurrent assets	613	637
Total Other Noncurrent Assets	7,553	7,775
Total Assets	\$ 43,746	\$ 43,634

(a) At June 30, 2013 and December 31, 2012, includes \$416 million and \$428 million of PP&E, consisting primarily of "Generation," including leasehold improvements from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,206	\$ 652
Long-term debt due within one year	751	751
Accounts payable	1,114	1,252
Taxes	144	90
Interest	197	325
Dividends	218	210
Price risk management liabilities	887	1,065
Regulatory liabilities	54	61
Other current liabilities	971	1,219
Total Current Liabilities	<u>5,542</u>	<u>5,625</u>
Long-term Debt	<u>18,875</u>	<u>18,725</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,704	3,387
Investment tax credits	350	328
Price risk management liabilities	514	629
Accrued pension obligations	1,551	2,076
Asset retirement obligations	545	536
Regulatory liabilities	1,052	1,010
Other deferred credits and noncurrent liabilities	659	820
Total Deferred Credits and Other Noncurrent Liabilities	<u>8,375</u>	<u>8,786</u>
Commitments and Contingent Liabilities (Notes 5, 6 and 10)		
Equity		
PPL Shareowners' Common Equity		
Common stock - \$0.01 par value (a)	6	6
Additional paid-in capital	7,195	6,936
Earnings reinvested	5,863	5,478
Accumulated other comprehensive loss	(2,128)	(1,940)
Total PPL Shareowners' Common Equity	<u>10,936</u>	<u>10,480</u>
Noncontrolling Interests	18	18
Total Equity	<u>10,954</u>	<u>10,498</u>
Total Liabilities and Equity	<u>\$ 43,746</u>	<u>\$ 43,634</u>

(a) 780,000 shares authorized; 591,622 and 581,944 shares issued and outstanding at June 30, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	PPL Shareowners						Total
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non- controlling interests	
March 31, 2013 (b)	583,214	\$ 6	\$ 6,988	\$ 5,676	\$ (2,146)	\$ 18	\$ 10,542
Common stock issued (c)	9,338		245				245
Common stock repurchased (d)	(930)		(28)				(28)
Cash settlement of equity forward agreements (d)			(13)				(13)
Stock-based compensation (e)			3				3
Net income				405			405
Dividends, dividend equivalents, redemptions and distributions (f)				(218)			(218)
Other comprehensive income (loss)					18		18
June 30, 2013 (b)	<u>591,622</u>	<u>\$ 6</u>	<u>\$ 7,195</u>	<u>\$ 5,863</u>	<u>\$ (2,128)</u>	<u>\$ 18</u>	<u>\$ 10,954</u>
December 31, 2012 (b)	581,944	\$ 6	\$ 6,936	\$ 5,478	\$ (1,940)	\$ 18	\$ 10,498
Common stock issued (c)	10,608		282				282
Common stock repurchased (d)	(930)		(28)				(28)
Cash settlement of equity forward agreements (d)			(13)				(13)
Stock-based compensation (e)			18				18
Net income				818			818
Dividends, dividend equivalents, redemptions and distributions (f)				(433)			(433)
Other comprehensive income (loss)					(188)		(188)
June 30, 2013 (b)	<u>591,622</u>	<u>\$ 6</u>	<u>\$ 7,195</u>	<u>\$ 5,863</u>	<u>\$ (2,128)</u>	<u>\$ 18</u>	<u>\$ 10,954</u>
March 31, 2012	579,520	\$ 6	\$ 6,862	\$ 5,129	\$ (730)	\$ 268	\$ 11,535
Common stock issued (c)	693		18				18
Stock-based compensation (e)			6				6
Net income				271			271
Dividends, dividend equivalents redemptions and distributions (f)				(210)		(250)	(460)
Other comprehensive income (loss)					(390)		(390)
June 30, 2012	<u>580,213</u>	<u>\$ 6</u>	<u>\$ 6,886</u>	<u>\$ 5,190</u>	<u>\$ (1,120)</u>	<u>\$ 18</u>	<u>\$ 10,980</u>
December 31, 2011	578,405	\$ 6	\$ 6,813	\$ 4,797	\$ (788)	\$ 268	\$ 11,096
Common stock issued (c)	1,808		50				50
Stock-based compensation (e)			23				23
Net income				812		4	816
Dividends, dividend equivalents redemptions and distributions (f)				(419)		(254)	(673)
Other comprehensive income (loss)					(332)		(332)
June 30, 2012	<u>580,213</u>	<u>\$ 6</u>	<u>\$ 6,886</u>	<u>\$ 5,190</u>	<u>\$ (1,120)</u>	<u>\$ 18</u>	<u>\$ 10,980</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

(b) See Note 18 for disclosure of balances of each component of AOCI.

(c) Each period includes shares of common stock issued through various stock and incentive compensation plans. The 2013 periods include the April issuance of shares of common stock. See Note 7 for additional information.

(d) See Note 7 for additional information.

(e) The three and six months ended June 30, 2013 include \$8 million and \$36 million and the three and six months ended June 30, 2012 include \$6 million and \$35 million of stock-based compensation expense related to new and existing unvested equity awards. The three and six months ended June 30, 2013 include \$(5) million and \$(18) million and the six months ended June 30, 2012 includes \$(12) million related primarily to the reclassification from "Stock-based compensation" to "Common stock issued" for the issuance of common stock after applicable equity award vesting periods and tax adjustments related to stock-based compensation.

(f) "Earnings reinvested" includes dividends and dividend equivalents on PPL common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests. In June 2012, PPL Electric redeemed all of its outstanding preference stock at par value, which was classified as noncontrolling interest.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Operating Revenues				
Wholesale energy marketing				
Realized	\$ 811	\$ 1,083	\$ 1,787	\$ 2,291
Unrealized economic activity (Note 14)	590	(458)	(232)	394
Wholesale energy marketing to affiliate	12	17	26	38
Unregulated retail electric and gas	257	180	495	404
Net energy trading margins		10	(11)	18
Energy-related businesses	122	112	235	208
Total Operating Revenues	1,792	944	2,300	3,353
Operating Expenses				
Operation				
Fuel	224	196	522	407
Energy purchases				
Realized	418	635	852	1,294
Unrealized economic activity (Note 14)	479	(442)	(155)	149
Energy purchases from affiliate	1		2	1
Other operation and maintenance	270	294	505	549
Depreciation	79	69	157	133
Taxes, other than income	16	17	33	35
Energy-related businesses	118	109	228	201
Total Operating Expenses	1,605	878	2,144	2,769
Operating Income	187	66	156	584
Other Income (Expense) - net	12	6	16	11
Other-Than-Temporary Impairments		1		1
Interest Expense	46	43	92	80
Income Before Income Taxes	153	28	80	514
Income Taxes	67	9	32	186
Net Income Attributable to PPL Energy Supply Member	\$ 86	\$ 19	\$ 48	\$ 328

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net income	\$ 86	\$ 19	\$ 48	\$ 328
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Available-for-sale securities, net of tax of (\$2), \$8, (\$27), (\$18)	2	(7)	25	17
Qualifying derivatives, net of tax of \$0, \$5, \$0, (\$40)		(9)		59
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$0, \$1, \$1, \$1	(1)	(1)	(2)	(6)
Qualifying derivatives, net of tax of \$23, \$75, \$44, \$156	(37)	(108)	(67)	(259)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, (\$1), (\$1)	1	2	2	3
Net actuarial loss, net of tax of (\$3), (\$2), (\$5), \$0	4	1	8	6
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	(31)	(122)	(34)	(180)
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ 55	\$ (103)	\$ 14	\$ 148

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 48	\$ 328
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	157	133
Amortization	71	57
Defined benefit plans - expense	26	22
Deferred income taxes and investment tax credits	98	165
Unrealized (gains) losses on derivatives, and other hedging activities	91	(216)
Other	24	28
Change in current assets and current liabilities		
Accounts receivable	6	(2)
Accounts payable	(81)	(57)
Unbilled revenues	96	61
Fuel, materials and supplies	5	(74)
Prepayments	(67)	(30)
Counterparty collateral	(61)	57
Other	(22)	(68)
Other operating activities		
Defined benefit plans - funding	(106)	(69)
Other assets	(38)	(19)
Other liabilities	(20)	(8)
Net cash provided by operating activities	<u>227</u>	<u>308</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(241)	(316)
Ironwood Acquisition, net of cash acquired		(84)
Expenditures for intangible assets	(23)	(25)
Purchases of nuclear plant decommissioning trust investments	(66)	(85)
Proceeds from the sale of nuclear plant decommissioning trust investments	59	79
Net (increase) decrease in notes receivable from affiliates	(4)	198
Net (increase) decrease in restricted cash and cash equivalents	(24)	57
Other investing activities	17	3
Net cash provided by (used in) investing activities	<u>(282)</u>	<u>(173)</u>
Cash Flows from Financing Activities		
Retirement of long-term debt	(9)	(3)
Contributions from member	105	472
Distributions to member	(408)	(657)
Net increase (decrease) in short-term debt	219	120
Net cash provided by (used in) financing activities	<u>(93)</u>	<u>(68)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(148)	67
Cash and Cash Equivalents at Beginning of Period	<u>413</u>	<u>379</u>
Cash and Cash Equivalents at End of Period	<u>\$ 265</u>	<u>\$ 446</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	June 30, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 265	\$ 413
Restricted cash and cash equivalents	70	46
Accounts receivable (less reserve: 2013, \$20; 2012, \$23)		
Customer	200	183
Other	95	31
Accounts receivable from affiliates	53	125
Unbilled revenues	273	369
Notes receivable from affiliates	4	
Fuel, materials and supplies	322	327
Prepayments	63	15
Price risk management assets	1,146	1,511
Other current assets	22	10
Total Current Assets	2,513	3,030
Investments		
Nuclear plant decommissioning trust funds	771	712
Other investments	41	41
Total Investments	812	753
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,604	11,305
Nuclear fuel	590	524
Other	297	294
Less: accumulated depreciation - non-regulated property, plant and equipment	5,921	5,817
Non-regulated property, plant and equipment, net	6,570	6,306
Construction work in progress	704	987
Property, Plant and Equipment, net (a)	7,274	7,293
Other Noncurrent Assets		
Goodwill	86	86
Other intangibles	259	252
Price risk management assets	508	557
Other noncurrent assets	369	404
Total Other Noncurrent Assets	1,222	1,299
Total Assets	\$ 11,821	\$ 12,375

(a) At June 30, 2013 and December 31, 2012, includes \$416 million and \$428 million of PP&E, consisting primarily of "Generation," including leasehold improvements from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	June 30, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 575	\$ 356
Long-term debt due within one year	741	751
Accounts payable	374	438
Accounts payable to affiliates		31
Taxes	13	62
Interest	31	31
Price risk management liabilities	879	1,010
Deferred income taxes	72	158
Other current liabilities	249	319
Total Current Liabilities	2,934	3,156
Long-term Debt	2,522	2,521
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,368	1,232
Investment tax credits	211	186
Price risk management liabilities	472	556
Accrued pension obligations	198	293
Asset retirement obligations	374	365
Other deferred credits and noncurrent liabilities	183	218
Total Deferred Credits and Other Noncurrent Liabilities	2,806	2,850
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	3,541	3,830
Noncontrolling interests	18	18
Total Equity	3,559	3,848
Total Liabilities and Equity	\$ 11,821	\$ 12,375

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Member's equity	Non- controlling interests	Total
March 31, 2013 (a)	\$ 3,476	\$ 18	\$ 3,494
Net income	86		86
Other comprehensive income (loss)	(31)		(31)
Contributions from member	105		105
Distributions	(95)		(95)
June 30, 2013 (a)	<u>\$ 3,541</u>	<u>\$ 18</u>	<u>\$ 3,559</u>
December 31, 2012 (a)	\$ 3,830	\$ 18	\$ 3,848
Net income	48		48
Other comprehensive income (loss)	(34)		(34)
Contributions from member	105		105
Distributions	(408)		(408)
June 30, 2013 (a)	<u>\$ 3,541</u>	<u>\$ 18</u>	<u>\$ 3,559</u>
March 31, 2012	\$ 3,713	\$ 18	\$ 3,731
Net income	19		19
Other comprehensive income (loss)	(122)		(122)
Contributions from member	472		472
Distributions	(100)		(100)
June 30, 2012	<u>\$ 3,982</u>	<u>\$ 18</u>	<u>\$ 4,000</u>
December 31, 2011	\$ 4,019	\$ 18	\$ 4,037
Net income	328		328
Other comprehensive income (loss)	(180)		(180)
Contributions from member	472		472
Distributions	(657)		(657)
June 30, 2012	<u>\$ 3,982</u>	<u>\$ 18</u>	<u>\$ 4,000</u>

(a) See Note 18 for disclosure of balances of each component of AOCI.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating Revenues				
Retail electric	\$ 413	\$ 403	\$ 925	\$ 860
Electric revenue from affiliate	1	1	2	2
Total Operating Revenues	414	404	927	862
Operating Expenses				
Operation				
Energy purchases	120	120	292	273
Energy purchases from affiliate	12	17	26	38
Other operation and maintenance	124	143	257	283
Depreciation	44	39	87	78
Taxes, other than income	22	22	52	48
Total Operating Expenses	322	341	714	720
Operating Income	92	63	213	142
Other Income (Expense) - net	2	1	3	3
Interest Expense	25	24	50	48
Income Before Income Taxes	69	40	166	97
Income Taxes	24	11	57	31
Net Income (a)	45	29	109	66
Distributions on Preference Stock				4
Net Income Available to PPL	\$ 45	\$ 29	\$ 109	\$ 62

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 109	\$ 66
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	87	78
Amortization	10	9
Defined benefit plans - expense	10	11
Deferred income taxes and investment tax credits	81	59
Other	3	5
Change in current assets and current liabilities		
Accounts receivable	(56)	19
Accounts payable	(45)	(37)
Unbilled revenues	36	11
Prepayments	(18)	(18)
Taxes	18	
Other	(38)	(23)
Other operating activities		
Defined benefit plans - funding	(88)	(54)
Other assets		2
Other liabilities	6	(27)
Net cash provided by operating activities	<u>115</u>	<u>101</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(451)	(256)
Other investing activities	(4)	(1)
Net cash provided by (used in) investing activities	<u>(455)</u>	<u>(257)</u>
Cash Flows from Financing Activities		
Contributions from parent	205	
Redemption of preference stock		(250)
Payment of common stock dividends to parent	(66)	(56)
Net increase (decrease) in short-term debt	85	195
Other financing activities		(8)
Net cash provided by (used in) financing activities	<u>224</u>	<u>(119)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(116)	(275)
Cash and Cash Equivalents at Beginning of Period	140	320
Cash and Cash Equivalents at End of Period	<u>\$ 24</u>	<u>\$ 45</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 24	\$ 140
Accounts receivable (less reserve: 2013, \$19; 2012, \$18)		
Customer	316	249
Other	4	5
Accounts receivable from affiliates	3	29
Unbilled revenues	74	110
Materials and supplies	39	39
Prepayments	94	76
Deferred income taxes	45	45
Other current assets	18	4
Total Current Assets	<u>617</u>	<u>697</u>
Property, Plant and Equipment		
Regulated utility plant	6,627	6,286
Less: accumulated depreciation - regulated utility plant	<u>2,383</u>	<u>2,316</u>
Regulated utility plant, net	4,244	3,970
Other, net	2	2
Construction work in progress	444	370
Property, Plant and Equipment, net	<u>4,690</u>	<u>4,342</u>
Other Noncurrent Assets		
Regulatory assets	862	853
Intangibles	181	171
Other noncurrent assets	35	55
Total Other Noncurrent Assets	<u>1,078</u>	<u>1,079</u>
Total Assets	<u>\$ 6,385</u>	<u>\$ 6,118</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 85	
Long term debt due within one year	10	
Accounts payable	242	\$ 259
Accounts payable to affiliates	43	63
Taxes	20	12
Interest	26	26
Regulatory liabilities	48	52
Other current liabilities	89	93
Total Current Liabilities	563	505
Long-term Debt	1,957	1,967
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,307	1,233
Investment tax credits	3	3
Accrued pension obligations	154	237
Regulatory liabilities	13	8
Other deferred credits and noncurrent liabilities	78	103
Total Deferred Credits and Other Noncurrent Liabilities	1,555	1,584
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	1,340	1,135
Earnings reinvested	606	563
Total Equity	2,310	2,062
Total Liabilities and Equity	\$ 6,385	\$ 6,118

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Preference stock	Common stock	Additional paid-in capital	Earnings reinvested	Total
March 31, 2013	66,368		\$ 364	\$ 1,195	\$ 602	\$ 2,161
Net income					45	45
Capital contributions from PPL				145		145
Cash dividends declared on common stock					(41)	(41)
June 30, 2013	<u>66,368</u>		<u>\$ 364</u>	<u>\$ 1,340</u>	<u>\$ 606</u>	<u>\$ 2,310</u>
December 31, 2012	66,368		\$ 364	\$ 1,135	\$ 563	\$ 2,062
Net income					109	109
Capital contributions from PPL				205		205
Cash dividends declared on common stock					(66)	(66)
June 30, 2013	<u>66,368</u>		<u>\$ 364</u>	<u>\$ 1,340</u>	<u>\$ 606</u>	<u>\$ 2,310</u>
March 31, 2012	66,368	\$ 250	\$ 364	\$ 979	\$ 530	\$ 2,123
Net income					29	29
Redemption of preference stock (b)		(250)				(250)
Cash dividends declared on common stock					(21)	(21)
June 30, 2012	<u>66,368</u>	<u>\$</u>	<u>\$ 364</u>	<u>\$ 979</u>	<u>\$ 538</u>	<u>\$ 1,881</u>
December 31, 2011	66,368	\$ 250	\$ 364	\$ 979	\$ 532	\$ 2,125
Net income					66	66
Redemption of preference stock (b)		(250)				(250)
Cash dividends declared on preference stock					(4)	(4)
Cash dividends declared on common stock					(56)	(56)
June 30, 2012	<u>66,368</u>	<u>\$</u>	<u>\$ 364</u>	<u>\$ 979</u>	<u>\$ 538</u>	<u>\$ 1,881</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

(b) In June 2012, PPL Electric redeemed all of its outstanding preference stock.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Operating Revenues	\$ 682	\$ 658	\$ 1,482	\$ 1,363
Operating Expenses				
Operation				
Fuel	216	215	447	428
Energy purchases	37	34	123	108
Other operation and maintenance	197	197	394	403
Depreciation	83	86	165	172
Taxes, other than income	12	12	24	23
Total Operating Expenses	<u>545</u>	<u>544</u>	<u>1,153</u>	<u>1,134</u>
Operating Income	137	114	329	229
Other Income (Expense) - net		(7)	(2)	(10)
Interest Expense	36	37	73	75
Interest Expense with Affiliate	<u>1</u>		<u>1</u>	
Income from Continuing Operations Before Income Taxes	100	70	253	144
Income Taxes	<u>37</u>	<u>20</u>	<u>94</u>	<u>41</u>
Income from Continuing Operations After Income Taxes	63	50	159	103
Income (Loss) from Discontinued Operations (net of income taxes)	<u>1</u>	<u>(6)</u>	<u>1</u>	<u>(6)</u>
Net Income (a)	<u>\$ 64</u>	<u>\$ 44</u>	<u>\$ 160</u>	<u>\$ 97</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 160	\$ 97
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	165	172
Amortization	14	14
Defined benefit plans - expense	27	20
Deferred income taxes and investment tax credits	95	56
Other	(6)	(2)
Change in current assets and current liabilities		
Accounts receivable	(62)	(11)
Accounts payable	36	17
Unbilled revenues	(2)	1
Fuel, materials and supplies	25	1
Taxes		33
Other	2	(6)
Other operating activities		
Defined benefit plans - funding	(156)	(62)
Other assets	(3)	
Other liabilities	2	24
Net cash provided by operating activities	<u>297</u>	<u>354</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(579)	(324)
Net (increase) decrease in notes receivable from affiliates		3
Net (increase) decrease in restricted cash and cash equivalents	10	(2)
Other investing activities	1	
Net cash provided by (used in) investing activities	<u>(568)</u>	<u>(323)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	47	
Net increase (decrease) in short-term debt	127	
Debt issuance and credit facility costs		(1)
Distributions to member	(69)	(60)
Contributions from member	146	
Net cash provided by (used in) financing activities	<u>251</u>	<u>(61)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(20)</u>	<u>(30)</u>
Cash and Cash Equivalents at Beginning of Period	43	59
Cash and Cash Equivalents at End of Period	<u>\$ 23</u>	<u>\$ 29</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	June 30, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 23	\$ 43
Accounts receivable (less reserve: 2013, \$22; 2012, \$19)		
Customer	202	133
Other	21	20
Unbilled revenues	158	156
Accounts receivable from affiliates		1
Fuel, materials and supplies	251	276
Prepayments	24	28
Price risk management assets from affiliates	72	14
Deferred income taxes	11	13
Regulatory assets	29	19
Other current assets	6	4
Total Current Assets	797	707
Property, Plant and Equipment		
Regulated utility plant	8,232	8,073
Less: accumulated depreciation - regulated utility plant	647	519
Regulated utility plant, net	7,585	7,554
Other, net	3	3
Construction work in progress	1,113	750
Property, Plant and Equipment, net	8,701	8,307
Other Noncurrent Assets		
Regulatory assets	581	630
Goodwill	996	996
Other intangibles	245	271
Other noncurrent assets	98	108
Total Other Noncurrent Assets	1,920	2,005
Total Assets	\$ 11,418	\$ 11,019

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	June 30, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 252	\$ 125
Notes payable with affiliates	72	25
Accounts payable	301	283
Accounts payable to affiliates	1	1
Customer deposits	49	48
Taxes	26	26
Price risk management liabilities	4	5
Regulatory liabilities	6	9
Interest	21	21
Other current liabilities	104	100
Total Current Liabilities	836	643
Long-term Debt	4,075	4,075
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	637	541
Investment tax credits	137	138
Accrued pension obligations	266	414
Asset retirement obligations	127	125
Regulatory liabilities	1,039	1,002
Price risk management liabilities	39	53
Other deferred credits and noncurrent liabilities	240	242
Total Deferred Credits and Other Noncurrent Liabilities	2,485	2,515
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	4,022	3,786
Total Liabilities and Equity	\$ 11,418	\$ 11,019

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Member's Equity
March 31, 2013	\$ 3,952
Net income	64
Contributions from member	71
Distributions to member	(65)
June 30, 2013	<u>\$ 4,022</u>
December 31, 2012	\$ 3,786
Net income	160
Contributions from member	146
Distributions to member	(69)
Other comprehensive income (loss)	(1)
June 30, 2013	<u>\$ 4,022</u>
March 31, 2012	\$ 3,765
Net income	44
Distributions to member	(35)
June 30, 2012	<u>\$ 3,774</u>
December 31, 2011	\$ 3,741
Net income	97
Distributions to member	(60)
Other comprehensive income (loss)	(4)
June 30, 2012	<u>\$ 3,774</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating Revenues				
Retail and wholesale	\$ 302	\$ 286	\$ 671	\$ 615
Electric revenue from affiliate	14	18	35	42
Total Operating Revenues	316	304	706	657
Operating Expenses				
Operation				
Fuel	88	92	184	181
Energy purchases	31	23	111	92
Energy purchases from affiliate	3	2	4	6
Other operation and maintenance	94	92	185	190
Depreciation	37	38	73	76
Taxes, other than income	6	6	12	11
Total Operating Expenses	259	253	569	556
Operating Income	57	51	137	101
Other Income (Expense) - net	(1)	(1)	(2)	
Interest Expense	10	10	20	21
Income Before Income Taxes	46	40	115	80
Income Taxes	17	14	42	29
Net Income (a)	\$ 29	\$ 26	\$ 73	\$ 51

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 73	\$ 51
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	73	76
Amortization	6	6
Defined benefit plans - expense	9	9
Deferred income taxes and investment tax credits	21	28
Other		(6)
Change in current assets and current liabilities		
Accounts receivable	(9)	(7)
Accounts payable	13	11
Accounts payable to affiliates	(2)	(10)
Unbilled revenues	2	6
Fuel, materials and supplies	25	6
Taxes	12	15
Other	6	
Other operating activities		
Defined benefit plans - funding	(44)	(25)
Other assets	(1)	(1)
Other liabilities	2	1
Net cash provided by operating activities	<u>186</u>	<u>160</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(236)	(120)
Net (increase) decrease in notes receivable from affiliates		(6)
Net (increase) decrease in restricted cash and cash equivalents	10	(2)
Net cash provided by (used in) investing activities	<u>(226)</u>	<u>(128)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	25	
Debt issuance and credit facility costs		(1)
Payment of common stock dividends to parent	(48)	(31)
Contributions from parent	54	
Net cash provided by (used in) financing activities	<u>31</u>	<u>(32)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(9)	
Cash and Cash Equivalents at Beginning of Period	<u>22</u>	<u>25</u>
Cash and Cash Equivalents at End of Period	<u>\$ 13</u>	<u>\$ 25</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 13	\$ 22
Accounts receivable (less reserve: 2013, \$2; 2012, \$1)		
Customer	84	59
Other	9	16
Unbilled revenues	70	72
Accounts receivable from affiliates	8	14
Fuel, materials and supplies	117	142
Prepayments	7	7
Price risk management from affiliates	36	7
Regulatory assets	21	19
Other current assets	1	1
Total Current Assets	366	359
Property, Plant and Equipment		
Regulated utility plant	3,279	3,187
Less: accumulated depreciation - regulated utility plant	282	220
Regulated utility plant, net	2,997	2,967
Construction work in progress	407	259
Property, Plant and Equipment, net	3,404	3,226
Other Noncurrent Assets		
Regulatory assets	369	400
Goodwill	389	389
Other intangibles	132	144
Other noncurrent assets	34	44
Total Other Noncurrent Assets	924	977
Total Assets	\$ 4,694	\$ 4,562

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 80	\$ 55
Accounts payable	146	117
Accounts payable to affiliates	21	23
Customer deposits	24	23
Taxes	14	2
Price risk management liabilities	4	5
Regulatory liabilities	5	4
Interest	5	5
Other current liabilities	40	34
Total Current Liabilities	339	268
Long-term Debt	1,112	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	567	544
Investment tax credits	39	40
Accrued pension obligations	57	102
Asset retirement obligations	57	56
Regulatory liabilities	488	471
Price risk management liabilities	39	53
Other deferred credits and noncurrent liabilities	107	106
Total Deferred Credits and Other Noncurrent Liabilities	1,354	1,372
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,332	1,278
Earnings reinvested	133	108
Total Equity	1,889	1,810
Total Liabilities and Equity	\$ 4,694	\$ 4,562

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 30, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
March 31, 2013	21,294	\$ 424	\$ 1,303	\$ 133	\$ 1,860
Net income				29	29
Capital contributions from LKE			29		29
Cash dividends declared on common stock				(29)	(29)
June 30, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,332</u>	<u>\$ 133</u>	<u>\$ 1,889</u>
December 31, 2012	21,294	\$ 424	\$ 1,278	\$ 108	\$ 1,810
Net income				73	73
Capital contributions from LKE			54		54
Cash dividends declared on common stock				(48)	(48)
June 30, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,332</u>	<u>\$ 133</u>	<u>\$ 1,889</u>
March 31, 2012	21,294	\$ 424	\$ 1,278	\$ 70	\$ 1,772
Net income				26	26
Cash dividends declared on common stock				(16)	(16)
June 30, 2012	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 80</u>	<u>\$ 1,782</u>
December 31, 2011	21,294	\$ 424	\$ 1,278	\$ 60	\$ 1,762
Net income				51	51
Cash dividends declared on common stock				(31)	(31)
June 30, 2012	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 80</u>	<u>\$ 1,782</u>

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating Revenues				
Retail and wholesale	\$ 380	\$ 372	\$ 811	\$ 748
Electric revenue from affiliate	3	2	4	6
Total Operating Revenues	383	374	815	754
Operating Expenses				
Operation				
Fuel	128	123	263	247
Energy purchases	6	11	12	16
Energy purchases from affiliate	14	18	35	42
Other operation and maintenance	98	98	195	193
Depreciation	46	48	92	96
Taxes, other than income	6	6	12	12
Total Operating Expenses	298	304	609	606
Operating Income	85	70	206	148
Other Income (Expense) - net	2	(5)	1	(6)
Interest Expense	17	17	34	34
Income Before Income Taxes	70	48	173	108
Income Taxes	26	18	65	40
Net Income (a)	\$ 44	\$ 30	\$ 108	\$ 68

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 108	\$ 68
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	92	96
Amortization	7	7
Defined benefit plans - expense	12	5
Deferred income taxes and investment tax credits	72	53
Other	(2)	
Change in current assets and current liabilities		
Accounts receivable	(39)	(20)
Accounts payable	33	12
Accounts payable to affiliates	(7)	1
Unbilled revenues	(4)	(5)
Fuel, materials and supplies		(3)
Taxes	(10)	12
Other	5	(1)
Other operating activities		
Defined benefit plans - funding	(61)	(18)
Other assets	(3)	
Other liabilities	(13)	10
Net cash provided by operating activities	<u>190</u>	<u>217</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(341)	(203)
Other investing activities	1	
Net cash provided by (used in) investing activities	<u>(340)</u>	<u>(203)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates		6
Net increase (decrease) in short-term debt	102	
Payment of common stock dividends to parent	(55)	(48)
Contributions from parent	92	
Net cash provided by (used in) financing activities	<u>139</u>	<u>(42)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(11)	(28)
Cash and Cash Equivalents at Beginning of Period	<u>21</u>	<u>31</u>
Cash and Cash Equivalents at End of Period	<u>\$ 10</u>	<u>\$ 3</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 10	\$ 21
Accounts receivable (less reserve: 2013, \$5; 2012, \$2)		
Customer	118	74
Other	11	13
Unbilled revenues	88	84
Accounts receivable from affiliates	9	7
Fuel, materials and supplies	134	134
Prepayments	7	10
Price risk management assets from affiliates	36	7
Deferred income taxes	2	3
Regulatory assets	8	
Other current assets	5	3
Total Current Assets	428	356
Property, Plant and Equipment		
Regulated utility plant	4,953	4,886
Less: accumulated depreciation - regulated utility plant	365	299
Regulated utility plant, net	4,588	4,587
Other, net	1	1
Construction work in progress	704	490
Property, Plant and Equipment, net	5,293	5,078
Other Noncurrent Assets		
Regulatory assets	212	230
Goodwill	607	607
Other intangibles	113	127
Other noncurrent assets	57	57
Total Other Noncurrent Assets	989	1,021
Total Assets	\$ 6,710	\$ 6,455

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 172	\$ 70
Accounts payable	146	147
Accounts payable to affiliates	26	33
Customer deposits	25	25
Taxes	16	26
Regulatory liabilities	1	5
Interest	10	10
Other current liabilities	37	33
Total Current Liabilities	433	349
Long-term Debt	1,842	1,842
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	657	587
Investment tax credits	98	98
Accrued pension obligations	45	104
Asset retirement obligations	70	69
Regulatory liabilities	551	531
Other deferred credits and noncurrent liabilities	86	92
Total Deferred Credits and Other Noncurrent Liabilities	1,507	1,481
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,440	2,348
Accumulated other comprehensive income (loss)	1	1
Earnings reinvested	179	126
Total Equity	2,928	2,783
Total Liabilities and Equity	\$ 6,710	\$ 6,455

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
March 31, 2013	37,818	\$ 308	\$ 2,398	\$ 177	\$ 1	\$ 2,884
Net income				44		44
Capital contributions from LKE			42			42
Cash dividends declared on common stock				(42)		(42)
June 30, 2013	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,440</u>	<u>\$ 179</u>	<u>\$ 1</u>	<u>\$ 2,928</u>
December 31, 2012	37,818	\$ 308	\$ 2,348	\$ 126	\$ 1	\$ 2,783
Net income				108		108
Capital contributions from LKE			92			92
Cash dividends declared on common stock				(55)		(55)
June 30, 2013	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,440</u>	<u>\$ 179</u>	<u>\$ 1</u>	<u>\$ 2,928</u>
March 31, 2012	37,818	\$ 308	\$ 2,348	\$ 103	\$ (4)	\$ 2,755
Net income				30		30
Cash dividends declared on common stock				(24)		(24)
June 30, 2012	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 109</u>	<u>\$ (4)</u>	<u>\$ 2,761</u>
December 31, 2011	37,818	\$ 308	\$ 2,348	\$ 89		\$ 2,745
Net income				68		68
Cash dividends declared on common stock				(48)		(48)
Other comprehensive income (loss)					\$ (4)	\$ (4)
June 30, 2012	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 109</u>	<u>\$ (4)</u>	<u>\$ 2,761</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. When appropriate, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU are named specifically at each discussion heading or therein for their related activities and disclosures.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2012 is derived from that Registrant's 2012 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2012 Form 10-K. The results of operations for the three and six months ended June 30, 2013, are not necessarily indicative of the results to be expected for the full year ending December 31, 2013, or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the June 30, 2013 financial statements.

2. Summary of Significant Accounting Policies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2012 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable *(PPL, PPL Energy Supply and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three and six months ended June 30, 2013, PPL Electric purchased \$220 million and \$479 million of accounts receivable from unaffiliated third parties and \$70 million and \$147 million from PPL EnergyPlus. During the three and six months ended June 30, 2012, PPL Electric purchased \$184 million and \$422 million of accounts receivable from unaffiliated third parties and \$74 million and \$156 million from PPL EnergyPlus.

Depreciation *(PPL, LKE, LG&E and KU)*

The KPSC approved new lower depreciation rates for LG&E and KU as part of the rate-case settlement agreement reached in November 2012. The new rates became effective January 1, 2013 and will result in lower depreciation of approximately \$19 million (\$9 million for LG&E and \$10 million for KU) in 2013, exclusive of net additions to PP&E since the rate case.

New Accounting Guidance Adopted *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Improving Disclosures about Offsetting Balance Sheet Items

Effective January 1, 2013, the Registrants retrospectively adopted accounting guidance issued to enhance disclosures about derivative instruments that either (1) offset on the balance sheet or (2) are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the balance sheet.

The adoption of this guidance resulted in enhanced disclosures but did not have a significant impact on the Registrants. See Note 14 for the new disclosures.

Testing Indefinite-Lived Intangible Assets for Impairment

Effective January 1, 2013, the Registrants prospectively adopted accounting guidance that allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of an indefinite-lived intangible asset. If, based on this assessment, the entity determines that it is more likely than not that the fair value of the indefinite-lived intangible asset exceeds the carrying amount, a quantitative impairment test does not need to be performed. If the entity concludes otherwise, a quantitative impairment test must be performed by determining the fair value of the asset and comparing it with the carrying value. The entity would record an impairment charge, if necessary.

The adoption of this guidance did not have a significant impact on the Registrants.

Reporting Amounts Reclassified Out of AOCI

Effective January 1, 2013, the Registrants prospectively adopted accounting guidance issued to improve the reporting of reclassifications out of AOCI. The Registrants are required to provide information about the effects on net income of significant amounts reclassified out of AOCI by their respective statement of income line item, if the item is required to be reclassified to net income in its entirety. For items not reclassified to net income in their entirety, the Registrants are required to reference other disclosures that provide greater detail about these reclassifications.

The adoption of this guidance resulted in enhanced disclosures but did not have a significant impact on the Registrants. See Note 18 for the new disclosures.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2012 Form 10-K for a discussion of reportable segments. "Corporate and Other" primarily includes financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain unallocated assets, which are presented to reconcile segment information to PPL's consolidated results. For 2012, there were no significant costs or assets in this category.

Beginning in 2013, PPL anticipates more costs to be included in the Corporate and Other category primarily due to an anticipated increase in financing at PPL Capital Funding not directly attributable to a particular segment. PPL's growth in rate-regulated businesses provides the organization an enhanced corporate-level financing alternative, through PPL Capital Funding, that further enables PPL to support targeted credit profiles cost effectively across all of PPL's rated companies. As a result, PPL plans to further utilize PPL Capital Funding in addition to continued direct financing by the operating companies, as appropriate. The financing costs associated primarily with PPL Capital Funding's new securities issuances, with certain exceptions including the remarketing of the debt component of the Equity Units, have not been directly assigned or allocated to any segment and generally have been reflected in Corporate and Other in 2013.

Financial data for the segments for the periods ended June 30 are:

	Three Months		Six Months	
	2013	2012	2013	2012
Income Statement Data				
Revenues from external customers				
Kentucky Regulated	\$ 682	\$ 658	\$ 1,482	\$ 1,363
U.K. Regulated	572	557	1,220	1,119
Pennsylvania Regulated	413	403	925	860
Supply (a)	1,780	931	2,274	3,319
Corporate and Other	3		6	
Total	\$ 3,450	\$ 2,549	\$ 5,907	\$ 6,661
Intersegment electric revenues				
Pennsylvania Regulated	\$ 1	\$ 1	\$ 2	\$ 2
Supply	12	17	26	38
Net Income Attributable to PPL Shareowners				
Kentucky Regulated	\$ 49	\$ 34	\$ 134	\$ 76
U.K. Regulated (a)	245	196	558	361
Pennsylvania Regulated	45	29	109	62
Supply (a)	77	12	31	313
Corporate and Other	(11)		(14)	
Total	\$ 405	\$ 271	\$ 818	\$ 812

			June 30,	December 31,
			2013	2012
Balance Sheet Data				
Assets				
Kentucky Regulated			\$ 11,084	\$ 10,670
U.K. Regulated			13,792	14,073
Pennsylvania Regulated			6,385	6,023
Supply			12,155	12,868
Corporate and Other (b)			330	
Total assets			\$ 43,746	\$ 43,634

(a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.

(b) Primarily consists of unallocated assets, including cash, PP&E and the elimination of inter-segment transactions.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method or the If-Converted Method, as applicable. The If-Converted Method was applied to the Equity Units beginning in the first quarter of 2013. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

See Note 7 for information on the April and May 2013 settlements of forward sale agreements and the July 2013 issuance of PPL common stock to settle the 2010 Purchase Contracts.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended June 30 used in the EPS calculation are:

	Three Months		Six Months	
	2013	2012	2013	2012
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL shareowners	\$ 404	\$ 277	\$ 817	\$ 818
Less amounts allocated to participating securities	2	2	4	5
Income from continuing operations after income taxes available to PPL common shareowners - Basic	402	275	813	813
Plus interest charges (net of tax) related to Equity Units	15		30	
Income from continuing operations after income taxes available to PPL common shareowners - Diluted	\$ 417	\$ 275	\$ 843	\$ 813
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	\$ 1	\$ (6)	\$ 1	\$ (6)
Net income attributable to PPL shareowners	\$ 405	\$ 271	\$ 818	\$ 812
Less amounts allocated to participating securities	2	2	4	5
Net income available to PPL common shareowners - Basic	403	269	814	807
Plus interest charges (net of tax) related to Equity Units	15		30	
Net income available to PPL common shareowners - Diluted	\$ 418	\$ 269	\$ 844	\$ 807
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	589,834	579,881	586,683	579,462
Add incremental non-participating securities:				
Share-based payment awards	1,133	444	971	465
Equity Units	73,388		72,689	
Forward sale agreements	260	268	920	135
Weighted-average shares - Diluted EPS	664,615	580,593	661,263	580,062
Basic EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	\$ 0.68	\$ 0.47	\$ 1.39	\$ 1.40
Income (loss) from discontinued operations (net of income taxes)		(0.01)		(0.01)
Net Income	\$ 0.68	\$ 0.46	\$ 1.39	\$ 1.39
Diluted EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	\$ 0.63	\$ 0.47	\$ 1.28	\$ 1.40
Income (loss) from discontinued operations (net of income taxes)		(0.01)		(0.01)
Net Income	\$ 0.63	\$ 0.46	\$ 1.28	\$ 1.39

For the periods ended June 30, PPL issued common stock related to stock-based compensation plans, ESOP and DRIP as follows:

(Shares in thousands)

	Three Months		Six Months	
	2013	2012	2013	2012
Stock-based compensation plans (a)	938	76	1,384	353
ESOP			275	280
DRIP		617	549	1,175

(a) Includes stock options exercised, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

See Note 7 for information on the repurchase of shares of PPL common stock that substantially offset the issuances for the three months ended June 30, 2013.

For the periods ended June 30, the following were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Six Months	
	2013	2012	2013	2012
Stock options	2,192	6,250	5,486	5,966
Performance units	5	34	108	115
Restricted stock units			58	

5. Income Taxes

Reconciliations of income taxes for the periods ended June 30 are:

(PPL)

	Three Months		Six Months	
	2013	2012	2013	2012
Federal income tax on Income from Continuing Operations Before				
Income Taxes at statutory tax rate - 35%	\$ 180	\$ 128	\$ 377	\$ 409
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	14	7	17	32
Impact of lower U.K. income tax rates (a)	(25)	(24)	(63)	(45)
U.S. income tax on foreign earnings - net of foreign tax credit (b)	(7)	(1)	(5)	1
Federal and state tax reserve adjustments (c)	(39)	(4)	(40)	(5)
Foreign tax reserve adjustments (d)		(8)		(5)
Foreign income tax return adjustments	(4)		(4)	
Federal income tax credits	(2)	(3)	(5)	(7)
Amortization of investment tax credit	(2)	(3)	(5)	(5)
Depreciation not normalized	(1)	(2)	(4)	(4)
State deferred tax rate change (e)				(11)
Net operating loss carryforward adjustments (f)		(3)		(9)
Other	(5)	1	(8)	(4)
Total increase (decrease)	(71)	(40)	(117)	(62)
Total income taxes from continuing operations	\$ 109	\$ 88	\$ 260	\$ 347

(a) The U.K. Finance Act 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013.

The U.K. Finance Act 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and from 26% to 25% effective April 1, 2012.

- (b) During the three and six months ended June 30, 2013, PPL recorded a \$14 million increase to income tax expense primarily attributable to a revision in the expected taxable amount of cash repatriation in 2013 and recorded a tax benefit of \$19 million associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that will be reflected on an amended 2010 U.S. tax return.
- (c) In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in the fourth quarter of 2011. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition and oral argument was held in February 2013. On May 20, 2013, the Supreme Court reversed the Third Circuit's opinion and ruled that the WPT is a creditable tax. As a result of the Supreme Court ruling, PPL recorded a tax benefit of \$44 million during the three and six months ended June 30, 2013, of which \$19 million relates to interest.
- (d) During the three and six months ended June 30, 2012, PPL recorded a tax benefit following resolution of a U.K. tax issue related to the tax deductibility of interest expense.
- (e) During the six months ended June 30, 2012, PPL recorded adjustments related to state deferred tax liabilities.
- (f) During the three and six months ended June 30, 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.

In July 2013, the U.K. Finance Act 2013 (the Act) was enacted. The Act reduced the U.K.'s statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20%, effective April 1, 2015. As a result of these changes, PPL expects to record a deferred tax benefit in the range of \$90 million to \$100 million in the third quarter of 2013.

(PPL Energy Supply)

	Three Months		Six Months	
	2013	2012	2013	2012
Federal income tax on Income Before Income Taxes at statutory				
tax rate - 35%	\$ 54	\$ 10	\$ 28	\$ 180
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	9	1	3	24
Federal and state tax reserve adjustments (a)	7		6	
Federal income tax credits		(2)	(3)	(6)
State deferred tax rate change (b)				(11)
Other	(3)		(2)	(1)
Total increase (decrease)	13	(1)	4	6
Total income taxes	\$ 67	\$ 9	\$ 32	\$ 186

- (a) During the three and six months ended June 30, 2013, PPL Energy Supply reversed a \$3 million tax benefit related to a 2008 change in method of accounting for certain expenditures for tax purposes and recorded \$4 million in federal tax reserves related to differences in over (under) payment interest rates applied to audit claims as a result of the U.S. Supreme Court decision related to Windfall Profits Tax.
- (b) During the six months ended June 30, 2012, PPL Energy Supply recorded adjustments related to state deferred tax liabilities.

(PPL Electric)

	Three Months		Six Months	
	2013	2012	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 24	\$ 14	\$ 58	\$ 34
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	3	8	5
Federal and state tax reserve adjustments	(2)	(2)	(4)	(3)
Depreciation not normalized	(1)	(3)	(4)	(4)
Other		(1)	(1)	(1)
Total increase (decrease)		(3)	(1)	(3)
Total income taxes	\$ 24	\$ 11	\$ 57	\$ 31

(LKE)

	Three Months		Six Months	
	2013	2012	2013	2012
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 35	\$ 25	\$ 89	\$ 50
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3		8	2
Net operating loss carryforward adjustments (a)		(3)		(9)
Other	(1)	(2)	(3)	(2)
Total increase (decrease)	2	(5)	5	(9)
Total income taxes from continuing operations	\$ 37	\$ 20	\$ 94	\$ 41

(a) During the three and six months ended June 30, 2012, LKE recorded adjustments to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

(LG&E)

	Three Months		Six Months	
	2013	2012	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 16	\$ 14	\$ 40	\$ 28
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	1	1	4	3
Other		(1)	(2)	(2)
Total increase (decrease)	1		2	1
Total income taxes	\$ 17	\$ 14	\$ 42	\$ 29

(KU)

	Three Months		Six Months	
	2013	2012	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 25	\$ 17	\$ 61	\$ 38
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	2	6	4
Other	(1)	(1)	(2)	(2)
Total increase (decrease)	1	1	4	2
Total income taxes	\$ 26	\$ 18	\$ 65	\$ 40

Unrecognized Tax Benefits (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Changes to unrecognized tax benefits for the periods ended June 30 were as follows.

	Three Months		Six Months	
	2013	2012	2013	2012
PPL				
Beginning of period	\$ 90	\$ 121	\$ 92	\$ 145
Additions based on tax positions of prior years				4
Reductions based on tax positions of prior years	(25)	(4)	(26)	(31)
Additions based on tax positions related to the current year	3		4	1
Reductions based on tax positions related to the current year		(2)		(2)
Settlements	(30)		(30)	
Lapse of applicable statutes of limitations	(2)	(2)	(4)	(4)
End of period	\$ 36	\$ 113	\$ 36	\$ 113
PPL Energy Supply				
Beginning of period	\$ 30	\$ 31	\$ 30	\$ 28
Additions based on tax positions of prior years				4
Reductions based on tax positions of prior years	(15)		(15)	(1)
End of period	\$ 15	\$ 31	\$ 15	\$ 31
PPL Electric				
Beginning of period	\$ 24	\$ 46	\$ 26	\$ 73
Reductions based on tax positions of prior years	(10)	(1)	(10)	(27)
Additions based on tax positions related to the current year				1
Lapse of applicable statutes of limitations	(2)	(2)	(4)	(4)
End of period	\$ 12	\$ 43	\$ 12	\$ 43

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant for the three and six months ended June 30, 2013 and 2012.

At June 30, 2013, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts.

	Increase	Decrease
PPL	\$ 16	\$ 35
PPL Energy Supply		15
PPL Electric	16	11

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

At June 30, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective income tax rate were as follows.

	2013	2012
PPL	\$ 23	\$ 36
PPL Energy Supply	14	14
PPL Electric	2	5

The amounts for LKE, LG&E and KU were insignificant.

Other (PPL, PPL Energy Supply and PPL Electric)

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for Pennsylvania operations. PPL made the same change for its Montana operations for the 2009 tax year. In 2011, the IRS issued guidance on repair expenditures related to network assets providing a safe harbor method of determining whether the repair expenditures can be currently deducted for tax purposes. On April 30, 2013, the IRS issued Revenue Procedure 2013-24 providing guidance to taxpayers to determine whether expenditures to maintain, replace or improve steam or electric generation property must be capitalized for tax purposes. The IRS may assert, and ultimately conclude, that PPL's deduction

for generation-related expenditures should be disallowed in whole or in part. PPL believes that it has established adequate reserves for this contingency.

6. Utility Rate Regulation

(PPL, PPL Electric, LKE, LG&E and KU)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Current Regulatory Assets:				
Transmission formula rate	\$ 5		\$ 5	
ECR	7			
Gas supply clause	14	\$ 11		
Fuel adjustment clause	3	6		
Other	5	2		
Total current regulatory assets	\$ 34	\$ 19	\$ 5	
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 700	\$ 730	\$ 351	\$ 362
Taxes recoverable through future rates	298	293	298	293
Storm costs	157	168	56	59
Unamortized loss on debt	90	96	60	65
Interest rate swaps	51	67		
Accumulated cost of removal of utility plant	92	71	92	71
AROs	34	26		
Other	21	32	5	3
Total noncurrent regulatory assets	\$ 1,443	\$ 1,483	\$ 862	\$ 853
Current Regulatory Liabilities:				
Generation supply charge	\$ 24	\$ 27	\$ 24	\$ 27
ECR		4		
Gas supply clause		4		
Transmission service charge	11	6	11	6
Universal service rider	11	17	11	17
Other	8	3	2	2
Total current regulatory liabilities	\$ 54	\$ 61	\$ 48	\$ 52
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 689	\$ 679		
Coal contracts (a)	119	141		
Power purchase agreement - OVEC (a)	104	108		
Net deferred tax assets	32	34		
Act 129 compliance rider	13	8	\$ 13	\$ 8
Defined benefit plans	18	17		
Interest rate swaps	72	14		
Other	5	9		
Total noncurrent regulatory liabilities	\$ 1,052	\$ 1,010	\$ 13	\$ 8

	LKE		LG&E		KU	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Current Regulatory Assets:						
ECR	\$ 7		\$ 2		\$ 5	
Gas supply clause	14	\$ 11	14	\$ 11		
Fuel adjustment clause	3	6	3	6		
Other	5	2	2	2	3	
Total current regulatory assets	\$ 29	\$ 19	\$ 21	\$ 19	\$ 8	
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 349	\$ 368	\$ 219	\$ 232	\$ 130	\$ 136
Storm costs	101	109	55	59	46	50
Unamortized loss on debt	30	31	19	20	11	11
Interest rate swaps	51	67	51	67		
AROs	34	26	19	15	15	11
Other	16	29	6	7	10	22
Total noncurrent regulatory assets	\$ 581	\$ 630	\$ 369	\$ 400	\$ 212	\$ 230
Current Regulatory Liabilities:						
ECR		\$ 4			\$ 4	
Gas supply clause		4		\$ 4		
Gas line tracker	\$ 4		\$ 4			
Other	2	1	1		1	1
Total current regulatory liabilities	\$ 6	\$ 9	\$ 5	\$ 4	\$ 1	\$ 5
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal						
of utility plant	\$ 689	\$ 679	\$ 300	\$ 297	\$ 389	\$ 382
Coal contracts (a)	119	141	52	61	67	80
Power purchase agreement - OVEC (a)	104	108	72	75	32	33
Net deferred tax assets	32	34	26	28	6	6
Defined benefit plans	18	17			18	17
Interest rate swaps	72	14	36	7	36	7
Other	5	9	2	3	3	6
Total noncurrent regulatory liabilities	\$ 1,039	\$ 1,002	\$ 488	\$ 471	\$ 551	\$ 531

(a) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

Kentucky Activities (PPL, LKE, LG&E and KU)

Rate Case Proceedings

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million for LG&E and \$51 million for KU and an increase in annual base gas rates of \$15 million for LG&E using a 10.25% return on equity. The approved rates became effective January 1, 2013.

Pennsylvania Activities (PPL and PPL Electric)

Rate Case Proceeding

In December 2012, the PUC approved a total distribution revenue increase of about \$71 million, using a 10.4% return on equity. The approved rates became effective January 1, 2013.

Storm Damage Expense Rider

In its December 28, 2012 final rate case proceeding order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider (SDER) within 90 days following the order. PPL Electric filed its proposed SDER with the PUC on March 28, 2013, including requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy, which the PUC previously approved for deferral. PPL Electric proposed that the SDER become effective January 1, 2013 for storm costs incurred in 2013, with those costs and the 2012 Hurricane Sandy costs included in rates effective January 1, 2014. Several parties filed comments opposing the SDER. PPL Electric and several other parties filed reply comments in May 2013. This matter remains pending before the PUC.

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are subject to significant penalties.

Under Act 129, EDCs must file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. EDCs are able to recover the costs (capped at 2.0% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's Phase I EE&C Plan ending May 31, 2013.

Act 129 requires EDCs to reduce overall electricity consumption by 1.0% by May 2011 and, by May 2013, reduce overall electricity consumption by 3.0% and reduce peak demand by 4.5%. Although PPL Electric believes it has met the May 2011 requirement, the PUC is not expected to formally determine compliance for any EDC before the first quarter of 2014. The peak demand reduction must occur for the 100 hours of highest demand, which is determined by actual demand reduction during the June 2012 through September 2012 period. PPL Electric will determine if it met the May 2013 peak demand reduction and energy reduction targets after it completes the final program evaluation in the fourth quarter of 2013.

Act 129 requires the PUC to evaluate the costs and benefits of the EE&C program by November 30, 2013 and adopt additional reductions if the benefits of the program exceed the costs. In August 2012, after receiving input from stakeholders, the PUC issued a Final Implementation Order establishing a three-year Phase II program, ending May 31, 2016, with individual consumption reduction targets for each EDC. PPL Electric's Phase II reduction target is 2.1% of the total energy consumption forecasted by the PUC for the June 1, 2009 through May 31, 2010 baseline year. The PUC did not establish demand reduction targets for the Phase II program. PPL Electric filed its Phase II EE&C Plan with the PUC on November 15, 2012 and, in March 2013, the PUC approved PPL Electric's Phase II EE&C Plan with minor modifications. PPL Electric filed a Revised Phase II EE&C Plan on May 13, 2013 pursuant to the PUC's March Order. On July 11, 2013, the PUC issued an Order approving PPL Electric's Revised Phase II EE&C Plan. PPL Electric began its Phase II Plan implementation on June 1, 2013.

Act 129 also requires Default Service Providers (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its competitive procurement plan.

The PUC has approved PPL Electric's DSP procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric has concluded all competitive solicitations to procure power for its PLR obligations under that plan.

The PUC has directed all EDCs to file default service procurement plans for the period June 1, 2013 through May 31, 2015. PPL Electric filed its plan in May 2012. In that plan, PPL Electric proposed a process to obtain supply for its default service customers and a number of initiatives designed to encourage more customers to purchase electricity from the competitive retail market. In its January 24, 2013 final order, the PUC approved PPL Electric's plan with modifications and directed PPL Electric to establish collaborative processes to address several retail competition issues. In February 2013, PPL Electric filed a revised Default Service Supply Master Agreement and a revised Request for Proposals Process and Rules which the PUC approved. PPL Electric filed revised retail competition initiatives and a revised plan consistent with the PUC's January order. In an order entered on May 23, 2013, the PUC approved PPL Electric's most recent filing with minor changes and PPL Electric began implementing its revised plan on June 1, 2013. See Note 10 for additional information.

Smart Meter Rider

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric continues to conduct pilot projects to evaluate additional applications of its current advanced metering technology pursuant to the requirements of Act 129. PPL Electric recovers the cost of its pilot projects through a cost recovery mechanism, the Smart Meter Rider (SMR). In August 2012, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter Plan during 2012 and its planned actions for 2013. PPL Electric also submitted revised SMR charges which became effective January 1,

2013. In August 2013, PPL Electric will file its annual Smart Meter report and revised SMR charges to become effective January 1, 2014. PPL Electric will submit its final Smart Meter Plan by June 30, 2014.

PUC Investigation of Retail Electricity Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market to be conducted in two phases. Phase one addressed the status of the existing retail market and explored potential changes. Questions issued by the PUC for phase one of the investigation focused primarily on default service issues. Phase two was initiated in July 2011 to develop specific proposals for changes to the retail market and default service model. From December 2011 through the end of 2012, the PUC issued several orders and other pronouncements related to the investigation. A final implementation order was issued in February 2013, and the PUC created several working groups to address continuing competitive issues. Although the final implementation order contains provisions that will require numerous modifications to PPL Electric's current default service model for retail customers, those modifications are not expected to have a material adverse effect on PPL Electric's results of operations.

Distribution System Improvement Charge

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC.

In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC. The PUC approved the LTIP on January 10, 2013 and, on January 15, 2013, PPL Electric filed a petition requesting permission to establish a DSIC. Several parties filed responses to PPL Electric's petition. In an order entered on May 23, 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four specific issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. A prehearing conference has been held and a litigation schedule set with evidentiary hearings scheduled for the end of October 2013. The case remains pending before the PUC.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

PPL Electric must follow the FERC's Uniform System of Accounts (USOA), which requires subsidiaries to be presented, for FERC reporting purposes, using the equity method of accounting unless a waiver has been granted. The FERC has granted waivers of this requirement to other utilities when alternative accounting would more accurately present the integrated operations of a utility and its subsidiaries. In March 2013, as part of a routine FERC audit of PPL and its subsidiaries, PPL Electric determined that it never obtained a waiver of the equity method accounting requirement for PPL Receivables Corporation (PPL Receivables). PPL Receivables is a wholly owned subsidiary of PPL Electric, formed in 2004 to purchase eligible accounts receivable and unbilled revenue of PPL Electric to collateralize commercial paper issuances and reduce borrowing costs. In March 2013, PPL Electric filed a request for waiver with the FERC that, if approved, would allow it to continue to consolidate the results of PPL Receivables with the results of PPL Electric, as it has done since 2004. Although PPL Electric may ultimately be successful in obtaining the waiver, the FERC may require PPL Electric to re-issue one or more of its prior FERC Form No. 1 filings. If re-issuance of FERC Form No. 1 filings were required by the FERC, PPL Electric's revenue requirement calculated under the formula rate could be negatively impacted. The impact, if any, is not known at this time but could range between \$0 and \$40 million, pre-tax. PPL Electric cannot predict the outcome of the waiver or audit proceedings, which remain pending before the FERC.

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form No. 1, filed under the FERC's USOA. PPL Electric has initiated separate formula rate Annual Updates for each of the years 2010-2013. The 2010, 2011, and 2012 updates were subsequently challenged by a group of municipal customers, which challenges PPL Electric has opposed. In August 2011, the FERC issued an order substantially rejecting the 2010 formal challenge and the municipal customers filed a request for rehearing of that order. In September 2012, the FERC issued an order setting for evidentiary

hearings and settlement judge procedures a number of issues raised in the 2010 and 2011 formal challenges. Settlement conferences were held in late 2012 and early 2013. In February 2013, the FERC set for evidentiary hearings and settlement judge procedures a number of issues in the 2012 formal challenge and consolidated that challenge with the 2010 and 2011 challenges. PPL Electric filed a request for rehearing of the February Order which remains pending before the FERC. PPL Electric and the group of municipal customers have exchanged confidential settlement proposals and PPL Electric anticipates that there will be additional settlement conferences held in 2013. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings, which remain pending before the FERC.

U. K. Activities (PPL)

Ofgem Review of Line Loss Calculation

Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentive/penalty for the DPCR4. In April 2013, Ofgem stated that their expectation was to issue a decision in the second half of 2013. On July 12, 2013, Ofgem issued a decision paper on the process to follow for closing out the line loss incentive/penalty. Based on one element of the decision paper, WPD has concluded that certain data, which had previously served to reduce the liability calculation, could not be included. Additional information in the decision paper has increased the level of uncertainty regarding the ultimate settlement of this liability. WPD currently estimates the potential loss exposure to be in the range of \$97 million to \$251 million. As a result, during the three and six months ended June 30, 2013, WPD recorded a \$24 million increase to the liability with a reduction to "Utility" revenue on the Statement of Income, increasing the liability to \$97 million at June 30, 2013 compared with \$94 million at December 31, 2012. Other changes to this line loss liability included reductions of \$16 million resulting from the refund being included in tariffs starting in April 2013 and foreign exchange movement during the six months ended June 30, 2013. PPL cannot predict the outcome of this matter.

7. Financing Activities

Credit Arrangements and Short-term Debt

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants maintain credit facilities to enhance liquidity, provide credit support, and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities of PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL and the credit facilities of LG&E and KU also apply to LKE. The following credit facilities were in place at:

	June 30, 2013				December 31, 2012		
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup
PPL							
<i>WPD Credit Facilities</i>							
<i>PPL WW Syndicated</i>							
Credit Facility (b) (c)	Dec. 2016	£ 210	£ 112	n/a	£ 98	£ 106	n/a
<i>WPD (South West)</i>							
Syndicated Credit Facility	Jan. 2017	245		n/a	245		n/a
<i>WPD (East Midlands)</i>							
Syndicated Credit Facility (c)	Apr. 2016	300	47		253		
<i>WPD (West Midlands)</i>							
Syndicated Credit Facility (c)	Apr. 2016	300	34		266		
<i>Uncommitted Credit Facilities</i>							
		84		£ 5	79		£ 4
Total WPD Credit Facilities (d)		£ 1,139	£ 193	£ 5	£ 941	£ 106	£ 4

	June 30, 2013					December 31, 2012	
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup
PPL Energy Supply							
Syndicated Credit Facility	Nov. 2017	\$ 3,000		\$ 637	\$ 2,363		\$ 499
Letter of Credit Facility (e)	Mar. 2014	150	n/a	148	2	n/a	132
Uncommitted Credit Facilities		200	n/a	80	120	n/a	40
Total PPL Energy Supply Credit Facilities		\$ 3,350		\$ 865	\$ 2,485		\$ 671
PPL Electric							
Syndicated Credit Facility	Oct. 2017	\$ 300		\$ 86	\$ 214		\$ 1
Asset-backed Credit Facility (f)	Sept. 2013	100		n/a	100		n/a
Total PPL Electric Credit Facilities		\$ 400		\$ 86	\$ 314		\$ 1
LG&E							
Syndicated Credit Facility	Nov. 2017	\$ 500		\$ 80	\$ 420		\$ 55
KU							
Syndicated Credit Facility	Nov. 2017	\$ 400		\$ 172	\$ 228		\$ 70
Letter of Credit Facility (g)	May 2016	198		198			198
Total KU Credit Facilities		\$ 598		\$ 370	\$ 228		\$ 268

(a) Amounts borrowed are recorded as "Short-term debt" on the Balance Sheets.

(b) In December 2012, the PPL WW syndicated credit facility that was set to expire in January 2013 was replaced and the capacity was increased from £150 million.

(c) PPL WW's amounts borrowed at June 30, 2013 and December 31, 2012 were USD-denominated borrowings of \$171 million, which equated to £112 million and £106 million at the time of borrowings and bore interest at 1.90% and 0.85%. WPD (East Midlands) amount borrowed at June 30, 2013 was a GBP-denominated borrowing of £47 million, which equated to \$71 million and bore interest at 1.30%. WPD (West Midlands) amount borrowed at June 30, 2013 was a GBP-denominated borrowing of £34 million, which equated to \$52 million and bore interest at 1.30%.

(d) At June 30, 2013, the USD equivalent of unused capacity under WPD's credit facilities was \$1.4 billion.

(e) In February 2013, PPL Energy Supply extended the expiration date from March 2013 and, effective April 2013, the capacity was reduced from \$200 million.

(f) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.

At June 30, 2013 and December 31, 2012, \$272 million and \$238 million of accounts receivable and \$74 million and \$106 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at June 30, 2013, the amount available for borrowing under the facility was \$100 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

(g) In May 2013, KU extended the letter of credit facility from April 2014.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At June 30, 2013, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an \$800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2017, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at June 30, 2013.

PPL Energy Supply maintains a commercial paper program for up to \$750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At June 30, 2013 and December 31, 2012, PPL Energy Supply had \$575 million and

\$356 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.29% and 0.50%.

(PPL and PPL Electric)

PPL Electric maintains a commercial paper program for up to \$300 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. At June 30, 2013, PPL Electric had \$85 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of 0.34%. PPL Electric had no commercial paper outstanding at December 31, 2012.

(PPL, LKE, LG&E and KU)

In April 2013, LG&E and KU each increased the capacity of their commercial paper programs from \$250 million to \$350 million to provide an additional financing source to fund their short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by LG&E's and KU's Syndicated Credit Facilities. At June 30, 2013 and December 31, 2012, LG&E had \$80 million and \$55 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.32% and 0.42%. At June 30, 2013 and December 31, 2012, KU had \$172 million and \$70 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.33% and 0.42%.

(LKE)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt and Equity Securities

(PPL)

In connection with an April 2012 registered public offering of 9.9 million shares of PPL common stock, PPL entered into forward sale agreements with two counterparties. In conjunction with that offering, the underwriters exercised an overallotment option and PPL entered into additional forward sale agreements covering 591 thousand shares of PPL common stock.

In April 2013, PPL settled the initial forward sale agreements by issuing 8.4 million shares of PPL common stock and cash settling the remaining 1.5 million shares. PPL received net cash proceeds of \$205 million, which was calculated based on an initial forward price of \$27.02 per share, reduced during the period the contracts were outstanding as specified in the forward sale agreements. PPL used the net proceeds to repay short-term debt obligations and for other general corporate purposes. In May 2013, PPL cash settled the forward sale agreements covering the 591 thousand remaining shares for \$4 million.

The forward sale agreements were classified as equity transactions. As a result, no amounts were recorded in the consolidated financial statements until the April 2013 settlement of the initial forward sale agreements. However, prior to settlement, incremental shares were included within the calculation of diluted EPS using the treasury stock method. See Note 4 for the impact on the calculation of diluted EPS.

In March 2013, PPL Capital Funding issued \$450 million of 5.90% Junior Subordinated Notes due 2073. PPL Capital Funding received proceeds of \$436 million, net of underwriting fees, which was loaned to or invested in affiliates of PPL Capital Funding and used to fund their capital expenditures and for other general corporate purposes.

In May 2013, PPL Capital Funding remarketed \$1.150 billion of 4.625% Junior Subordinated Notes due 2018 that were originally issued in June 2010 as a component of PPL's 2010 Equity Units. In connection with the remarketing, PPL Capital Funding issued \$300 million of 2.04% Junior Subordinated Notes due 2016 and \$850 million of 2.77% Junior Subordinated Notes due 2018, which were simultaneously exchanged into three tranches of Senior Notes. As a result of the exchange, the new Senior Notes include \$250 million of 1.90% Senior Notes due 2018, \$600 million of 3.40% Senior Notes due 2023 and \$300 million of 4.70% Senior Notes due 2043. The transaction was accounted for as a debt extinguishment, resulting in a \$10 million loss on extinguishment of the Junior Subordinated Notes, which was recorded to "Interest Expense" on the Statement of Income. The transaction was considered non-cash activity that was excluded from the 2013 Statement of Cash Flows.

In June 2013, PPL repurchased 930,000 shares of common stock for \$28 million to substantially offset second quarter issuances of common stock under stock-based compensation plans. See Note 4 for further information.

In July 2013, PPL issued 40 million shares of common stock at \$28.73 per share to settle the 2010 Purchase Contracts. PPL received net cash proceeds of \$1.150 billion, which will be used to repay short-term and long-term debt obligations and for other general corporate purposes.

See Note 7 in PPL's 2012 Form 10-K for information on the 2011 Equity Units (with respect to which the related \$978 million of Notes are expected to be remarketed in the first quarter of 2014).

(PPL and PPL Energy Supply)

In February 2013, PPL Energy Supply completed an offer to exchange up to all, but not less than a majority, of PPL Ironwood's 8.857% Senior Secured Bonds due 2025, (Ironwood Bonds), for newly issued PPL Energy Supply Senior Notes, Series 4.60% due 2021. A total of \$167 million aggregate principal amount of outstanding Ironwood Bonds was exchanged for \$212 million aggregate principal amount of Senior Notes, Series 4.60% due 2021. This transaction was accounted for as a modification of the existing debt; therefore, the amount of debt on the Balance Sheet remained at \$167 million and will be accreted to \$212 million over the life of the new Senior Notes. No gain or loss was recorded and the exchange was considered non-cash activity that was excluded from the 2013 Statement of Cash Flows.

(PPL and PPL Electric)

In July 2013, PPL Electric issued \$350 million of 4.75% First Mortgage Bonds due 2043. PPL Electric received proceeds of \$345 million, net of a discount and underwriting fees, which will be used for capital expenditures, to fund pension obligations and for other general corporate purposes.

Legal Separateness

(PPL, PPL Energy Supply, PPL Electric and LKE)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay such creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions and Capital Contributions

(PPL)

In May 2013, PPL declared its quarterly common stock dividend, payable July 1, 2013, at 36.75 cents per share (equivalent to \$1.47 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

During the six months ended June 30, 2013, the following distributions and capital contributions occurred:

	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Dividends/distributions paid to parent/member	\$ 408	\$ 66	\$ 69	\$ 48	\$ 55
Capital contributions received from parent/member	105	205	146	54	92

8. Acquisitions, Development and Divestitures

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results.

Acquisitions

Ironwood Acquisition *(PPL and PPL Energy Supply)*

See Note 10 in PPL's and PPL Energy Supply's 2012 Form 10-K for information on the April 13, 2012 Ironwood Acquisition. See Note 7 for information on the February 2013 exchange of a portion of long-term debt assumed through consolidation as a result of the acquisition.

Development

(PPL and PPL Energy Supply)

Bell Bend COLA

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) for the proposed Bell Bend nuclear generating unit (Bell Bend) to be built adjacent to PPL's Susquehanna nuclear generating plant. PPL Bell Bend does not expect to complete the COLA review process with the NRC prior to 2016. PPL Bell Bend has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized to spend up to \$205 million on the COLA and other permitting costs necessary for construction, which is expected to be sufficient to fund the project through receipt of the license. At June 30, 2013 and December 31, 2012, \$165 million and \$154 million of costs, which includes capitalized interest, associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL Bell Bend believes that the estimated fair value of the COLA currently exceeds the costs expected to be capitalized associated with the licensing application. See Note 8 in PPL's and PPL Energy Supply's 2012 Form 10-K for additional information.

Hydroelectric Expansion Project

In the first quarter of 2013, the Rainbow hydroelectric redevelopment project in Great Falls, Montana was placed in service.

Regional Transmission Line Expansion Plan *(PPL and PPL Electric)*

Susquehanna-Roseland

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas Company as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the U.S. District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation, and on December 6, 2012, the groups filed a petition for injunctive relief seeking to prohibit all construction activities until the court issues a final decision on the complaint. PPL Electric has intervened in the lawsuit. On February 25, 2013, the District Court denied Plaintiffs' Motion for Preliminary Injunction and set a briefing schedule. However, plaintiffs have the right to reinstate the motion if the District Court has not ruled on the lawsuit and construction is imminent. The chosen route had previously been approved by the PUC and the New Jersey Board of Public Utilities.

On December 13, 2012, PPL Electric received federal construction and right of way permits to build on National Park Service lands.

Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be completed before the peak summer demand period of 2015. At June 30, 2013, PPL Electric's estimated share of the project cost was \$630 million.

PPL and PPL Electric cannot predict the ultimate outcome or timing of any legal challenges to the project or what additional actions, if any, PJM might take in the event of a further delay to the scheduled in-service date for the new line.

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line that includes three new substations and upgrades to adjacent facilities). The FERC granted the incentive for inclusion in rate base of all prudently incurred construction work in progress (CWIP) costs but denied the incentive for a 100 basis point adder to the return on equity. The order required a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project, which PPL Electric submitted to the FERC in March 2013 and the FERC subsequently approved in April 2013.

In December 2012, PPL Electric submitted an application to the PUC requesting permission to site and construct the project. A number of parties have protested the application, which has been assigned to an Administrative Law Judge. Evidentiary hearings were held in July 2013. A final PUC order is expected in the first quarter of 2014. PPL Electric expects the project to be completed in 2017. At June 30, 2013, PPL Electric increased the estimated costs of the project to \$335 million from its original estimate of \$200 million at December 31, 2012. The increased cost is primarily related to higher material and labor costs and additional scope due to revised construction standards. Of the total estimated cost, \$308 million qualifies for the CWIP treatment.

See Note 8 in PPL's and PPL Electric's 2012 Form 10-K for additional information.

9. Defined Benefits

(PPL, PPL Energy Supply, LKE and LG&E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed between capital and expense, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL, PPL Energy Supply, LKE and LG&E for the periods ended June 30:

	Pension Benefits								
	Three Months				Six Months				
	U.S.		U.K.		U.S.		U.K.		
	2013	2012	2013	2012	2013	2012	2013	2012	
PPL									
Service cost	\$ 32	\$ 26	\$ 16	\$ 14	\$ 63	\$ 52	\$ 34	\$ 27	
Interest cost	53	54	78	85	107	110	159	169	
Expected return on plan assets	(73)	(64)	(113)	(114)	(147)	(130)	(231)	(225)	
Amortization of:									
Prior service cost	5	6		1	11	12		2	
Actuarial (gain) loss	20	11	37	20	40	21	75	40	
Net periodic defined benefit costs (credits)	\$ 37	\$ 33	\$ 18	\$ 6	\$ 74	\$ 65	\$ 37	\$ 13	

	Pension Benefits			
	Three Months		Six Months	
	2013	2012	2013	2012
<u>PPL Energy Supply</u>				
Service cost	\$ 2	\$ 2	\$ 4	\$ 3
Interest cost	2	2	4	4
Expected return on plan assets	(2)	(3)	(5)	(5)
Amortization of:				
Actuarial (gain) loss			1	1
Net periodic defined benefit costs (credits)	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 3</u>
<u>LKE</u>				
Service cost	\$ 6	\$ 5	\$ 13	\$ 11
Interest cost	15	15	31	32
Expected return on plan assets	(20)	(17)	(41)	(35)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial (gain) loss	9	6	17	11
Net periodic defined benefit costs (credits)	<u>\$ 11</u>	<u>\$ 10</u>	<u>\$ 22</u>	<u>\$ 21</u>
<u>LG&E</u>				
Service cost		\$ 1	\$ 1	\$ 1
Interest cost	\$ 4	3	7	7
Expected return on plan assets	(5)	(4)	(10)	(9)
Amortization of:				
Prior service cost			1	1
Actuarial (gain) loss	4	2	7	5
Net periodic defined benefit costs (credits)	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ 5</u>
Other Postretirement Benefits				
	Three Months		Six Months	
	2013	2012	2013	2012
<u>PPL</u>				
Service cost	\$ 3	\$ 3	\$ 7	\$ 6
Interest cost	7	8	14	16
Expected return on plan assets	(6)	(5)	(12)	(11)
Amortization of:				
Transition obligation				1
Actuarial (gain) loss	2	1	3	2
Net periodic defined benefit costs (credits)	<u>\$ 6</u>	<u>\$ 7</u>	<u>\$ 12</u>	<u>\$ 14</u>
<u>LKE</u>				
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	2	2	4	4
Expected return on plan assets	(1)	(1)	(2)	(2)
Amortization of:				
Transition obligation		1		1
Prior service cost		1	1	2
Actuarial (gain) loss		(1)		(1)
Net periodic defined benefit costs (credits)	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 5</u>	<u>\$ 6</u>

(PPL Energy Supply, PPL Electric, LG&E and KU)

In addition to the specific defined benefit plans they sponsor, PPL Energy Supply subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services and LG&E is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. PPL Electric and KU do not independently sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. For the periods ended June 30, PPL Services allocated the following net periodic defined benefit costs to PPL Energy Supply subsidiaries and PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU.

	Three Months		Six Months	
	2013	2012	2013	2012
PPL Energy Supply	\$ 12	\$ 9	\$ 23	\$ 19
PPL Electric	9	7	18	15
LG&E	3	3	6	6
KU	5	5	9	9

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL and PPL Electric)

In May 2012, PPL Electric filed a plan with the PUC to purchase its electric supply for default customers for the period June 2013 through May 2015. The PUC approved the plan in January 2013. The approved plan proposes that PPL Electric procure this electricity through competitive solicitations twice each plan year beginning in April 2013. The solicitations will include layered short-term full-requirement products ranging from three months to 12 months for residential and small commercial and industrial PLR customers as well as a recurring 12 month spot market product for large commercial and industrial PLR customers. To date, one of four solicitations has been completed.

(PPL Electric)

See Note 11 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Legal Matters

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification *(PPL and LKE)*

See footnote (1) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(PPL and PPL Energy Supply)

Montana Hydroelectric Litigation

In November 2004, PPL Montana, Avista Corporation (Avista) and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydroelectric facilities' use and occupancy of certain riverbeds in Montana can be collected by the State of Montana. This lawsuit followed dismissal on jurisdictional grounds of an earlier federal lawsuit seeking such compensation in the U.S. District Court of Montana. The federal lawsuit alleged that the beds of Montana's navigable rivers became state-owned trust property upon Montana's admission to statehood, and that the use of them should, under a 1931 regulatory scheme enacted after all but one of the hydroelectric facilities in question were constructed, trigger lease payments for use of land beneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it was not seeking compensation for the period prior to PPL Montana's December 1999 acquisition of the hydroelectric facilities.

Following a number of adverse trial court rulings, in 2007 PacifiCorp and Avista each entered into settlement agreements with the State of Montana providing, in pertinent part, that each company would make prospective lease payments for use of the State's navigable riverbeds (subject to certain future adjustments), resolving the State's claims for past and future compensation.

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately \$35 million for the 2000-2006 period and approximately \$6 million for 2007 compensation. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods. In March 2010, the Montana Supreme Court substantially affirmed the June 2008 Montana District Court decision.

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition, and in February 2012 issued a decision overturning the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the

U.S. Supreme Court's opinion. In April 2012, the case was returned by the Montana Supreme Court to the Montana First Judicial District Court. Further proceedings have not yet been scheduled by the District Court. PPL Montana has concluded it is not probable, but it remains reasonably possible, that a loss has been incurred. While unable to estimate a range of loss, PPL Montana believes that any such amount would not be material.

Sierra Club Litigation

In July 2012, PPL Montana received a Notice of Intent to Sue (Notice) for violations of the Clean Air Act at Colstrip Steam Electric Station (Colstrip) from counsel on behalf of the Sierra Club and the Montana Environmental Information Center (MEIC). An Amended Notice was received on September 4, 2012, and a Second Amended Notice was received in October 2012. A Supplemental Notice was received in December 2012. The Notice, Amended Notice, Second Amended Notice and Supplemental Notice (the Notices) were all addressed to the Owner or Managing Agent of Colstrip, and to the other Colstrip co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, Northwestern Energy and PacificCorp. The Notices allege certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements.

On March 6, 2013, the Sierra Club and MEIC filed a complaint against PPL Montana and the other Colstrip co-owners in the U.S. District Court, District of Montana, Billings Division. PPL Montana operates Colstrip on behalf of the co-owners. The complaint is generally consistent with the prior Notices and lists 39 separate claims for relief. All but three of the claims allege Prevention of Significant Deterioration (PSD) related violations under the federal Clean Air Act for various plant maintenance projects completed since 1992. For each such project or set of projects, there are separate claims for failure to obtain a PSD permit, for failure to obtain a Montana Air Quality Permit to operate after the project(s) were completed and for operating after completion of such project(s) without "Best Available Control Technology". The remaining three claims relate to the alleged failure to update the Title V operating permit for Colstrip to reflect the alleged major modifications described in the other claims, allege that the previous Title V compliance certifications were incomplete because they did not address the major plant modifications, and that numerous opacity violations have occurred at the plant since 2007. The complaint requests injunctive relief and civil penalties on average of \$36,000 per day per violation, including a request that the owners remediate environmental damage and that \$100,000 of the civil penalties be used for beneficial mitigation projects. PPL Montana believes it and the other co-owners have numerous defenses to the allegations set forth in this complaint and will vigorously assert the same. Trial in this matter as to liability has been scheduled for October 2014. Trial as to remedies, if there is a finding of liability, is scheduled for August 2015.

On July 27, 2013, the Sierra Club and MEIC filed an additional Notice, identifying additional expansion projects that are alleged not to be in compliance with the Clean Air Act. PPL Montana cannot predict the ultimate outcome of this matter at this time.

Regulatory Issues

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

See Note 6 for information on regulatory matters related to utility rate regulation. See Note 15 to the Registrants' 2012 Form 10-K for a discussion of Enactment of Financial Reform Legislation.

(PPL, PPL Energy Supply and PPL Electric)

New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as the generation that may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. Several parties have filed

appeals of the FERC's order. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution and requesting declaratory and injunctive relief barring implementation of the Act by the BPU Commissioners. In October 2011, the court denied the BPU's motion to dismiss the proceeding and in September 2012, the U.S. District Court denied all summary judgment motions. Trial of this matter was completed in June 2013 and is pending decision. Any decision is expected to be appealed to the U.S. Court of Appeals for the Third Circuit. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electric generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution and requested declaratory and injunctive relief barring implementation of the order by the Commissioners of the MD PSC. In August 2012, the court denied the MD PSC and CPV Maryland, LLC motions to dismiss the proceeding. Trial of this matter was completed in March 2013 and a decision is expected in the third quarter of 2013. Any decision is expected to be appealed to the U.S. Court of Appeals for the Fourth Circuit. PPL, PPL Energy Supply, and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Pacific Northwest Markets (PPL and PPL Energy Supply)

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence. In July 2012, PPL Montana and the City of Tacoma, one of the two parties claiming refunds at FERC, reached a settlement whereby PPL Montana paid \$75 thousand to resolve the City of Tacoma's \$23 million claim. The settlement does not resolve the remaining claim outstanding at June 30, 2013, by the City of Seattle, for approximately \$50 million. In April 2013, the FERC issued an order on reconsideration allowing the parties to seek refunds for the period January 2000 through December 2000. As a result, the City of Seattle may be able to seek refunds from PPL Montana for such period. Hearings have been scheduled to begin in August 2013.

Although PPL and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

Electric - Reliability Standards (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards. The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

LG&E, KU , PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In October 2012, the FERC issued a Notice of Proposed Rulemaking (NOPR) concerning Reliability Standards for geomagnetic disturbances (GMDs). The FERC proposed to direct the NERC to submit for approval Reliability Standards that address the impact of GMDs on the reliable operation of the bulk-power system. In May 2013, the FERC issued its Final Rule, Order No. 779, which directs the NERC to submit GMD Reliability Standards to the FERC for approval in two stages. In the first stage, the NERC must submit one or more Reliability Standards by January 22, 2014 that require owners and operators of the bulk-power system to develop and implement operational procedures to mitigate the effects of GMDs on the bulk-power system. In the second stage, the NERC must submit one or more Reliability Standards by January 22, 2015 that require owners and operators of bulk-power system facilities to assess yet to be determined "benchmark GMD events" and develop and implement plans to protect the bulk-power system from such GMD events. The Registrants are unable to predict the specific requirements that will be contained in the Reliability Standards that the NERC has been directed to submit or the amount of any expenditures that may be required as a result of the approval of any such Reliability Standards.

Environmental Matters - Domestic

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act as amended and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to related environmental compliance costs is reduced. As PPL Energy Supply is not a rate regulated entity, it cannot seek to recover environmental compliance costs through the mechanism of rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Air

CSAPR (formerly Clean Air Transport Rule) and CAIR

In July 2011, the EPA adopted the CSAPR. The CSAPR replaced the EPA's previous CAIR which was invalidated in July 2008 by the U.S. Court of Appeals for the District of Columbia Circuit (Circuit Court). CAIR subsequently was effectively reinstated by the Circuit Court in December 2008, pending finalization of the CSAPR. Like CAIR, CSAPR targeted sources in the eastern U.S. and required reductions in sulfur dioxide and nitrogen oxides in two phases (2012 and 2014).

In December 2011, the Circuit Court stayed implementation of the CSAPR and left CAIR in effect pending a final decision on the validity of the rule. In August 2012 the Circuit Court issued a ruling invalidating CSAPR, remanding the rule to the EPA for further action, and leaving CAIR in place during the interim. On June 24, 2013, the U.S. Supreme Court granted the EPA's petition for review of the Circuit Court's August 2012 decision.

The Kentucky fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements by utilizing sulfur dioxide allowances (including banked allowances and optimizing existing controls). To meet nitrogen oxide standards, under

the CAIR, the Kentucky companies will need to buy allowances and/or make operational changes. LG&E and KU do not currently anticipate that the costs of meeting these reinstated CAIR requirements or standards will be significant.

PPL Energy Supply's Pennsylvania fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet the CAIR nitrogen oxide standards, PPL Energy Supply will need to buy allowances and/or make operational changes, the costs of which are not anticipated to be significant.

National Ambient Air Quality Standards

PPL's fossil-fueled generating plants, including those in Montana, may face further reductions in emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates.

In 2010, the EPA finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. On July 25, 2013, the EPA designated as non-attainment areas part of Yellowstone County in Montana (Billings area), primarily the Corette plant and its immediate vicinity, and part of Jefferson County in Kentucky. These designations will become final 60 days after publication in the Federal Register. Attainment must be achieved by 2018.

In December 2012, the EPA issued final rules that strengthen the particulate standards. Under the final rule, states and the EPA have until 2015 to identify non-attainment areas, and states have until 2020 to achieve attainment status for those areas.

PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR, or the MATS, or the Regional Haze requirements (as discussed below), such as upgraded or new sulfur dioxide scrubbers at certain plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment as noted above is not expected to be significant as PPL Energy Supply previously announced its intent to place the plant in long-term reserve status beginning in April 2015 (see "MATS" below). The longer-term impact will depend on what the MDEQ proposes in its State Implementation Plan to bring the area into attainment, which plan is due within 18 months from the date of the EPA's designation (as well as the status of plant operations at that time).

Until particulate matter and sulfur dioxide maintenance and compliance plans are developed by the EPA and state or local agencies, including identification and finalization of attainment designations for particulate matter, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the impact of the new standards.

MATS

In May 2011, the EPA published a proposed regulation requiring stringent reductions of mercury and other hazardous air pollutants from power plants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 2012. The rule is being challenged by industry groups and states. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute.

At the time the MATs rule was proposed, LG&E and KU filed requests with the KPSC for environmental cost recovery based on their expected need to install environmental controls, including chemical additive and fabric-filter baghouses to remove certain hazardous air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. LG&E's and KU's anticipated retirement of certain coal-fired electric generating units is in response to this and other environmental regulations. LG&E and KU are continuing to assess whether any revisions of their approved compliance plans will be necessary.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that installation of chemical additive systems may be necessary at certain coal-fired plants, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact on operating costs. With respect to PPL Energy Supply's Montana plants, modifications to the air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. For the Corette plant, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant asset group's carrying amount at June 30, 2013 was \$68 million. Although the Corette plant asset group was not determined to be impaired at June 30, 2013, it is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash

flows. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below. Upon reconsideration of the MATS rule, in March 2013 the EPA revised certain emission limits and related requirements for new power plants. The revised limits are somewhat less onerous than the original proposal, and thereby pose less of an impediment to the construction of new coal-fired power plants.

Regional Haze and Visibility

The EPA's regional haze programs were developed under the Clean Air Act to eliminate man-made visibility degradation by 2064. Under the programs, states are required to take action via state plans to make reasonable progress every decade, including the application of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977.

The primary power plant emissions affecting visibility are sulfur dioxide, nitrogen oxide and particulates. To date, the focus of regional haze activity has been the western U.S. because, until recently, BART requirements for sulfur dioxide and nitrogen oxide reductions in the eastern U.S. were largely addressed through compliance with other regulatory programs, such as CSAPR or CAIR. More specifically, before CAIR was temporarily invalidated in 2008, the EPA had determined, and the Circuit Court had affirmed, that a state could accept region-wide reductions under the CAIR trading program to satisfy BART requirements. After CAIR was temporarily invalidated, the EPA adopted a final rule providing that states subject to CSAPR (which replaced CAIR) may rely on participation in the CSAPR trading program as an alternative to BART. However, the Circuit Court's August 2012 decision to vacate and remand CSAPR and to implement CAIR in its place on an interim basis leaves power plants located in the eastern U.S., including PPL's plants in Pennsylvania and Kentucky, exposed to reductions in sulfur dioxide and nitrogen oxides as required by BART, unless the Circuit Court's decision, now pending before the U.S. Supreme Court, is overturned.

In addition to this exposure stemming from the remand of CSAPR, LG&E's Mill Creek Units 3 and 4 are required to reduce sulfuric acid mist emissions because they were determined to have a significant regional haze impact. These reductions are in the Kentucky Division of Air Quality's regional haze state implementation plan that was submitted to the EPA. LG&E is currently installing sorbent injection technology to comply with these reductions, the costs of which are not expected to be significant.

In Montana, the EPA Region 8 developed the regional haze plan as the Montana Department of Environmental Quality declined to develop a BART state implementation plan. In September 2012, the EPA issued its final Federal Implementation Plan (FIP) for the Montana regional haze rule. The final FIP indicated that no additional controls were assumed for Corette or Colstrip Units 3 and 4, but proposed tighter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply expects to meet these tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" above). See "Mercury and Other Hazardous Air Pollutants" discussion above. Under the final FIP, Colstrip Units 1 and 2 may require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxide and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. In November 2012, PPL filed a petition for review of the Montana Regional Haze FIP with the U.S. Court of Appeals for the Ninth Circuit. Environmental groups have also filed a petition for review. The two matters have been consolidated, and litigation is on-going.

New Source Review (NSR)

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL, PPL Energy Supply and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during a Spring 2012 maintenance outage at Colstrip Unit 1. In September 2012, PPL Montana received an information request from the Montana Department of Environmental Quality regarding Colstrip Unit 1 and other projects. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received an EPA notice alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent plant without assessing potential increased sulfuric acid mist emissions. KU contends that the projects in question were pollution control projects, and therefore exempt from the requirements cited by the EPA. In December 2009, the EPA

issued an information request on this matter. In September 2012, the parties reached a tentative settlement addressing the Ghent NSR matter that seeks to resolve a September 2007 notice of violation alleging opacity violations at the plant. A proposed consent decree was filed in the U.S. District Court for the Eastern District of Kentucky in December 2012. PPL, LKE and KU cannot predict the outcome of this matter until the consent decree is entered by the Court, but currently do not expect such outcome to result in costs in excess of amounts already accrued, which amounts are not material.

In August 2007, LG&E received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. See "Legal Matters" above for information on a lawsuit filed by environmental groups in March 2013 against PPL Montana and other owners of Colstrip.

If PPL subsidiaries are found to have violated NSR regulations, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

TC2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which in January 2010 were incorporated into a final revised permit issued by the KDAQ. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the capital costs of this project, if any.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

GHG Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that applied beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. As a result, any new sources or major modifications to existing GHG sources causing a net significant emissions increase now require adherence to the BACT permit limits for GHGs. The rules were challenged, and in June 2012 the Circuit Court upheld the EPA's regulations. In December 2012, the Circuit Court denied petitions for rehearing pertaining to its June 2012 opinion, and the U.S. Supreme Court has been petitioned by industry groups and sources to hear the case.

In addition, in April 2012, the EPA proposed New Source Performance Standards (NSPS) for carbon dioxide emissions from new coal-fired generating units, combined-cycle natural gas units, and integrated gasification combined-cycle units. The proposal would require new coal plants to achieve the same stringent limitations on carbon dioxide emissions as the best performing new gas plants. There presently is no commercially available technology to allow new coal plants to meet these limitations and, as a result, the EPA's proposal would effectively preclude new construction of coal-fired generation. Compliance could even be difficult for certain new gas-fired plants. In December 2012, the Circuit Court dismissed consolidated challenges to the NSPS holding that the proposed rule is not a final agency action.

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum the EPA was directed to issue a new proposal for new power plants by September 20, 2013, with a final rule in a timely fashion thereafter, and to issue proposed standards for existing plants by June 1, 2014 with a final rule to be issued by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016. Regulation of existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and the state implementation plans. The Administration's

recent increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may also lead to more costly regulatory requirements. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect PPL and others in the industry as transmission system modifications to improve the ability to withstand major storms may be needed in order to meet those requirements.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction, by 2019, in carbon dioxide emissions from base levels.

Pennsylvania has not stated an intention to join the RGGI, but enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report and identified specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. To date, the state has not issued a final plan. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained claims brought on the basis of these theories of liability, the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the Second Circuit and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in *Comer v. Murphy Oil* (*Comer case*), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the *Comer case* named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the *Comer case* filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal district court granted defendants' motions to dismiss the state common law claims. Plaintiffs appealed to the U.S. Court of Appeals for the Fifth Circuit and in May 2013 the Fifth Circuit affirmed the district court's dismissal of the case. Additional litigation in federal and state courts over such issues is continuing. PPL, LKE and KU cannot predict the outcome of these lawsuits or estimate a range of reasonably possible losses, if any.

Renewable Energy Legislation (PPL, PPL Energy Supply, LKE, LG&E and KU)

There has been interest in renewable energy legislation at both the state and federal levels. Federal legislation on renewable energy is not expected to be enacted this year. In Pennsylvania, bills were recently introduced calling for an increase in AEPS Tier 1 obligations and to create a \$25 million permanent funding program for solar generation. A bill adding new hydropower to Montana's renewable portfolio standard was enacted with an effective date of October 1, 2013.

PPL, PPL Energy Supply, LKE, LG&E and KU believe there are financial, regulatory and logistical uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their competitive plants' future competitive position, results of

operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. Regulating CCRs as a hazardous waste under Subtitle C of the RCRA would materially increase costs and result in early retirements of many coal-fired plants, as it would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through generation, transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The EPA's proposed approach to regulate CCRs as non-hazardous waste under Subtitle D of the RCRA would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the EPA's proposed non-hazardous waste regulations, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented or is implementing certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) requesting comments on selected documents it received during the comment period for the proposed regulations, and on July 29, 2013, the EPA released a pre-publication version of a second NODA seeking comment on additional information related to its proposal. On July 25, 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from regulating CCRs under RCRA and sets rules governing state programs; however, prospects remain uncertain for similar legislation to pass in the Senate.

A coalition of environmental groups and two CCR recycling companies have filed lawsuits against the EPA for failure to perform nondiscretionary duties under RCRA, which could require a deadline for the EPA to issue strict CCR regulations. The two CCR recycling companies are asserting that the EPA should regulate CCRs as a non-hazardous waste that would allow for continued recycling of CCRs.

A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by the outcome of the above litigation, which could require the EPA to issue its regulations sooner.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the financial impact could be material if CCRs are regulated as hazardous waste and significant if regulated as non-hazardous.

Trimble County Landfill Permit (PPL, LKE, LG&E and KU)

In May 2011, LG&E submitted an application for a special waste landfill permit to handle coal combustion residuals generated at the Trimble County plant. After extensive review of the permit application in May 2013, the Kentucky Division of Waste Management denied the permit application on the grounds that the proposed facility would violate the Kentucky Cave Protection Act because it would eliminate an on-site karst feature considered to be a cave. LG&E and KU are assessing additional options for managing coal combustion residuals including construction of a landfill at an alternate site adjacent to the plant. Submittal of a new permit application for an alternative site may result in additional environmental considerations in the course of the permitting process and substantial additional costs. LG&E and KU are unable to determine the precise impact of this matter until they select an alternate management option and complete a detailed engineering design.

Martins Creek Fly Ash Release (PPL and PPL Energy Supply)

In 2005, approximately 100 million gallons of water containing fly ash was released from a disposal basin at the Martins Creek plant used in connection with the operation of the plant's two 150 MW coal-fired generating units. This resulted in ash

being deposited onto adjacent roadways and fields, and into a nearby creek and the Delaware River. PPL Energy Supply determined that the release was caused by a failure in the disposal basin's discharge structure. PPL Energy Supply conducted extensive clean-up and completed studies, in conjunction with a group of natural resource trustees and the Delaware River Basin Commission, evaluating the effects of the release on the river's sediment, water quality and ecosystem.

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL Energy Supply and the PADEP have settled this matter. The settlement required PPL Energy Supply to submit a report on the completed studies of possible natural resource damages. PPL Energy Supply subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies. Subsequently, in August 2011 the PADEP submitted its National Resource Damage (NRD) Assessment report to the court and interveners. In December 2011, the interveners commented on the PADEP report and in February 2012 the PADEP and PPL Energy Supply filed separate responses with the court. In March 2012, the court dismissed the interveners' case, and the interveners appealed the dismissal to the Pennsylvania Supreme Court. In June 2013 the Supreme Court dismissed the appeal. Following this ruling, PPL Energy Supply is proceeding to finalize the NRD settlement with the PADEP and other NRD trustees.

Through June 30, 2013, PPL Energy Supply has spent \$28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the NRD settlement or the associated costs, the outcome of any new lawsuit that may be brought by citizens or businesses or the nature of any other regulatory or legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in significant losses above the amounts currently recorded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to implement assessment or abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage due to seepage from plant wastewater ponds. A settlement agreement was reached in July 2010, which would have resulted in a payment by PPL Montana, but certain of the plaintiffs later argued the settlement was not final. The Colstrip plant owners filed a motion to enforce the settlement and in October 2011 the court granted the motion and ordered the settlement to be completed in 60 days. The plaintiffs appealed the October 2011 order to the Montana Supreme Court, which affirmed the district court's order enforcing the settlement in December 2012 and denied plaintiff's motion for rehearing in February 2013. The parties are still in negotiations regarding the final settlement documents. PPL Montana's share of the settlement is not expected to be significant.

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years, PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER) on behalf of the Sierra Club, the MEIC, and the National Wildlife Federation (NWF). In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County.

In late October 2012, Earthjustice filed a second complaint against the MDEQ and PPL Montana in state district court in Lewis and Clark County on behalf of the Sierra Club, the MEIC and the NWF. This complaint alleges that the defendants have failed to take action under the MFSA and the Montana Water Quality Act to effectively monitor and correct issues of

coal ash disposal and wastewater ponds at the Colstrip plant. The complaint seeks a declaration that the operations of the impoundments violate the statutes referred to above, requests a writ of mandamus directing the MDEQ to enforce the same and seeks recovery of attorneys' fees and costs. In May 2013, the court granted MDEQ's and PPL Montana's motion to dismiss. It is unknown at this time whether the complainants will appeal this decision.

Clean Water Act 316(b) (PPL, PPL Energy Supply, LKE, LG&E and KU)

The EPA published proposed rule 316(b) for existing facilities in April 2011. The EPA has been evaluating the comments it received to the proposed rule and meeting with industry groups to discuss options. The proposed rule contains two requirements to reduce impact to aquatic organisms at cooling water intake structures. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens (impingement) regardless of the levels of mortality actually occurring or the cost to achieve the standards. The second requirement is to determine and install the best technology available to reduce mortality of aquatic organisms pulled through a plant's cooling water system (entrainment). A form of cost-benefit analysis is allowed for this second requirement involving a site-specific evaluation based on nine factors, including impacts to energy delivery reliability and the remaining useful life of the plant. The final rule is expected to be issued in November 2013. Until the final rule is issued, PPL, PPL Energy Supply, LKE, LG&E and KU cannot reasonably estimate a range of reasonably possible costs, if any, that would be required to comply with such a regulation.

Effluent Limitations Guidelines (ELGs) and Standards (PPL, PPL Energy Supply, LKE, LG&E and KU)

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations contain requirements that would affect the inspection and operation of CCR facilities, if finalized. The EPA has indicated that it will coordinate these regulations with the regulation of CCRs discussed above. The proposal contains alternative approaches, some of which could significantly impact PPL's coal-fired plants. PPL is working with industry groups to comment on the proposed regulation. The final regulation is expected to be issued in May 2014. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

Other Issues (PPL, PPL Energy Supply, LKE, LG&E and KU)

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. The EPA is planning to propose the revised regulations in 2014. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

A PPL Energy Supply subsidiary has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant, but the subsidiary and the PADEP have concluded that a barrier method to exclude fish is not workable. In June 2012, a Consent Order and Agreement (COA) was signed that allows the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. Should this approach fail, the COA requires a retrofit of impingement control technology at the intakes to the cooling towers, the cost of which could be significant.

In May 2010, the subsidiary received a draft NPDES permit (renewed) for the Brunner Island plant from the PADEP. This permit includes new technology-based limits for the scrubber wastewater plant. Some of these limits may not be achievable with the existing treatment system. Several agencies and environmental groups commented on the draft permit, raising issues that must be resolved to obtain a final permit for the plant. PPL Energy Supply cannot predict the outcome of the final resolution of the permit issues at this time, or what impact, if any, they would have on this facility, but the costs could be significant.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

The EPA and the Army Corps of Engineers are working on a guidance document that will expand the federal government's interpretation of what constitutes "waters of the U.S." subject to regulation under the Clean Water Act. This change has the potential to affect generation and delivery operations, with the most significant effect being the potential elimination of the existing regulatory exemption for plant waste water treatment systems. The costs that may be imposed on the Registrants as a result of any eventual expansion of this interpretation cannot reliably be estimated at this time but could be significant.

Superfund and Other Remediation (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL Electric is potentially responsible for costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase substantially more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL Energy Supply, PPL Electric, LG&E and KU undertake remedial action in response to spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on their operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for the Registrants.

Environmental Matters - WPD (PPL)

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

Other

Nuclear Insurance (PPL and PPL Energy Supply)

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Effective April 1, 2013, facilities at the Susquehanna plant are insured against property damage losses up to \$2.50 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. Effective April 1, 2013, this maximum assessment was \$46 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to \$12.6 billion under provisions of The Price-Anderson Act as amended. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act as amended, PPL Susquehanna could be assessed up to \$235 million per incident, payable at \$35 million per year.

Guarantees and Other Assurances

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The table below details guarantees provided at June 30, 2013. The total recorded liability at June 30, 2013 and December 31, 2012, was \$23 million and \$24 million for PPL and \$20 million for both periods for LKE. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<u>Exposure at June 30, 2013 (a)</u>	<u>Expiration Date</u>
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(b)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 10 (c)	2018
WPD guarantee of pension and other obligations of unconsolidated entities	87 (d)	2015
<u>PPL Energy Supply</u>		
Letters of credit issued on behalf of affiliates	23 (e)	2013 - 2014
Retrospective premiums under nuclear insurance programs	46 (f)	
Nuclear claims assessment under The Price-Anderson Act as amended	235 (g)	
Indemnifications for sales of assets	250 (h)	2025
Indemnification to operators of jointly owned facilities	6 (i)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (j)	2018
<u>PPL Electric</u>		
Guarantee of inventory value	29 (k)	2017
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301 (l)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(m)	

(a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.

(b) Prior to PPL's acquisition, WPD Midlands Holdings Limited had agreed to indemnify certain former directors of a Turkish entity, in which WPD Midlands Holdings Limited previously owned an interest, for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.

- (c) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (d) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At June 30, 2013, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.
- (e) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.
- (f) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance" above for additional information.
- (g) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance" above for additional information.
- (h) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits. The indemnification provisions described below are in each case subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions for most representations and warranties expired in the third quarter of 2011.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification provisions for most representations and warranties expired in the fourth quarter of 2012.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions for most representations and warranties expired in the first quarter of 2012.

- (i) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating plants. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating plants, based upon their ownership percentages. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The exposure shown reflects the PPL Energy Supply subsidiary's share of the maximum obligation. The agreements do not have an expiration date.
- (j) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser, secured by a lien on the purchaser's stock of Safe Harbor, in the event PPL Energy Supply is required to make a payment under the guarantee. The exposure noted reflects principal only.
- (k) PPL Electric entered into contracts with a third party logistics firm that provides inventory procurement and fulfillment services. Under the contracts, the logistics firm has title to the inventory purchased for PPL Electric's use. Upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold by the logistics firm at the weighted-average cost at which the logistics firm purchased the inventory.
- (l) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing the December 2012 order of the Henderson Circuit Court, confirming the arbitration award. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties

related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. In the second quarter of 2012, LKE adjusted its estimated liability for certain of these indemnifications by \$9 million (\$5 million after-tax), which is reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income. The adjustment was recorded in the Kentucky Regulated segment for PPL. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.

- (m) Pursuant to the OVEC power purchase contract, expiring in June 2040, LG&E and KU are obligated to pay a demand charge which includes, among other charges, debt service and amortization toward principal retirement, decommissioning costs, post-retirement and post-employment benefits costs (other than pensions), and reimbursement of plant operating, maintenance and other expenses. The demand charge is expected to cover LG&E's and KU's shares of the cost of the listed items over the term of the contract. However, in the event there is a shortfall in covering these costs, LG&E and KU are obligated to pay their share of the excess debt service, post-retirement and decommissioning costs. The maximum exposure and the expiration date of these potential obligations are not presently determinable.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a maximum \$4 million deductible for PPL, PPL Energy Supply and PPL Electric and \$2 million for LKE, LG&E and KU, per occurrence and provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable (PPL Energy Supply and PPL Electric)

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. The sales and purchases between PPL EnergyPlus and PPL Electric are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Default Service Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered; and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, PPL EnergyPlus' credit limit was \$35 million at June 30, 2013. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At June 30, 2013, PPL Energy Supply had a net credit exposure of \$26 million from PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Allocations of PPL Services Costs (PPL Energy Supply, PPL Electric and LKE)

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of such services when they can be specifically identified. The cost of the services that is not directly charged to PPL subsidiaries is allocated to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services charged the following amounts for the periods ended June 30, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense:

	Three Months		Six Months	
	2013	2012	2013	2012
PPL Energy Supply	\$ 52	\$ 53	\$ 109	\$ 110
PPL Electric	34	39	72	81
LKE	4	3	8	8

Intercompany Billings by LKS (LG&E and KU)

LKS provides LG&E and KU with a variety of centralized administrative, management and support services. The cost of these services is directly charged to the company or, for general costs that cannot be directly attributed, charged based on predetermined allocation factors, including the following measures: number of customers, total assets, revenues, number of employees and/or other statistical information. LKS charged the amounts in the table below for the periods ended June 30, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense:

	Three Months		Six Months	
	2013	2012	2013	2012
LG&E	\$ 67	\$ 40	\$ 106	\$ 81
KU	44	35	110	81

In addition, LG&E and KU provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and LKE and KU are reimbursed through LKS.

Intercompany Borrowings (LKE)

LKE maintains a \$300 million revolving demand note with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At June 30, 2013 and December 31, 2012, \$72 million and \$25 million was outstanding and was reflected in "Notes payable with affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at June 30, 2013 was 1.69%. Interest on the demand note was not significant for the three and six months ended June 30, 2013 and 2012.

Intercompany Derivatives (LKE, LG&E and KU)

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 14 for additional information on intercompany derivatives.

Intercompany Insurance (PPL Electric)

In May 2013, PPL Electric received \$18.25 million from the settlement of its 2012 storm insurance claims with PPL Power Insurance Ltd. (PPL Power Insurance), a subsidiary of PPL that provides certain insurance coverage to PPL and its subsidiaries.

Effective January 1, 2013, PPL Electric no longer has storm insurance coverage with PPL Power Insurance. See Note 6 for discussion regarding the proposed Storm Damage Expense Rider filed with the PUC by PPL Electric.

Other (PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

See Note 7 for a discussion regarding capital transactions by PPL Energy Supply, PPL Electric, LKE, LG&E and KU. For PPL Energy Supply, PPL Electric, LG&E and KU, refer to Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The breakdown of "Other Income (Expense) - net" for the periods ended June 30 was:

	Three Months		Six Months	
	2013	2012	2013	2012
PPL				
Other Income				
Earnings on securities in NDT funds	\$ 5	\$ 4	\$ 10	\$ 12
Interest income		2	1	3
AFUDC - equity component	2	3	5	5
Earnings (losses) from equity method investments		(4)		(6)
Miscellaneous - Domestic	7	3	9	5
Miscellaneous - U.K.		2	1	2
Total Other Income	14	10	26	21
Other Expense				
Economic foreign currency exchange contracts (Note 14)	(4)	(25)	(123)	(7)
Charitable contributions	4	2	8	6
Miscellaneous - Domestic	1	4	5	8
Miscellaneous - U.K.		(1)	1	1
Total Other Expense	1	(20)	(109)	8
Other Income (Expense) - net	\$ 13	\$ 30	\$ 135	\$ 13
PPL Energy Supply				
Other Income				
Earnings on securities in NDT funds	\$ 5	\$ 4	\$ 10	\$ 12
Interest income	2	1	2	1
Miscellaneous	6	2	7	3
Total Other Income	13	7	19	16
Other Expense				
Charitable contributions	1		2	1
Miscellaneous		1	1	4
Total Other Expense	1	1	3	5
Other Income (Expense) - net	\$ 12	\$ 6	\$ 16	\$ 11

"Other Income (Expense) - net" for the three and six months ended June 30, 2013 and 2012 for PPL Electric is primarily the equity component of AFUDC. The components of "Other Income (Expense) - net" for the three and six months ended June 30, 2013 for LKE, LG&E and KU are not significant. "Other Income (Expense) - net" for the three and six months ended June 30, 2012 for LKE and KU is primarily losses from an equity method investment. The components of "Other Income (Expense) - net" for the three and six months ended June 30, 2012 for LG&E are not significant.

13. Fair Value Measurements and Credit Concentration

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and six months ended June 30, 2013 and 2012, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2012 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	June 30, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 711	\$ 711			\$ 901	\$ 901		
Restricted cash and cash equivalents (a)	151	151			135	135		
Price risk management assets:								
Energy commodities	1,654	1	\$ 1,600	\$ 53	2,068	2	\$ 2,037	\$ 29
Interest rate swaps	132		132		15		15	
Foreign currency contracts	85		85					
Cross-currency swaps	62		59	3	14		13	1
Total price risk management assets	1,933	1	1,876	56	2,097	2	2,065	30
NDT funds:								
Cash and cash equivalents	12	12			11	11		
Equity securities								
U.S. large-cap	468	349	119		412	308	104	
U.S. mid/small-cap	68	28	40		60	25	35	
Debt securities								
U.S. Treasury	95	95			95	95		
U.S. government sponsored agency	6		6		9		9	
Municipality	77		77		82		82	
Investment-grade corporate	39		39		40		40	
Other	3		3		3		3	
Receivables (payables), net	3		3			(2)	2	
Total NDT funds	771	484	287		712	437	275	
Auction rate securities (b)	19			19	19		3	16
Total assets	\$ 3,585	\$ 1,347	\$ 2,163	\$ 75	\$ 3,864	\$ 1,475	\$ 2,343	\$ 46

Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,351	\$ 1	\$ 1,337	\$ 13	\$ 1,566	\$ 2	\$ 1,557	\$ 7
Interest rate swaps	46		46		80		80	
Foreign currency contracts	3		3		44		44	
Cross-currency swaps	1		1		4		4	
Total price risk management liabilities	\$ 1,401	\$ 1	\$ 1,387	\$ 13	\$ 1,694	\$ 2	\$ 1,685	\$ 7

PPL Energy Supply

Assets								
Cash and cash equivalents	\$ 265	\$ 265			\$ 413	\$ 413		
Restricted cash and cash equivalents (a)	87	87			63	63		
Price risk management assets:								
Energy commodities	1,654	1	\$ 1,600	\$ 53	2,068	2	\$ 2,037	\$ 29
Total price risk management assets	1,654	1	1,600	53	2,068	2	2,037	29
NDT funds:								
Cash and cash equivalents	12	12			11	11		
Equity securities								
U.S. large-cap	468	349	119		412	308	104	
U.S. mid/small-cap	68	28	40		60	25	35	
Debt securities								
U.S. Treasury	95	95			95	95		
U.S. government sponsored agency	6		6		9		9	
Municipality	77		77		82		82	
Investment-grade corporate	39		39		40		40	
Other	3		3		3		3	
Receivables (payables), net	3		3			(2)	2	
Total NDT funds	771	484	287		712	437	275	
Auction rate securities (b)	16			16	16		3	13
Total assets	\$ 2,793	\$ 837	\$ 1,887	\$ 69	\$ 3,272	\$ 915	\$ 2,315	\$ 42

Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,351	\$ 1	\$ 1,337	\$ 13	\$ 1,566	\$ 2	\$ 1,557	\$ 7
Total price risk management liabilities	\$ 1,351	\$ 1	\$ 1,337	\$ 13	\$ 1,566	\$ 2	\$ 1,557	\$ 7

PPL Electric

Assets								
Cash and cash equivalents	\$ 24	\$ 24			\$ 140	\$ 140		
Restricted cash and cash equivalents (c)	12	12			13	13		
Total assets	\$ 36	\$ 36			\$ 153	\$ 153		

	June 30, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
LKE								
Assets								
Cash and cash equivalents	\$ 23	\$ 23			\$ 43	\$ 43		
Restricted cash and cash equivalents (d)	22	22			32	32		
Price risk management assets:								
Interest rate swaps	72		\$ 72		14		\$ 14	
Total price risk management assets	72		72		14		14	
Total assets	\$ 117	\$ 45	\$ 72		\$ 89	\$ 75	\$ 14	

Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 43		\$ 43		\$ 58		\$ 58	
Total price risk management liabilities	\$ 43		\$ 43		\$ 58		\$ 58	

LG&E								
Assets								
Cash and cash equivalents	\$ 13	\$ 13			\$ 22	\$ 22		
Restricted cash and cash equivalents (d)	22	22			32	32		
Price risk management assets:								
Interest rate swaps	36		\$ 36		7		\$ 7	
Total price risk management assets	36		36		7		7	
Total assets	\$ 71	\$ 35	\$ 36		\$ 61	\$ 54	\$ 7	

Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 43		\$ 43		\$ 58		\$ 58	
Total price risk management liabilities	\$ 43		\$ 43		\$ 58		\$ 58	

KU								
Assets								
Cash and cash equivalents	\$ 10	\$ 10			\$ 21	\$ 21		
Price risk management assets:								
Interest rate swaps	36		\$ 36		7		\$ 7	
Total price risk management assets	36		36		7		7	
Total assets	\$ 46	\$ 10	\$ 36		\$ 28	\$ 21	\$ 7	

- (a) Current portion is included in "Restricted cash and cash equivalents" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Included in "Other noncurrent assets" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended June 30, 2013 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months			Six Months				
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
Balance at beginning of period	\$ 14	\$ 16		\$ 30	\$ 22	\$ 16	\$ 1	\$ 39
Total realized/unrealized gains (losses)								
Included in earnings	14			14	6			6
Included in OCI (a)							3	3
Sales	(2)			(2)	(2)			(2)
Settlements	4			4	3			3
Transfers into Level 3	6	3	\$ 3	12	7	3	3	13
Transfers out of Level 3	4			4	4		(4)	
Balance at end of period	\$ 40	\$ 19	\$ 3	\$ 62	\$ 40	\$ 19	\$ 3	\$ 62

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months			Six Months				
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL Energy Supply								
Balance at beginning of period	\$ 14	\$ 13		\$ 27	\$ 22	\$ 13		\$ 35
Total realized/unrealized gains (losses)								
Included in earnings	14			14	6			6
Sales	(2)			(2)	(2)			(2)
Settlements	4			4	3			3
Transfers into Level 3	6	3		9	7	3		10
Transfers out of Level 3	4			4	4			4
Balance at end of period	<u>\$ 40</u>	<u>\$ 16</u>		<u>\$ 56</u>	<u>\$ 40</u>	<u>\$ 16</u>		<u>\$ 56</u>

(a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended June 30, 2012 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months			Six Months				
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL								
Balance at beginning of period	\$ 19	\$ 24	\$ 3	\$ 46	\$ 13	\$ 24	\$ 4	\$ 41
Total realized/unrealized gains (losses)								
Included in earnings	(2)		(1)	(3)	16		(1)	15
Included in OCI (a)	(1)	(1)	8	6	1	(1)	10	10
Sales		(5)		(5)	(5)			(5)
Settlements	(5)			(5)	(11)			(11)
Transfers into Level 3	14			14	14			14
Transfers out of Level 3	9	(3)		6	1	(3)	(3)	(5)
Balance at end of period	<u>\$ 34</u>	<u>\$ 15</u>	<u>\$ 10</u>	<u>\$ 59</u>	<u>\$ 34</u>	<u>\$ 15</u>	<u>\$ 10</u>	<u>\$ 59</u>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months			Six Months				
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL Energy Supply								
Balance at beginning of period	\$ 19	\$ 19		\$ 38	\$ 13	\$ 19		\$ 32
Total realized/unrealized gains (losses)								
Included in earnings	(2)			(2)	16			16
Included in OCI (a)	(1)	(1)		(2)	1	(1)		
Sales		(3)		(3)	(3)			(3)
Settlements	(5)			(5)	(11)			(11)
Transfers into Level 3	14			14	14			14
Transfers out of Level 3	9	(3)		6	1	(3)		(2)
Balance at end of period	<u>\$ 34</u>	<u>\$ 12</u>		<u>\$ 46</u>	<u>\$ 34</u>	<u>\$ 12</u>		<u>\$ 46</u>

(a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in and quantitative information about the fair value measurement of assets and liabilities classified as Level 3 are as follows:

June 30, 2013

	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Retail natural gas sales contracts (b)	\$ 36	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	17% - 100% (82%)
Power sales contracts (c)	(5)	Discounted cash flow	Proprietary model used to calculate forward basis prices	11% - 100% (39%)
Heat rate call option (d)	9	Discounted cash flow	Proprietary model used to calculate forward prices	18% (18%)
Auction rate securities (e)	19	Discounted cash flow	Modeled from SIFMA Index	11% - 78% (63%)
Cross-currency swaps (f)	3	Discounted cash flow	Credit valuation adjustment	11% (11%)

PPL Energy Supply

Energy commodities

Retail natural gas sales contracts (b)	\$ 36	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	17% - 100% (82%)
Power sales contracts (c)	(5)	Discounted cash flow	Proprietary model used to calculate forward basis prices	11% - 100% (39%)
Heat rate call option (d)	9	Discounted cash flow	Proprietary model used to calculate forward prices	18% (18%)
Auction rate securities (e)	16	Discounted cash flow	Modeled from SIFMA Index	11% - 78% (62%)

December 31, 2012

	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Retail natural gas sales contracts (b)	\$ 24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)
FTR purchase contracts (g)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (e)	16	Discounted cash flow	Modeled from SIFMA Index	54% - 74% (64%)
Cross-currency swaps (f)	1	Discounted cash flow	Credit valuation adjustment	22% (22%)

PPL Energy Supply

Energy commodities

Retail natural gas sales contracts (b)	\$ 24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)
FTR purchase contracts (g)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (e)	13	Discounted cash flow	Modeled from SIFMA Index	57% - 74% (65%)

- (a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs. For cross-currency swaps, the range and weighted average represent the percentage decrease in fair value due to the unobservable inputs used in the model to calculate the credit valuation adjustment.
- (b) At June 30, 2013, retail natural gas sales contracts extend through 2018, and \$16 million of the fair value is scheduled to deliver within the next 12 months. As the forward price of natural gas increases/(decreases), the fair value of the contracts (decreases)/increases.
- (c) At June 30, 2013, power sales contracts extend into 2018, and \$(5) million of the fair value is scheduled to deliver within the next 12 months. As the forward price of basis increases/(decreases), the fair value of the contracts (decreases)/increases.
- (d) At June 30, 2013, the heat rate call option extends through 2014, and \$6 million of the fair value is scheduled to deliver within the next 12 months. As the market implied heat rate increases/(decreases), the fair value of the contracts increases/(decreases).
- (e) At June 30, 2013, auction rate securities have a weighted average contractual maturity of 23 years. The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).
- (f) At June 30, 2013, cross-currency swaps extend into 2021. The credit valuation adjustment incorporates projected probabilities of default and estimated recovery rates. As the credit valuation adjustment increases/(decreases), the fair value of the swaps (decreases)/increases.

(g) As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the periods ended June 30 are reported in the Statements of Income as follows:

	Three Months									
	Energy Commodities, net								Cross-Currency Swaps	
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases		Interest Expense	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
PPL										
Total gains (losses) included in earnings	\$ 22	\$ 2	\$ (5)	\$ (6)	\$ (2)	\$ 1	\$ (1)	\$ 1		\$ (1)
Change in unrealized gains (losses) relating to positions still held at the reporting date	22	49	(12)	(7)	1	1	1			
PPL Energy Supply										
Total gains (losses) included in earnings	\$ 22	\$ 2	\$ (5)	\$ (6)	\$ (2)	\$ 1	\$ (1)	\$ 1		
Change in unrealized gains (losses) relating to positions still held at the reporting date	22	49	(12)	(7)	1	1	1			
	Six Months									
	Energy Commodities, net								Cross-Currency Swaps	
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases		Interest Expense	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
PPL										
Total gains (losses) included in earnings	\$ 15	\$ 18	\$ (7)	\$ (2)	\$ (2)					\$ (1)
Change in unrealized gains (losses) relating to positions still held at the reporting date	17	39	(2)	(13)	(7)	\$ 1	\$ 2	\$ 1		
PPL Energy Supply										
Total gains (losses) included in earnings	\$ 15	\$ 18	\$ (7)	\$ (2)	\$ (2)					
Change in unrealized gains (losses) relating to positions still held at the reporting date	17	39	(2)	(13)	(7)	\$ 1	\$ 2	\$ 1		

Price Risk Management Assets/Liabilities - Energy Commodities (PPL and PPL Energy Supply)

Energy commodity contracts for electricity, gas, oil and/or emission allowances are generally valued using the income approach, except for exchange-traded derivative gas and oil contracts, which are valued using the market approach and are classified as Level 1. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. Energy commodity contracts include forwards, futures, swaps, options and structured transactions and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and standard industry models. For example, the fair value of a full-requirement sales contract that delivers power to an illiquid delivery point may be measured by valuing the nearest liquid trading point plus the value of the basis between the two points. The basis input may be from market quotes or historical prices.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Level 3 contracts are valued using PPL proprietary models which include significant unobservable inputs such as delivery at a location where pricing is unobservable, assumptions for customer migration or delivery dates that are beyond the dates for which independent quotes are available. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2013 and 2012 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. For PPL, the primary reason for the transfers during 2013 and 2012 was the change in the significance of the credit valuation adjustment. Cross-currency swaps classified as Level 3 are valued by PPL's Corporate Finance department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

(PPL and PPL Energy Supply)

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets and are comprised of securities that are representative of the Wilshire 5000 Total Market Index.
- Investments in commingled equity funds are classified as Level 2 and represent securities that track the S&P 500 Index, Dow Jones U.S. Total Stock Market Index and the Dow Jones U.S. Completion Total Stock Market Index. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data.

The debt securities held in the NDT funds at June 30, 2013 have a weighted-average coupon of 3.99% and a weighted-average maturity of 7.8 years.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The exposure to realize losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3. The primary reason for the transfers in and out of Level 3 in 2013 and 2012 was the change in discount rates and SIFMA Index.

Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

Financial Instruments Not Recorded at Fair Value (*PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU*)

The carrying amounts of contract adjustment payments related to the Purchase Contract component of the Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	\$ 56	\$ 57	\$ 105	\$ 106
Long-term debt	19,626	21,413	19,476	21,671
PPL Energy Supply				
Long-term debt	3,263	3,462	3,272	3,556
PPL Electric				
Long-term debt	1,967	2,168	1,967	2,333
LKE				
Long-term debt	4,075	4,231	4,075	4,423
LG&E				
Long-term debt	1,112	1,136	1,112	1,178
KU				
Long-term debt	1,842	1,938	1,842	2,056

(a) Reflected in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, approximates fair value due to the variable interest rates associated with the financial instruments and is classified as Level 2.

Credit Concentration Associated with Financial Instruments

(*PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU*)

Contracts are entered into with many entities for the purchase and sale of energy. Many of these contracts qualify for NPNS and, as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

(*PPL*)

At June 30, 2013, PPL had credit exposure of \$1.3 billion from energy trading partners, excluding the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, PPL's credit exposure was reduced to \$669 million. The top ten counterparties accounted for \$339 million, or 51%, of this exposure and all had investment grade credit ratings from S&P or Moody's.

(*PPL Energy Supply*)

At June 30, 2013, PPL Energy Supply had credit exposure of \$1.3 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, this credit exposure was reduced to \$667 million. The top ten counterparties accounted for \$339 million, or 51%, of this exposure and all had investment grade credit ratings from S&P or Moody's. See Note 11 for information regarding the related party credit exposure.

(*PPL Electric*)

PPL Electric is exposed to credit risk under energy supply contracts (including its supply contracts with PPL EnergyPlus); however, its PUC-approved cost recovery mechanism is anticipated to substantially eliminate this exposure.

(LKE, LG&E and KU)

At June 30, 2013, LKE's, LG&E's and KU's credit exposure was not significant.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL has a risk management policy approved by the Board of Directors to manage market risk (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses, and daily portfolio reporting, including open positions, determinations of fair value, and other risk management metrics.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions, such as tolling agreements, are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

The table below summarizes the market risks that affect PPL and its subsidiaries.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Commodity price risk (including basis and volumetric risk)	X	X	M	M	M	M
Interest rate risk:						
Debt issuances	X	X	M	M	M	M
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Equity securities price risk:						
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Future stock transactions	X					
Foreign currency risk - WPD investment	X					

X = PPL and PPL Energy Supply actively mitigate market risks through their risk management programs described above.

M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

Commodity price and volumetric risks

- PPL is exposed to market and commodity price, basis and volumetric risk through its domestic subsidiaries as described below. Volumetric risk is significantly mitigated at WPD as a result of the method of regulation in the U.K.
- PPL Energy Supply is exposed to commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities.
- PPL Electric is exposed to commodity price and volumetric risks from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to market risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. WPD holds over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt and LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with defined benefit plans. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL Energy Supply is exposed to equity securities price risk in the NDT funds.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in U.K. affiliates.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL Energy Supply is exposed to credit risk from "in-the-money" commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers and financial institutions.

LKE, LG&E and KU are exposed to credit risk from "in-the-money" interest rate derivatives with PPL.

The majority of PPL and PPL Energy Supply's credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with energy trading partners.

Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was \$31 million and \$112 million at June 30, 2013 and December 31, 2012.

PPL Electric, LKE and LG&E had no obligation to return cash collateral under master netting arrangements at June 30, 2013 and December 31, 2012.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of \$22 million and \$32 million at June 30, 2013 and December 31, 2012.

PPL Energy Supply, PPL Electric and KU had not posted any cash collateral under master netting arrangements at June 30, 2013 and December 31, 2012.

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

Commodity price risk, including basis and volumetric risk, is among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its wholesale and retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 7,298 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,316 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts qualify for NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their non-trading activities into two categories: cash flow hedges and economic activity, as discussed below.

Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. Certain cash flow hedge positions were redesignated during the six months ended June 30, 2013 and 2012 and the unamortized portion remained in AOCI because the original forecasted transaction is still expected to occur. There were no active cash flow hedges at June 30, 2013. At June 30, 2013, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$71 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For the three and six months ended June 30, 2013 and 2012, such reclassifications were insignificant.

For the three and six months ended June 30, 2013 and 2012, hedge ineffectiveness associated with energy derivatives was insignificant.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or because

hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity would also include the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at June 30, 2013 range in maturity through 2019.

Examples of economic activity may include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally capped at the price at which the generating unit would be dispatched and therefore does not expose PPL Energy Supply to uncovered market price risk.

Commodity Price Risk (Trading)

PPL Energy Supply has a proprietary trading strategy which is utilized to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in losses if prices do not move in the manner or direction anticipated. The proprietary trading portfolio shown in "Net energy trading margins" on the Statements of Income is not a significant part of PPL Energy Supply's business.

Commodity Volumes

At June 30, 2013, the net volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

Commodity	Unit of Measure	Volume (a)			
		2013 (b)	2014	2015	Thereafter
Power	MWh	(20,132,552)	(28,846,530)	(4,693,573)	1,575,123
Capacity	MW-Month	(10,339)	(9,075)	(1,453)	490
Gas	MMBtu	27,768,152	(2,395,839)	(4,919,285)	(8,210,551)
FTRs	MW-Month	8,807	8,519	1,465	
Oil	Barrels	(148,614)	300,000	392,331	378,315

(a) Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

(b) Represents balance of the current year.

Interest Rate Risk

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates.

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At June 30, 2013, outstanding interest rate swap contracts range in maturity through 2024 for WPD and through 2044 for PPL's domestic interest rate swaps. These swaps had an aggregate notional value of \$1.9 billion at June 30, 2013 of which £300 million (approximately \$455 million based on spot rates) was related to WPD. Also included in this total are forward-starting interest rate swaps entered into by PPL on behalf of LG&E and KU. Realized gains and losses from these swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives have been reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt when the hedged transaction occurs.

At June 30, 2013, PPL held a notional position in cross-currency interest rate swaps totaling \$1.3 billion that range in maturity through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three and six months ended June 30, 2013 and 2012, hedge ineffectiveness associated with interest rate derivatives was insignificant.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL had no such reclassifications for the three and six months ended June 30, 2013 and 2012.

At June 30, 2013, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were \$(12) million. Amounts are reclassified as the hedged interest payments are made.

(LKE, LG&E and KU)

In November 2012 and April 2013, LG&E and KU entered into forward-starting interest rate swaps with PPL that hedge the interest payments on new debt that is expected to be issued in 2013. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. Realized gains and losses from the swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives were reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt when the hedged transaction occurs. For the three and six months ended June 30, 2013, there was no hedge ineffectiveness associated with the interest rate derivatives. At June 30, 2013, LG&E and KU each held contracts with aggregate notional amounts of \$250 million that range in maturity through 2043.

Economic Activity *(PPL, LKE and LG&E)*

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the hedged transaction occurs. At June 30, 2013, LG&E held contracts with a notional amount of \$179 million that range in maturity through 2033.

Foreign Currency Risk *(PPL)*

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at June 30, 2013 had a notional amount of £166 million (approximately \$263 million based on contracted rates). The settlement dates of these contracts range from November 2013 through June 2014.

Additionally, a PPL Global subsidiary that has a U.S. dollar functional currency entered into GBP intercompany loans payable with PPL WEM subsidiaries that have GBP functional currency. The loans qualify as a net investment hedge for the PPL Global subsidiary. As such, the foreign currency gains and losses on the intercompany loans for the PPL Global subsidiary are recorded to the foreign currency translation adjustment component of OCI. At June 30, 2013, the outstanding balances of the intercompany loans were £94 million (approximately \$142 million based on spot rates). For the three and six months ended June 30, 2013, PPL recognized after-tax net investment hedge gains (losses) on the intercompany loans of \$2 million and \$6 million in the foreign currency translation adjustment component of OCI. Such amounts for the three and six months ended June 30, 2012 were not significant.

At June 30, 2013, PPL had \$29 million of accumulated net investment hedge gains (losses), after-tax, in the foreign currency translation adjustment component of AOCI, compared to \$14 million of gains (losses), after-tax at December 31, 2012.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At June 30, 2013, the total exposure hedged by PPL was approximately £1.2 billion (approximately \$1.9 billion based on contracted rates). These contracts had termination dates ranging from July 2013 through June 2015.

Accounting and Reporting

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless they qualify for NPNS. NPNS contracts for PPL and PPL Energy Supply include certain full-requirement sales contracts, other physical purchase and sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized currently in earnings unless specific hedge accounting criteria are met and designated as such, except for the change in fair value of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at June 30, 2013 and December 31, 2012.

See Notes 1 and 19 in each Registrant's 2012 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 2013				December 31, 2012			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps (c)	\$ 130	\$ 3	\$ 4	\$ 4	\$ 14	\$ 22	\$ 5	\$ 5
Cross-currency swaps	1	1				3		
Foreign currency contracts	11		\$ 46			2		23
Commodity contracts			1,146	879	59		1,452	1,010
Total current	142	4	1,192	883	73	27	1,452	1,038
Noncurrent:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps (c)	2			39	1			53
Cross-currency swaps	61				14	1		
Foreign currency contracts			28	3				19
Commodity contracts			508	472	27		530	556
Total noncurrent	63		536	514	42	1	530	628
Total derivatives	\$ 205	\$ 4	\$ 1,728	\$ 1,397	\$ 115	\$ 28	\$ 1,982	\$ 1,666

(a) \$264 million and \$300 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at June 30, 2013 and December 31, 2012.

(b) Represents the location on the Balance Sheets.

(c) Excludes accrued interest, if applicable.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$102 million and \$132 million at June 30, 2013 and December 31, 2012. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$333 million and \$527 million at June 30, 2012 and December 31, 2011.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended June 30, 2013.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Recognized in Income on Derivative on Derivative Portion and Amount Excluded from Effectiveness Testing	Gain (Loss) Recognized in Income on Derivative on Derivative Portion and Amount Excluded from Effectiveness Testing	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Cash Flow Hedges:							
Interest rate swaps	\$ 68	\$ 77	Interest expense	\$ (4)		\$ (9)	
Cross-currency swaps	(21)	52	Interest expense	1		1	
			Other income				
			(expense) - net	1		70	
Commodity contracts			Wholesale energy				
			marketing	73		140	\$ 1
			Depreciation	1		1	
			Energy purchases	(14)		(30)	
Total	\$ 47	\$ 129		\$ 58		\$ 173	\$ 1
Net Investment Hedges:							
Foreign currency contracts	\$ 1	\$ 17					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Six Months
Foreign currency contracts	Other income (expense) - net	\$ 4	\$ 123
Interest rate swaps	Interest expense	(2)	(4)
Commodity contracts	Unregulated retail electric and gas	22	15
	Wholesale energy marketing	739	40
	Net energy trading margins (a)	1	(6)
	Fuel	(3)	(2)
	Energy purchases	(599)	(13)
	Total	\$ 162	\$ 153

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 11	\$ 15

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Six Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 48	\$ 58

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI, or regulatory assets and regulatory liabilities for the periods ended June 30, 2012.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Six Months	Three Months	Six Months
Interest rate swaps	Fixed rate debt	Interest expense	\$ 1	\$ 1	\$ 1	\$ 2

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized from AOCI into Income (Effective Portion)		Gain (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Gain (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months	Six Months		Three Months	Six Months	Three Months	Six Months	Three Months	Six Months
	Cash Flow Hedges:								
Interest rate swaps	\$ (25)	\$ (22)	Interest expense	\$ (5)	\$ (9)				
Cross-currency swaps	34	46	Interest expense		(1)				
			Other income						
			(expense) - net	47	28				
Commodity contracts	(14)	99	Wholesale energy marketing	227	(5)	499	(1)		
			Depreciation		1				
			Energy purchases	(45)	1	(85)	(3)		
Total	\$ (5)	\$ 123		\$ 224	\$ (4)	\$ 433	\$ (4)		
Net Investment Hedges:									
Foreign currency contracts	\$ 2	\$ (1)							

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Six Months
Foreign currency contracts	Other income (expense) - net	\$ 25	\$ 7
Interest rate swaps	Interest expense	(2)	(4)
Commodity contracts	Unregulated retail electric and gas	1	23
	Wholesale energy marketing	33	1,376
	Net energy trading margins (a)	13	22
	Fuel	(12)	(6)
	Energy purchases	(11)	(1,081)
	Total	\$ 47	\$ 337

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (9)	\$ (3)

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

(PPL Energy Supply)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 2013		December 31, 2012			
	Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:						
Price Risk Management Assets/Liabilities (b):						
Commodity contracts	\$ 1,146	\$ 879	\$ 59		\$ 1,452	\$ 1,010
Total current	1,146	879	59		1,452	1,010
Noncurrent:						
Price Risk Management Assets/Liabilities (b):						
Commodity contracts	508	472	27		530	556
Total noncurrent	508	472	27		530	556
Total derivatives	\$ 1,654	\$ 1,351	\$ 86		\$ 1,982	\$ 1,566

(a) \$264 million and \$300 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at June 30, 2013 and December 31, 2012.

(b) Represents the location on the Balance Sheets.

The after-tax balances of accumulated net gains (losses) in AOCI were \$144 million and \$211 million at June 30, 2013 and December 31, 2012. The after-tax balances of accumulated net gains (losses) in AOCI were \$405 million and \$605 million at June 30, 2012 and December 31, 2011.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended June 30, 2013.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts			Wholesale energy marketing	\$ 73		\$ 140	\$ 1
			Depreciation	1		1	
			Energy purchases	(14)		(30)	
Total				\$ 60		\$ 111	\$ 1

Derivatives Not Designated as Hedging Instrument	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Six Months
Commodity contracts	Unregulated retail electric and gas	\$ 22	\$ 15
	Wholesale energy marketing	739	40
	Net energy trading margins (a)	1	(6)
	Fuel	(3)	(2)
	Energy purchases	(599)	(13)
	Total	\$ 160	\$ 34

(a) Differs from the Statements of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended June 30, 2012.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts	\$ (14)	\$ 99	Wholesale energy marketing	\$ 227	\$ (5)	\$ 499	\$ (1)
			Depreciation	1		1	
			Energy purchases	(45)	1	(85)	(3)
Total	\$ (14)	\$ 99		\$ 183	\$ (4)	\$ 415	\$ (4)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Six Months
Commodity contracts	Unregulated retail electric and gas	\$ 1	\$ 23
	Wholesale energy marketing	33	1,376
	Net energy trading margins (a)	13	22
	Fuel	(12)	(6)
	Energy purchases	(11)	(1,081)
	Total	\$ 24	\$ 334

(a) Differs from the Statements of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

(LKE)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	June 30, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	\$ 72		\$ 14	

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended June 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Six Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 48	\$ 58

(LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	June 30, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	\$ 36		\$ 7	

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended June 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Six Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 24	\$ 29

(KU)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	June 30, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	\$ 36		\$ 7	

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended June 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Six Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 24	\$ 29

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	June 30, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		\$ 4		\$ 5
Total current		4		5
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		39		53
Total noncurrent		39		53
Total derivatives		\$ 43		\$ 58

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivatives not designated as hedging instruments recognized in income or regulatory assets for the periods ended June 30, 2013.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Interest rate swaps	Interest expense	\$ (2)	\$ (4)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 11	\$ 15

The following tables present the pre-tax effect of derivatives not designated as hedging instruments recognized in income or regulatory assets for the periods ended June 30, 2012.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Interest rate swaps	Interest expense	\$ (2)	\$ (4)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (9)	\$ (3)

Offsetting Derivative Instruments (PPL, PPL Energy Supply, LKE, LG&E and KU)

PPL, PPL Energy Supply, LKE, LG&E, KU or certain of their subsidiaries have master netting arrangements or similar agreements in place including derivative clearing agreements with futures commission merchants (FCMs) to permit the trading of cleared derivative products on one or more futures exchanges. The clearing arrangements permit an FCM to use and apply any property in its possession as a set off to pay amounts or discharge obligations owed by a customer upon default of the customer and typically do not place any restrictions on the FCM's use of collateral posted by the customer. These registrants and their subsidiaries also enter into agreements pursuant to which they trade certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to setoff amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, PPL Energy Supply, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
June 30, 2013								
PPL								
Energy Commodities	\$ 1,654	\$ 1,221	\$ 29	\$ 404	\$ 1,351	\$ 1,221	\$ 12	\$ 118
Treasury Derivatives	279	4		275	50	4	22	24
Total	\$ 1,933	\$ 1,225	\$ 29	\$ 679	\$ 1,401	\$ 1,225	\$ 34	\$ 142
PPL Energy Supply								
Energy Commodities	\$ 1,654	\$ 1,221	\$ 29	\$ 404	\$ 1,351	\$ 1,221	\$ 12	\$ 118
LKE								
Treasury Derivatives	\$ 72			\$ 72	\$ 43		\$ 22	\$ 21
LG&E								
Treasury Derivatives	\$ 36			\$ 36	\$ 43		\$ 22	\$ 21
KU								
Treasury Derivatives	\$ 36			\$ 36				
December 31, 2012								
PPL								
Energy Commodities	\$ 2,068	\$ 1,413	\$ 111	\$ 544	\$ 1,566	\$ 1,413	\$ 9	\$ 144
Treasury Derivatives	29	19		10	128	19	30	79
Total	\$ 2,097	\$ 1,432	\$ 111	\$ 554	\$ 1,694	\$ 1,432	\$ 39	\$ 223
PPL Energy Supply								
Energy Commodities	\$ 2,068	\$ 1,413	\$ 111	\$ 544	\$ 1,566	\$ 1,413	\$ 9	\$ 144
LKE								
Treasury Derivatives	\$ 14			\$ 14	\$ 58		\$ 30	\$ 28
LG&E								
Treasury Derivatives	\$ 7			\$ 7	\$ 58		\$ 30	\$ 28
KU								
Treasury Derivatives	\$ 7			\$ 7				

Credit Risk-Related Contingent Features (PPL, PPL Energy Supply, LKE, LG&E and KU)

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E, KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

At June 30, 2013, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit risk-related contingent features and were in a net liability position is summarized as follows:

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 148	\$ 118	\$ 30	\$ 30
Aggregate fair value of collateral posted on these derivative instruments	22		22	22
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	144	136	8	8

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15. Goodwill

(PPL)

The change in the carrying amount of goodwill for the six months ended June 30, 2013 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

16. Asset Retirement Obligations

(PPL, PPL Energy Supply, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Balance at December 31, 2012	\$ 552	\$ 375	\$ 131	\$ 62	\$ 69
Accretion expense	18	14	3	1	2
Changes in estimated cash flow or settlement date		(1)	1	1	
Effect of foreign currency exchange rates	(3)				
Obligations settled	(6)	(3)	(3)	(3)	
Balance at June 30, 2013	<u>\$ 561</u>	<u>\$ 385</u>	<u>\$ 132</u>	<u>\$ 61</u>	<u>\$ 71</u>

Substantially all of the ARO balances are classified as noncurrent at June 30, 2013 and December 31, 2012.

(PPL, LKE, LG&E and KU)

Accretion and depreciation expense recorded by LG&E and KU is offset with a regulatory credit on the income statement, such that there is no net earnings impact.

(PPL and PPL Energy Supply)

The most significant ARO recorded by PPL and PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was \$329 million and \$316 million at June 30, 2013 and December 31, 2012.

Assets in the NDT funds are legally restricted for purposes of settling PPL's and PPL Energy Supply's ARO related to the decommissioning of the PPL Susquehanna nuclear plant. The aggregate fair value of these assets was \$771 million and \$712 million at June 30, 2013 and December 31, 2012, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 13 and 17 for additional information on these assets.

17. Available-for-Sale Securities

(PPL and PPL Energy Supply)

Securities held by the NDT funds and auction rate securities are classified as available-for-sale. Available-for-sale securities are carried on the Balance Sheets at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI, and the fair value of available-for-sale securities.

	June 30, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL								
NDT funds:								
Cash and cash equivalents	\$ 12			\$ 12	\$ 11			\$ 11
Equity securities:								
U.S. large-cap	227	\$ 241		468	222	\$ 190		412
U.S. mid/small-cap	31	37		68	30	30		60
Debt securities:								
U.S. Treasury	89	6		95	86	9		95
U.S. government sponsored agency	5	1		6	8	1		9
Municipality	77	2	\$ 2	77	78	5	\$ 1	82
Investment-grade corporate	37	2		39	36	4		40
Other	3			3	3			3
Receivables/payables, net	3			3				
Total NDT funds	484	289	2	771	474	239	1	712
Auction rate securities	20		1	19	20		1	19
Total	\$ 504	\$ 289	\$ 3	\$ 790	\$ 494	\$ 239	\$ 2	\$ 731

PPL Energy Supply

NDT funds:								
Cash and cash equivalents	\$ 12			\$ 12	\$ 11			\$ 11
Equity securities:								
U.S. large-cap	227	\$ 241		468	222	\$ 190		412
U.S. mid/small-cap	31	37		68	30	30		60
Debt securities:								
U.S. Treasury	89	6		95	86	9		95
U.S. government sponsored agency	5	1		6	8	1		9
Municipality	77	2	\$ 2	77	78	5	\$ 1	82
Investment-grade corporate	37	2		39	36	4		40
Other	3			3	3			3
Receivables/payables, net	3			3				
Total NDT funds	484	289	2	771	474	239	1	712
Auction rate securities	17		1	16	17		1	16
Total	\$ 501	\$ 289	\$ 3	\$ 787	\$ 491	\$ 239	\$ 2	\$ 728

There were no securities with credit losses at June 30, 2013 and December 31, 2012.

The following table shows the scheduled maturity dates of debt securities held at June 30, 2013.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 6-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	\$ 12	\$ 81	\$ 61	\$ 77	\$ 231
Fair value	12	84	63	80	239
PPL Energy Supply					
Amortized cost	\$ 12	\$ 81	\$ 61	\$ 74	\$ 228
Fair value	12	84	63	77	236

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended June 30.

	Three Months		Six Months	
	2013	2012	2013	2012
PPL				
Proceeds from sales of NDT securities (a)	\$ 35	\$ 45	\$ 59	\$ 79
Other proceeds from sales		5		5
Gross realized gains (b)	3	8	7	13
Gross realized losses (b)	2	5	4	6

PPL Energy Supply

Proceeds from sales of NDT securities (a)	\$ 35	\$ 45	\$ 59	\$ 79
Other proceeds from sales		3		3
Gross realized gains (b)	3	8	7	13
Gross realized losses (b)	2	5	4	6

- (a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.
(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

18. Accumulated Other Comprehensive Income (Loss)

(PPL, PPL Energy Supply, LKE and KU)

The after-tax changes in AOCI by component for the three and six months ended June 30, 2013 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans			Total
		Available- for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	Transition asset (obligation)	
PPL								
March 31, 2013	\$ (394)	\$ 134	\$ 114	\$ 1	\$ (13)	\$ (1,989)	\$ 1	\$ (2,146)
Amounts arising during the period	(7)	2	24					19
Reclassifications from AOCI		(1)	(36)		2	34		(1)
Net OCI during the period	(7)	1	(12)		2	34		18
June 30, 2013	\$ (401)	\$ 135	\$ 102	\$ 1	\$ (11)	\$ (1,955)	\$ 1	\$ (2,128)
December 31, 2012								
Amounts arising during the period	(149)	112	132	1	(14)	(2,023)	1	(1,940)
Reclassifications from AOCI	(252)	25	86					(141)
Net OCI during the period	(252)	(2)	(116)		3	68		(47)
Net OCI during the period	(252)	23	(30)		3	68		(188)
June 30, 2013	\$ (401)	\$ 135	\$ 102	\$ 1	\$ (11)	\$ (1,955)	\$ 1	\$ (2,128)
PPL Energy Supply								
March 31, 2013		\$ 134	\$ 181		\$ (9)	\$ (261)		\$ 45
Amounts arising during the period		2						2
Reclassifications from AOCI		(1)	(37)		1	4		(33)
Net OCI during the period		1	(37)		1	4		(31)
June 30, 2013		\$ 135	\$ 144		\$ (8)	\$ (257)		\$ 14
December 31, 2012								
Amounts arising during the period		112	211		(10)	(265)		48
Reclassifications from AOCI		25						25
Net OCI during the period		(2)	(67)		2	8		(59)
Net OCI during the period		23	(67)		2	8		(34)
June 30, 2013		\$ 135	\$ 144		\$ (8)	\$ (257)		\$ 14

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended June 30, 2013. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 9 for additional information.

Three Months								
Affected Line Item on the Statements of Income								
Details about AOCI	Wholesale energy marketing	Energy purchases	Depreciation	Other Income (Expense), net	Interest Expense	Total Pre-tax	Income Taxes	Total After-tax
PPL								
Available-for-sale securities				\$ 1		\$ 1		\$ 1
Qualifying derivatives								
Interest rate swaps					\$ (4)	(4)	\$ 2	(2)
Cross-currency swaps				1	1	2		2
Energy commodities	\$ 73	\$ (14)	\$ 1			60	(24)	36
Total	\$ 73	\$ (14)	\$ 1	\$ 1	\$ (3)	58	(22)	36
Defined benefit plans								
Prior service costs						(3)	1	(2)
Net actuarial loss						(46)	12	(34)
Total						\$ (49)	\$ 13	(36)
Total reclassifications during the period								\$ 1
PPL Energy Supply								
Available-for-sale securities				\$ 1		\$ 1		\$ 1
Qualifying derivatives								
Energy commodities	\$ 73	\$ (14)	\$ 1			60	(23)	37
Total	\$ 73	\$ (14)	\$ 1			60	(23)	37
Defined benefit plans								
Prior service costs						(1)		(1)
Net actuarial loss						(7)	3	(4)
Total						\$ (8)	\$ 3	(5)
Total reclassifications during the period								\$ 33

Six Months								
Affected Line Item on the Statements of Income								
Details about AOCI	Wholesale energy marketing	Energy purchases	Depreciation	Other Income (Expense), net	Interest Expense	Total Pre-tax	Income Taxes	Total After-tax
PPL								
Available-for-sale securities				\$ 3		\$ 3	\$ (1)	\$ 2
Qualifying derivatives								
Interest rate swaps					\$ (9)	(9)	4	(5)
Cross-currency swaps				70	1	71	(17)	54
Energy commodities	\$ 140	\$ (30)	\$ 1			111	(44)	67
Total	\$ 140	\$ (30)	\$ 1	\$ 70	\$ (8)	173	(57)	116
Defined benefit plans								
Prior service costs						(5)	2	(3)
Net actuarial loss						(93)	25	(68)
Total						\$ (98)	\$ 27	(71)
Total reclassifications during the period								\$ 47
PPL Energy Supply								
Available-for-sale securities				\$ 3		\$ 3	\$ (1)	\$ 2
Qualifying derivatives								
Energy commodities	\$ 140	\$ (30)	\$ 1			111	(44)	67
Total	\$ 140	\$ (30)	\$ 1			111	(44)	67
Defined benefit plans								
Prior service costs						(3)	1	(2)
Net actuarial loss						(13)	5	(8)
Total						\$ (16)	\$ 6	(10)
Total reclassifications during the period								\$ 59

For the three and six months ended June 30, 2013, the changes in AOCI and the effect of reclassifications from AOCI on the statement of income for LKE and KU were insignificant.

19. New Accounting Guidance Pending Adoption

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Accounting for Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Registrants will retrospectively adopt accounting guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements when the amount of the obligation is fixed at the reporting date. If the obligation is determined to be in the scope of this guidance, it will be measured as the sum of the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires additional disclosures for these obligations.

The Registrants are assessing the potential impact of adoption, which is not expected to be material.

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Effective January 1, 2014, PPL will prospectively adopt accounting guidance that requires a cumulative translation adjustment to be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For the step acquisition of previously held equity method investments that are foreign entities, this guidance clarifies that the amount of accumulated other comprehensive income that is reclassified and included in the calculation of a gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

The initial adoption of this guidance is not expected to have a significant impact on PPL; however, the impact in future periods could be material.

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes

Effective July 17, 2013, the Registrants adopted accounting guidance that permits the Fed Funds Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to interest rates on direct U.S. Treasury obligations and the London Interbank Offer Rate. This guidance also removed the restrictions on using different benchmark interest rates for similar hedges.

This guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this guidance is not expected to have a significant impact on the Registrants.

Presentation of Unrecognized Tax Benefits When Net Operating Loss Carryforwards, Similar Tax Losses, or Tax Credit Carryforwards Exist

Effective January 1, 2014, the Registrants will prospectively adopt accounting guidance that requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

The adoption of this guidance is not expected to have a significant impact on the Registrants.

PPL CORPORATION AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with PPL's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

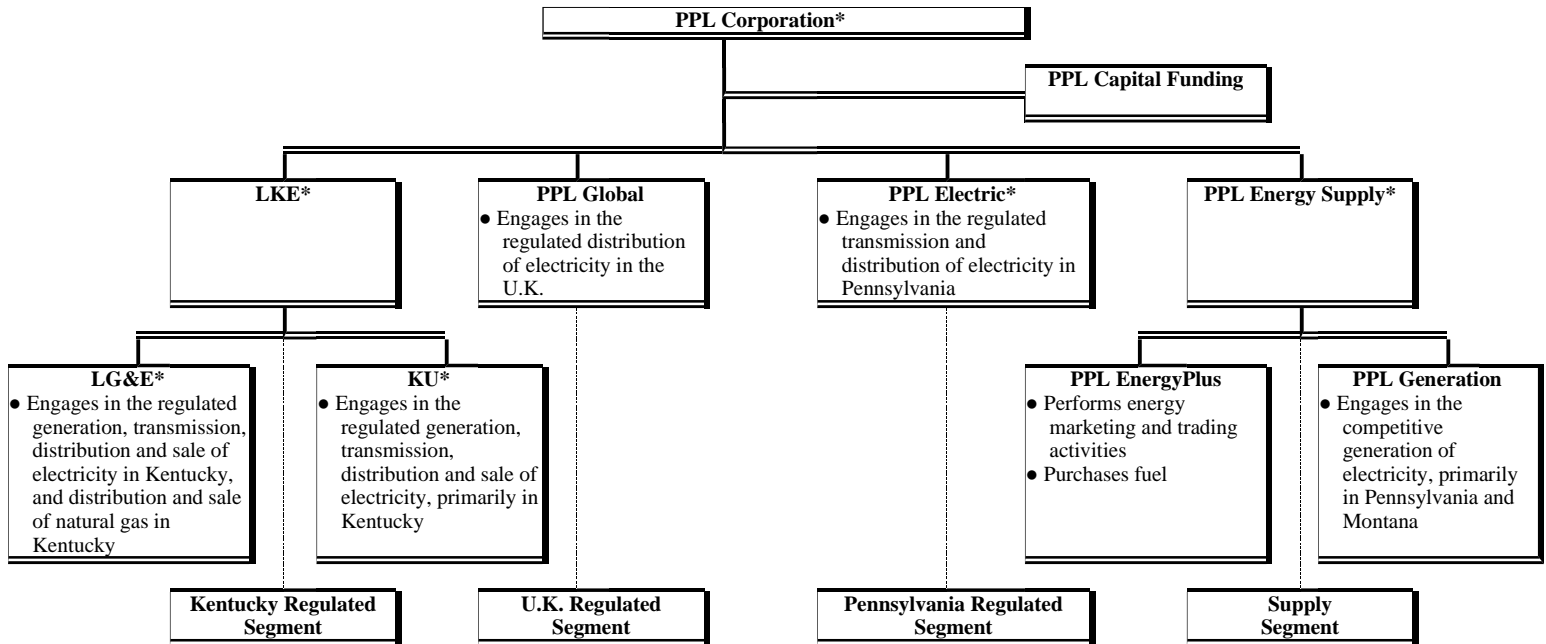
- "Overview" provides a description of PPL and its business strategy, a summary of Net Income Attributable to PPL Shareowners and a discussion of certain events related to PPL's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL's earnings, a review of results by reportable segment and a description of key factors by segment expected to impact future earnings. This section ends with explanations of significant changes in principal line items on PPL's Statements of Income, comparing the three and six months ended June 30, 2013 with the same periods in 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of PPL's risk management programs relating to market and credit risk.

Overview

Introduction

PPL is an energy and utility holding company with headquarters in Allentown, Pennsylvania. Through subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S., markets wholesale and retail energy primarily in the northeastern and northwestern portions of the U.S., delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K. and delivers natural gas to customers in Kentucky.

PPL's principal subsidiaries are shown below (* denotes an SEC registrant):



The capacity (summer rating) of PPL's regulated and competitive electricity generation facilities at June 30, 2013 was:

Primary Fuel	Ownership or Lease Interest in MW (a)
Regulated	
Coal (c)	5,940
Natural Gas/Oil (b)	2,098
Hydro	78
Total Regulated	8,116
Competitive	
Coal (b) (c)	4,146
Natural Gas/Oil	3,316
Nuclear (c)	2,275
Hydro	807
Other (d)	70
Total Competitive	10,614
Total	18,730

- (a) The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units, and may be revised periodically to reflect changed circumstances. See "Item 2. Properties" in PPL's 2012 Form 10-K for additional information on ownership percentages.
- (b) Includes leasehold interests. See Note 11 to the Financial Statements in PPL's 2012 Form 10-K for additional information.
- (c) Includes units that are jointly owned or subject to a power purchase agreement. Each owner is entitled to its proportionate share of the unit's total output and funds its proportionate share of fuel and other operating costs. See Notes 14 and 15 to the Financial Statements in PPL's 2012 Form 10-K for additional information.
- (d) Includes facilities owned, controlled or for which PPL Energy Supply has the rights to the output.

Business Strategy

PPL's strategy for its regulated electricity and gas delivery businesses is to achieve stable, long-term growth in earnings and rate base. Rate base is expected to grow as a result of significant capital expenditure programs aimed at maintaining existing assets and improving system reliability at each of the regulated subsidiaries. These regulated businesses focus on timely recovery of costs, efficient operations, strong customer service and constructive regulatory relationships.

PPL's strategy for its energy supply business is to achieve disciplined optimization of energy supply margins while mitigating near-term volatility in both cash flows and earnings. More specifically, PPL's strategy is to optimize the value from its competitive generation and marketing portfolios. PPL endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. PPL is focused on managing profitability for its energy supply business during the current and projected period of low commodity prices. See "Financial and Operational Developments - Economic and Market Conditions" below.

To manage financing costs and access to credit markets and to fund capital expenditure programs, a key objective for PPL is to maintain strong credit profiles and liquidity positions. In addition, PPL has financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Developments

Net Income Attributable to PPL Shareowners

Net Income Attributable to PPL Shareowners for the periods ended June 30 by segment, and reconciled to PPL's consolidated results, was:

	Three Months		Six Months	
	2013	2012	2013	2012
Kentucky Regulated	\$ 49	\$ 34	\$ 134	\$ 76
U.K. Regulated	245	196	558	361
Pennsylvania Regulated	45	29	109	62
Supply	77	12	31	313
Corporate and Other (a)	(11)		(14)	
Net Income Attributable to PPL Shareowners	\$ 405	\$ 271	\$ 818	\$ 812
EPS - basic	\$ 0.68	\$ 0.46	\$ 1.39	\$ 1.39
EPS - diluted (b)	\$ 0.63	\$ 0.46	\$ 1.28	\$ 1.39

- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. For 2012, there were no significant amounts in this category.
- (b) See "Equity Units" below for information on the Equity Units' impact on the calculation of 2013 diluted EPS.

Earnings for the three and six months ended June 30, 2013 increased 49% and 1% compared with the same periods in 2012. See "Results of Operations" below for further discussion of PPL's business segments, details of special items and analysis of the consolidated results of operations.

Economic and Market Conditions

Current depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development and additional renewable energy sources, primarily wind in the western U.S. Unregulated Gross Energy Margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in energy and capacity market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, transmission constraints that impact the locational pricing of electricity at PPL's power plants, fuel transportation costs and the level and price of hedging activities. As a result of these factors, lower future energy margins are expected when compared to the 2012 energy margins. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, its hedging strategies and potential plant modifications to burn lower cost fuels.

As previously disclosed, PPL's businesses are subject to extensive federal, state and local environmental laws, rules and regulations, including those surrounding coal combustion residuals, GHG, effluent limitation guidelines and MATS. See "Financial Condition - Environmental Matters" below for additional information on these requirements. These more stringent environmental requirements, combined with low energy margins for competitive generation, have led several energy companies, including PPL, to announce plans to either temporarily or permanently close, or place in long-term reserve status, certain of their coal-fired generating plants.

In 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with MATS. PPL Energy Supply continues to monitor its Corette plant for potential impairment. The Corette plant asset group's carrying value at June 30, 2013 was \$68 million. See Note 10 to the Financial Statements for additional information. PPL Energy Supply believes its remaining competitive generation assets are well positioned to meet the additional environmental requirements based on prior and planned investments and does not currently anticipate the need to temporarily or permanently shut down additional coal-fired plants.

The additional environmental requirements discussed above have also resulted in LKE's projected \$2.1 billion in capital investment over the next five years and the anticipated retirement by 2015 of five coal-fired units with a combined summer capacity rating of 726 MW. KU retired the 71 MW unit at the Tyrone plant in February 2013. The retirement of the five coal-fired units is not expected to have a material impact on the financial condition or results of operations of PPL. See Note 8 to the Financial Statements in PPL's 2012 Form 10-K for additional information regarding the anticipated retirement of these units as well as plans to build a combined-cycle natural gas facility in Kentucky.

The KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that provide for recovery of prudently incurred costs. The Kentucky utility businesses are impacted by changes in customer usage levels which can be driven by a number of factors including weather conditions and economic factors that impact the load utilized by industrial and commercial customers.

PPL cannot predict the future impact that economic and market conditions and changes in regulatory requirements may have on its financial condition or results of operations.

Susquehanna Turbine Blade Inspection

In the spring of 2013, PPL Susquehanna made modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant that was first identified in 2011. The modifications were made during the Unit 2 refueling outage and an additional planned outage for Unit 1. Additional modifications will be made during planned outages in 2014 and 2015. Following completion of these modifications, PPL Susquehanna will continue monitoring the turbine blades using enhanced diagnostic equipment.

Rate Case Proceedings

Pennsylvania

In December 2012, the PUC approved a total distribution revenue increase of about \$71 million, using a 10.4% return on equity. The approved rates became effective January 1, 2013.

Kentucky

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million for LG&E and \$51 million for KU and an increase in annual base gas rates of \$15 million for LG&E using a 10.25% return on equity. The approved rates became effective January 1, 2013.

Ofgem Review of Line Loss Calculation

Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentive/penalty for the DPCR4. In April 2013, Ofgem stated that their expectation was to issue a decision in the second half of 2013. In July 2013, Ofgem issued a decision paper on the process to follow for closing out the line loss incentive/penalty. Based on one element of the decision paper, WPD has concluded that certain data, which had previously served to reduce the liability calculation, could not be included. Additional information in the decision paper has increased the level of uncertainty regarding the ultimate settlement of this liability.

WPD currently estimates the potential loss exposure to be in the range of \$97 million to \$251 million. As a result, during the three and six months ended June 30, 2013, WPD increased the liability by \$24 million, to a total of \$97 million. PPL cannot predict the outcome of this matter. See Note 6 to the Financial Statements for additional information.

RIIO-ED1

In October 2010, Ofgem announced changes to the regulatory framework that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. The next electricity distribution price control review is referred to as RIIO-ED1. Key components of the RIIO-ED1 are: an extension of the price review period to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, and continued use of a single weighted average cost of capital. Ofgem has also indicated that the depreciation of the RAV, for RAV additions after April 1, 2015, will change from 20 years to 45 years, but that they will consider transition arrangements.

As previously reported, on July 1, 2013, WPD filed its business plan with Ofgem for the RIIO-ED1 period and gave a webcast presentation to highlight the contents of the plan as well as provide potential earnings ranges of the U.K. Regulated segment for the first two years of the RIIO-ED1 period. The ranges provided are subject to certain assumptions including foreign currency exchange rates, interest rates, inflation rates and WPD being "fast-tracked" through the price control review process and therefore earning the fast-track bonus revenue. These assumptions and other future events affecting the potential earnings ranges are subject to significant uncertainties. Although management believes that the business plan submitted by WPD meets the criteria to be fast-tracked, management cannot predict the outcome of the price control review process or the future financial effect on WPD's businesses of the RIIO-ED1 regulatory framework. See "Item 1. Business - Background - U.K. Regulated Segment - Revenue and Regulation" in the 2012 Form 10-K for additional information.

Distribution System Improvement Charge

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and

mechanisms provide opportunity for accelerated cost-recovery. In May 2013, the PUC approved PPL Electric's proposed DSIC, with an initial rate effective July 1, 2013, subject to refund after hearings. See Note 6 to the Financial Statements for additional information.

FERC Formula Rates

PPL Electric must follow FERC's Uniform System of Accounts, which requires subsidiaries to be presented, for FERC reporting purposes, using the equity method of accounting unless a waiver has been granted. The FERC has granted waivers of this requirement to other utilities when alternative accounting would more accurately present the integrated operations of a utility and its subsidiaries. In March 2013, as part of a routine FERC audit of PPL and its subsidiaries, PPL Electric determined that it never obtained a required waiver of the equity method accounting requirement for its subsidiary, PPL Receivables Corporation (PPL Receivables) for FERC Form No. 1 reporting. In March 2013, PPL Electric filed a request for waiver with the FERC that, if approved, would allow it to continue to consolidate the results of PPL Receivables with the results of PPL Electric, as it has done since 2004. If PPL Electric is not successful in obtaining the waiver, its revenue requirement calculated under the formula rate could be negatively impacted. The impact, if any, is not known at this time but could range between \$0 and \$40 million, pre-tax. PPL Electric cannot predict the outcome of the waiver or audit proceedings, which remain pending before the FERC. See Note 6 to the Financial Statements for additional information.

Equity Forward Agreements

In the second quarter of 2013, PPL settled forward sale agreements for 10.5 million shares of PPL common stock by issuing 8.4 million shares and cash settling the remaining 2.1 million shares. PPL received net cash proceeds of \$201 million, which was used to repay short-term debt obligations and for other general corporate purposes. See Note 7 to the Financial Statements for additional information. Prior to settlement, incremental shares were included within the calculation of diluted EPS using the treasury stock method. See Note 4 to the Financial Statements for the impact on the calculation of diluted EPS.

Equity Units

During 2013, several events occurred related to the components of the 2010 Equity Units. During the first quarter of 2013, financing plans were finalized to remarket the Junior Subordinated Notes component of the 2010 Equity Units and in the second quarter, PPL Capital Funding completed the remarketing of the Junior Subordinated Notes and the simultaneous exchange into Senior Notes. The transaction resulted in a \$10 million loss on extinguishment of the Junior Subordinated Notes. Additionally, in July 2013, PPL issued 40 million shares of common stock at \$28.73 per share to settle the 2010 Purchase Contracts. PPL received net cash proceeds of \$1.150 billion, which will be used to repay short-term and long-term debt obligations and for other general corporate purposes. See Note 7 to the Financial Statements for additional information.

The If-Converted Method of calculating diluted EPS was applied to the Equity Units beginning in the first quarter of 2013. This resulted in \$15 million and \$30 million of interest charges (after-tax) being added back to income available to PPL common shareowners, and 73 million shares of PPL common stock being treated as outstanding for the three and six months ended June 30, 2013. See Note 4 to the Financial Statements for the impact on the calculation of diluted EPS.

Tax Litigation

In May 2013, the U.S. Supreme Court reversed the December 2011 ruling of the U. S. Court of Appeals for the Third Circuit, on the creditability for U.S. income tax purposes of the U.K. Windfall Profits Tax. As a result of this decision, PPL recorded an income tax benefit of \$44 million for the three and six months ended June 30, 2013. See Note 5 to the Financial Statements for additional information.

U.K. Tax Rate Change

In July 2013, the U.K. Finance Act 2013 was enacted, which reduces the U.K.'s statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20%, effective April 1, 2015. As a result of these changes, PPL expects to reduce its net deferred tax liabilities and recognize a deferred tax benefit in the range of \$90 million to \$100 million in the third quarter of 2013.

Results of Operations

The following discussion provides a review of results by reportable segment and a description of key factors by segment expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of

Kentucky Gross Margins, Pennsylvania Gross Delivery Margins and Unregulated Gross Energy Margins and significant changes in principal line items on PPL's Statements of Income, comparing the three and six months ended June 30, 2013 with the same periods in 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

Tables analyzing changes in amounts between periods within "Segment Results" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average U.K. foreign currency exchange rate.

Segment Results

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations. This segment also includes LKE's regulated distribution and sale of natural gas. In addition, the Kentucky Regulated segment is allocated certain financing costs.

Net Income Attributable to PPL Shareowners for the periods ended June 30 includes the following results:

	Three Months			Six Months		
	2013	2012	% Change	2013	2012	% Change
Utility revenues	\$ 682	\$ 658	4	\$ 1,482	\$ 1,363	9
Fuel	216	215		447	428	4
Energy purchases	37	34	9	123	108	14
Other operation and maintenance	197	197		394	403	(2)
Depreciation	83	86	(3)	165	172	(4)
Taxes, other than income	12	12		24	23	4
Total operating expenses	545	544		1,153	1,134	2
Other Income (Expense) - net		(7)	(100)	(2)	(10)	(80)
Interest Expense	61	54	13	116	109	6
Income Taxes	28	13	115	78	28	179
Income (Loss) from Discontinued Operations	1	(6)	(117)	1	(6)	(117)
Net Income Attributable to PPL Shareowners	\$ 49	\$ 34	44	\$ 134	\$ 76	76

The changes in the components of the Kentucky Regulated segment's results between these periods were due to the following factors, which reflect reclassifications for items included in Kentucky Gross Margins and certain items that management considers special. See additional detail of these special items in the table below.

	Three Months	Six Months
Kentucky Gross Margins	\$ 32	\$ 107
Other operation and maintenance		10
Depreciation	(8)	(17)
Taxes, other than income		(1)
Other Income (Expense) - net	7	7
Interest Expense	(7)	(7)
Income Taxes	(15)	(44)
Special items, after-tax	6	3
Total	\$ 15	\$ 58

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Kentucky Gross Margins.
- Lower other operation and maintenance for the six-month period primarily due to \$17 million of lower costs due to the timing and scope of scheduled coal plant maintenance outages. This decrease was partially offset by \$4 million of adjustments to regulatory assets and liabilities and increased coal plant operation costs of \$3 million.
- Higher depreciation for the three and six-month periods primarily due to environmental costs related to the elimination of the 2005 and 2006 ECR plans now being included in base rates, which added \$13 million and \$26 million to depreciation

that is excluded from Kentucky Gross Margins. This increase was partially offset by lower depreciation of \$6 million and \$11 million due to revised rates that were effective January 1, 2013. Both events are the result of the 2012 rate case proceedings.

- Higher other income (expense) - net for the three and six-month periods primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.
- Higher interest expense for the three and six-month periods primarily due to the remarketing of the PPL Capital Funding Junior Subordinated Notes component of the 2010 Equity Units and simultaneous exchange into Senior Notes. Interest expense associated with the 2010 Equity Units is allocated to the Kentucky Regulated segment.
- Higher income taxes for the three and six-month periods primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted the Kentucky Regulated segment's results during the periods ended June 30.

	Income Statement Line Item	Three Months		Six Months	
		2013	2012	2013	2012
LKE acquisition-related adjustments:					
Net operating loss carryforward and other tax-related adjustments	Income Taxes and Other Operation and Maintenance				\$ 4
Other:					
LKE discontinued operations, net of tax of (\$1), \$4, (\$1), \$4 (a)	Discontinued Operations	\$ 1	\$ (5)	\$ 1	(5)
EEI adjustments, net of tax of \$0, \$0, \$0, \$0	Other Income (Expense)-net			1	
Total		\$ 1	\$ (5)	\$ 2	\$ (1)

(a) 2012 includes an adjustment to an indemnification liability.

2013 Outlook

Excluding special items, PPL projects higher segment earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases, returns on additional environmental capital investments and load growth, partially offset by higher operation and maintenance expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global which primarily includes WPD's regulated electricity distribution operations and certain costs, such as U.S. income taxes, administrative costs and allocated financing costs.

Net Income Attributable to PPL Shareowners for the periods ended June 30 includes the following results:

	Three Months			Six Months		
	2013	2012	% Change	2013	2012	% Change
Utility revenues	\$ 559	\$ 543	3	\$ 1,197	\$ 1,095	9
Energy-related businesses	13	14	(7)	23	24	(4)
Total operating revenues	572	557	3	1,220	1,119	9
Other operation and maintenance	112	112		229	225	2
Depreciation	72	70	3	146	137	7
Taxes, other than income	36	36		73	72	1
Energy-related businesses	7	11	(36)	14	16	(13)
Total operating expenses	227	229	(1)	462	450	3
Other Income (Expense) - net	4	31	(87)	124	11	1,027
Interest Expense	104	105	(1)	211	208	1
Income Taxes		58	(100)	113	111	2
Net Income Attributable to PPL Shareowners	\$ 245	\$ 196	25	\$ 558	\$ 361	55

The changes in the components of the U.K. Regulated segment's results between these periods were due to the following factors, which reflect reclassifications for certain items that management considers special. See additional detail of these special items in the table below.

	<u>Three Months</u>	<u>Six Months</u>
U.K.		
Utility revenues	\$ 68	\$ 143
Other operation and maintenance	(4)	(10)
Depreciation	(6)	(11)
Interest expense	(3)	(7)
Other	(2)	
Income taxes	(11)	(21)
U.S.		
Interest expense and other	(1)	1
Income taxes	9	9
Foreign currency exchange rates, after-tax (a)	(4)	(3)
Special items, after-tax	3	96
Total	\$ 49	\$ 197

(a) Includes the effect of realized gains (losses) on foreign currency economic hedges.

U.K.

- Higher utility revenues for the three-month period primarily due to the April 1, 2013 and 2012 price increases which resulted in \$50 million of higher utility revenues and \$23 million of higher volume due primarily to weather, partially offset by \$6 million of lower third-party engineering work.

Higher utility revenues for the six-month period primarily due to the April 1, 2013 and 2012 price increases, which resulted in \$113 million of higher utility revenues and \$28 million of higher volume due primarily to weather.

- Higher other operation and maintenance for the three-month period primarily due to \$6 million of higher network maintenance expense, partially offset by \$3 million of lower third-party engineering costs.
Higher other operation and maintenance for the six-month period primarily due to \$13 million of higher network maintenance expense.
- Higher depreciation for the three and six-month periods primarily due to PP&E additions.
- Higher interest expense for the six-month period primarily due to \$4 million of higher interest expense on index-linked notes and \$3 million on other long-term debt arising from an April 2012 debt issuance.
- Higher income taxes for the three-month period primarily due to higher pre-tax income, which increased income taxes by \$14 million, and \$9 million from a benefit recorded in 2012 due to the tax deductibility of interest on the acquisition financing for WPD Midlands, partially offset by \$5 million of lower effective income tax rates and \$5 million of prior year adjustments.
Higher income taxes for the six-month period primarily due to higher pre-tax income, which increased income taxes by \$30 million, and \$9 million from a benefit recorded in 2012 due to the tax deductibility of interest on the acquisition financing for WPD Midlands, partially offset by \$11 million of lower effective income tax rates and \$6 million of prior year adjustments.

U.S.

- Lower income taxes for the three-month period primarily due to a \$19 million 2013 adjustment related to a ruling obtained from the IRS regarding 2010 U.K. earnings and profits calculations and \$4 million of lower income taxes on intercompany loans, partially offset by a \$12 million increase to income tax expense attributable to a revision in the expected taxable amount of cash repatriation in 2013.
Lower income taxes for the six-month period primarily due to a \$19 million 2013 adjustment related to a ruling obtained from the IRS regarding 2010 U.K. earnings and profits calculations and \$8 million of lower income taxes on intercompany loans, partially offset by a \$15 million increase to income tax expense attributable to a revision in the expected taxable amount of cash repatriation in 2013.

The following after-tax gains (losses), which management considers special items, also impacted the U.K. Regulated segment's results during the periods ended June 30.

	Income Statement Line Item	Three Months		Six Months	
		2013	2012	2013	2012
Foreign currency-related economic hedges, net of tax of \$3, (\$8), (\$39), (\$1) (a)	Other Income (Expense)-net	\$ (5)	\$ 16	\$ 73	\$ 2
WPD Midlands acquisition-related adjustments:					
Separation benefits, net of tax of \$0, \$0, \$1, \$2	Other Operation and Maintenance		(4)	(1)	(8)
Other acquisition-related adjustments, net of tax of \$0, (\$1), \$0, (\$1)	Other Operation and Maintenance		4	(2)	4
Other:					
Windfall Profits Tax litigation (b)	Income Taxes	43		43	
Change in WPD line loss accrual, net of tax of \$5, \$0, \$5, \$0 (c)	Utility	(19)		(19)	
Total		<u>\$ 19</u>	<u>\$ 16</u>	<u>\$ 94</u>	<u>\$ (2)</u>

- (a) Represents unrealized gains (losses) on contracts that economically hedge anticipated earnings denominated in GBP.
- (b) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling, by the U.S. Court of Appeals for the Third Circuit, on the creditability for income tax purposes of the U.K. Windfall Profits Tax. As a result of the U.S. Supreme Court ruling, PPL recorded an income tax benefit during the three and six months ended June 30, 2013. See Note 5 to the Financial Statements for additional information.
- (c) WPD Midlands recorded an adjustment to its line loss accrual in June 2013 based on information provided by Ofgem regarding the calculation of line loss incentive/penalty for all network operators related to DPCR4, a price control period that ended prior to PPL's acquisition of WPD Midlands. See Note 6 to the Financial Statements for additional information.

2013 Outlook

Excluding special items, PPL projects higher segment earnings in 2013 compared with 2012, primarily driven by higher electricity delivery revenue and lower income taxes, partially offset by higher operation and maintenance expense, higher depreciation and higher interest expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 5, 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes PPL Electric's regulated electricity transmission and distribution operations. In addition, the Pennsylvania Regulated segment is allocated certain financing costs.

Net Income Attributable to PPL Shareowners for the periods ended June 30 includes the following results:

	Three Months			Six Months		
	2013	2012	% Change	2013	2012	% Change
Utility revenues						
External	\$ 413	\$ 403	2	\$ 925	\$ 860	8
Intersegment	1	1		2	2	
Total utility revenues	<u>414</u>	<u>404</u>	<u>2</u>	<u>927</u>	<u>862</u>	<u>8</u>
Energy purchases						
External	120	120		292	273	7
Intersegment	12	17	(29)	26	38	(32)
Other operation and maintenance	124	143	(13)	257	283	(9)
Depreciation	44	39	13	87	78	12
Taxes, other than income	22	22		52	48	8
Total operating expenses	<u>322</u>	<u>341</u>	<u>(6)</u>	<u>714</u>	<u>720</u>	<u>(1)</u>
Other Income (Expense) - net	2	1	100	3	3	
Interest Expense	25	24	4	50	48	4
Income Taxes	24	11	118	57	31	84
Net Income	45	29	55	109	66	65
Net Income Attributable to Noncontrolling Interests			n/a		4	(100)
Net Income Attributable to PPL Shareowners	<u>\$ 45</u>	<u>\$ 29</u>	<u>55</u>	<u>\$ 109</u>	<u>\$ 62</u>	<u>76</u>

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the following factors, which reflect reclassifications for items included in Pennsylvania Gross Delivery Margins.

	<u>Three Months</u>	<u>Six Months</u>
Pennsylvania Gross Delivery Margins	\$ 21	\$ 61
Other operation and maintenance	13	20
Depreciation	(5)	(9)
Interest Expense	(1)	(2)
Other	1	(1)
Income Taxes	(13)	(26)
Noncontrolling Interests		4
Total	<u>\$ 16</u>	<u>\$ 47</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Lower other operation and maintenance for the three-month period primarily due to lower corporate service costs of \$6 million and lower vegetation management of \$2 million.

Lower other operation and maintenance for the six-month period primarily due to lower corporate service costs of \$11 million and lower vegetation management of \$3 million.
- Higher depreciation for the three and six-month periods primarily due to the impact of PP&E additions related to the ongoing efforts to ensure the reliability of the delivery system and replace aging infrastructure.
- Higher income taxes for the three and six-month periods primarily due to higher pre-tax income.

2013 Outlook

Excluding special items, PPL projects higher segment earnings in 2013 compared with 2012, primarily driven by higher distribution revenues from a distribution base rate increase and higher transmission margins, partially offset by higher depreciation and higher operation and maintenance expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Supply Segment

The Supply segment primarily consists of PPL Energy Supply's energy marketing and trading activities, as well as its competitive generation operations. In addition, the Supply segment is allocated certain financing costs.

Net Income Attributable to PPL Shareowners for the periods ended June 30 includes the following results:

	<u>Three Months</u>			<u>Six Months</u>		
	<u>2013</u>	<u>2012</u>	<u>% Change</u>	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Energy revenues						
External (a)	\$ 1,658	\$ 816	103	\$ 2,039	\$ 3,106	(34)
Intersegment	12	17	(29)	26	38	(32)
Energy-related businesses	122	115	6	235	213	10
Total operating revenues	<u>1,792</u>	<u>948</u>	<u>89</u>	<u>2,300</u>	<u>3,357</u>	<u>(31)</u>
Fuel (a)	224	196	14	522	407	28
Energy purchases						
External (a)	897	191	370	697	1,438	(52)
Intersegment	1		n/a	2	1	100
Other operation and maintenance	270	293	(8)	505	548	(8)
Depreciation	79	70	13	157	135	16
Taxes, other than income	16	17	(6)	33	35	(6)
Energy-related businesses	118	113	4	228	210	9
Total operating expenses	<u>1,605</u>	<u>880</u>	<u>82</u>	<u>2,144</u>	<u>2,774</u>	<u>(23)</u>
Other Income (Expense) - net	12	4	200	16	9	78
Other-Than-Temporary Impairments		1	(100)		1	(100)
Interest Expense	60	53	13	120	101	19
Income Taxes	62	6	933	21	177	(88)
Net Income Attributable to PPL Shareowners	<u>\$ 77</u>	<u>\$ 12</u>	<u>542</u>	<u>\$ 31</u>	<u>\$ 313</u>	<u>(90)</u>

- (a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.

The changes in the components of the Supply segment's results between these periods were due to the following factors, which reflect reclassifications for items included in Unregulated Gross Energy Margins and certain items that management considers special. See additional detail of these special items in the table below.

	<u>Three Months</u>	<u>Six Months</u>
Unregulated Gross Energy Margins	\$ (88)	\$ (195)
Other operation and maintenance	16	29
Depreciation	(9)	(22)
Taxes, other than income	3	4
Other Income (Expense) - net	9	10
Interest expense	(7)	(19)
Other	2	2
Income Taxes	27	60
Special items, after-tax	112	(151)
Total	<u>\$ 65</u>	<u>\$ (282)</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Lower other operation and maintenance for the three-month period primarily due to \$11 million of lower 2013 project and refueling outage costs at PPL Susquehanna and \$4 million of Brunner Island Unit 3 outage costs in 2012 with no comparable outage in 2013.

Lower other operation and maintenance for the six-month period primarily due to \$19 million of Brunner Island Unit 3 outage costs in 2012 with no comparable outage in 2013 and \$17 million of lower 2013 project and refueling outage costs at PPL Susquehanna, partially offset by \$5 million of Conemaugh Unit 2 outage costs in 2013 with no comparable outage in 2012.
- Higher depreciation for the three and six-month periods primarily due to PP&E additions. The six-month period also includes \$6 million attributable to the Ironwood Acquisition.
- Higher other income (expense) - net for the three and six-month periods partially due to the impact of a worker's compensation adjustment of \$4 million.
- Higher interest expense for the six-month period due to \$7 million from PPL Capital Funding's June 2012 \$400 million debt issuance, \$6 million due to lower capitalized interest in 2013 and \$4 million due to financing associated with PPL Ironwood. Interest expense associated with certain PPL Capital Funding debt issuances is allocated to the Supply segment.
- Lower income taxes for the three and six-month periods due to lower pre-tax income in 2013, which reduced income taxes by \$30 million and \$77 million, partially offset for the six-month period by an \$11 million benefit from a state tax rate change recorded in 2012.

The following after-tax gains (losses), which management considers special items, also impacted the Supply segment's results during the periods ended June 30.

	Income Statement Line Item	<u>Three Months</u>		<u>Six Months</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Adjusted energy-related economic activity, net, net of tax of (\$51), \$23, \$28, (\$79)	(a)	\$ 76	\$ (32)	\$ (41)	\$ 118
Impairments:					
Adjustments - nuclear decommissioning trust investments, net of tax of \$0, (\$1), \$0, (\$2)	Other Income-net				1
Other:					
Change in tax accounting method related to repairs	Income Taxes	(3)		(3)	
Counterparty bankruptcy, net of tax of (\$1), \$0, (\$1), \$5 (b)	Other Operation and Maintenance	1		1	(6)
Wholesale supply cost reimbursement, net of tax of \$0, \$0, \$0, \$0	(c)		1		1
Ash basin leak remediation adjustment, net of tax of \$0, \$0, \$0, (\$1)	Other Operation and Maintenance				1
Coal contract modification payments, net of tax of \$0, \$5, \$0, \$5 (d)	Fuel		(7)		(7)
Total		<u>\$ 74</u>	<u>\$ (38)</u>	<u>\$ (43)</u>	<u>\$ 108</u>

- (a) See "Reconciliation of Economic Activity" below.

- (b) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012. In June 2013, PPL EnergyPlus received an approval for an administrative claim in the amount of \$2 million.
- (c) Recorded in "Wholesale energy marketing - Realized" on the Statement of Income.
- (d) As a result of lower electricity and natural gas prices, coal-fired generation output decreased during 2012. Contract modification payments were incurred to reduce 2012 and 2013 contracted coal deliveries.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) for the periods ended June 30, to the special item identified as "Adjusted energy-related economic activity, net."

	Three Months		Six Months	
	2013	2012	2013	2012
Operating Revenues				
Unregulated retail electric and gas	\$ 20	\$ (12)	\$ 12	\$ (2)
Wholesale energy marketing	590	(458)	(232)	394
Operating Expenses				
Fuel	(4)	(16)	(5)	(14)
Energy Purchases	(479)	442	155	(149)
Energy-related economic activity (a)	127	(44)	(70)	229
Option premiums		1	1	1
Adjusted energy-related economic activity	127	(43)	(69)	230
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010		12		33
Adjusted energy-related economic activity, net, pre-tax	\$ 127	\$ (55)	\$ (69)	\$ 197
Adjusted energy-related economic activity, net, after-tax	\$ 76	\$ (32)	\$ (41)	\$ 118

(a) See Note 14 to the Financial Statements for additional information.

2013 Outlook

Excluding special items, PPL projects lower segment earnings in 2013 compared with 2012, primarily driven by lower energy prices, higher fuel costs, higher depreciation and higher financing costs, partially offset by lower operation and maintenance expense, higher capacity prices and higher nuclear generation output.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as three non-GAAP financial measures: "Kentucky Gross Margins," "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins." These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL believes that these measures provide additional criteria to make investment decisions. These performance measures are used, in conjunction with other information, internally by senior management and the Board of Directors to manage the Kentucky Regulated, Pennsylvania Regulated and Supply segment operations, analyze each respective segment's actual results compared with budget and, in certain cases, to measure certain corporate financial goals used in determining variable compensation.

PPL's three non-GAAP financial measures include:

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, return on capital investments and performance incentives. Certain costs associated with these mechanisms, primarily ECR, DSM and GLT, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from the Kentucky Regulated segment's operations.
- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the table below. As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's electric delivery operations.
- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's competitive energy non-trading and trading activities. In calculating this measure, the Supply segment's energy revenues are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges and gross receipts tax, which is recorded in "Taxes, other than income". This performance measure is relevant to PPL due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "PLR intersegment utility revenue (expense)" in the table below. PPL excludes from "Unregulated Gross Energy Margins" the Supply segment's adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in adjusted energy-related economic activity is the premium amortization associated with options and for 2012 the ineffective portion of qualifying cash flow hedges and realized economic activity associated with the monetization of certain full-requirement sales contracts in 2010. This economic activity was deferred, with the exception of the full-requirement sales contracts that were monetized, and included in Unregulated Gross Energy Margins over the delivery period that was hedged or upon realization.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile PPL's three non-GAAP financial measures to "Operating Income" for the periods ended June 30.

	2013 Three Months				2012 Three Months					
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 682	\$ 413		\$ 560 (c)	\$ 1,655	\$ 658	\$ 403		\$ 544 (c)	\$ 1,605
PLR intersegment utility revenue (expense) (d)		(12)	\$ 12				(17)	\$ 17		
Unregulated retail electric and gas			237	20 (f)	257			192	(13)(f)	179
Wholesale energy marketing										
Realized			812	(1)	811			1,075	8 (e)	1,083
Unrealized economic activity				590 (f)	590				(458)(f)	(458)
Net energy trading margins								10		10
Energy-related businesses				137	137				130	130
Total Operating Revenues	682	401	1,061	1,306	3,450	658	386	1,294	211	2,549

	2013 Three Months				2012 Three Months					
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Expenses										
Fuel	216		223	2	441	215		170	26 (g)	411
Energy purchases										
Realized	37	120	419	(4)	572	34	120	617	16 (e)	787
Unrealized economic activity				479 (f)	479				(442)(f)	(442)
Other operation and maintenance	23	21	3	651	698	24	26	7	682	739
Depreciation	2			284	286	13			258	271
Taxes, other than income		19	10	57	86		20	7	60	87
Energy-related businesses				130	130				124	124
Intercompany eliminations		(1)	1				(1)		1	
Total Operating Expenses	278	159	656	1,599	2,692	286	165	801	725	1,977
Total	\$ 404	\$ 242	\$ 405	\$ (293)	\$ 758	\$ 372	\$ 221	\$ 493	\$ (514)	\$ 572

	2013 Six Months				2012 Six Months					
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 1,482	\$ 925		\$ 1,198 (c)	\$ 3,605	\$ 1,363	\$ 860		\$ 1,096 (c)	\$ 3,319
PLR intersegment utility revenue (expense) (d)		(26)	\$ 26				(38)	\$ 38		
Unregulated retail electric and gas			483	11 (f)	494			406	(4)(f)	402
Wholesale energy marketing										
Realized			1,789	(2)	1,787			2,279	12 (e)	2,291
Unrealized economic activity				(232)(f)	(232)				394 (f)	394
Net energy trading margins			(11)		(11)			18		18
Energy-related businesses				264	264				237	237
Total Operating Revenues	1,482	899	2,287	1,239	5,907	1,363	822	2,741	1,735	6,661

Operating Expenses										
Fuel	447		522	1	970	428		385	22 (g)	835
Energy purchases										
Realized	123	292	855	(7)	1,263	108	273	1,251	38 (e)	1,670
Unrealized economic activity				(155)(f)	(155)				149 (f)	149
Other operation and maintenance	48	43	8	1,275	1,374	46	49	11	1,339	1,445
Depreciation	2			568	570	26			509	535
Taxes, other than income		47	18	117	182		44	16	118	178
Energy-related businesses				252	252				226	226
Intercompany eliminations		(2)	2				(2)	1	1	
Total Operating Expenses	620	380	1,405	2,051	4,456	608	364	1,664	2,402	5,038
Total	\$ 862	\$ 519	\$ 882	\$ (812)	\$ 1,451	\$ 755	\$ 458	\$ 1,077	\$ (667)	\$ 1,623

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Primarily represents WPD's utility revenue.

(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.

(e) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. For the three and six months ended June 30, 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include net pre-tax losses of \$12 million and \$33 million related to the monetization of certain full-requirement sales contracts.

(f) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.

(g) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. The three and six months ended June 30, 2012 include a pre-tax loss of \$12 million related to coal contract modification payments.

Changes in Non-GAAP Financial Measures

The following table shows PPL's three non-GAAP financial measures for the periods ended June 30 as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Six Months		
	2013	2012	Change	2013	2012	Change
Kentucky Gross Margins	\$ 404	\$ 372	\$ 32	\$ 862	\$ 755	\$ 107
PA Gross Delivery Margins by Component						
Distribution	\$ 183	\$ 170	\$ 13	\$ 407	\$ 359	\$ 48
Transmission	59	51	8	112	99	13
Total	\$ 242	\$ 221	\$ 21	\$ 519	\$ 458	\$ 61
Unregulated Gross Energy Margins by Region						
Non-trading						
Eastern U.S.	\$ 349	\$ 407	\$ (58)	\$ 779	\$ 896	\$ (117)
Western U.S.	56	76	(20)	114	163	(49)
Net energy trading		10	(10)	(11)	18	(29)
Total	\$ 405	\$ 493	\$ (88)	\$ 882	\$ 1,077	\$ (195)

Kentucky Gross Margins

Margins increased for the three months ended June 30, 2013 compared with 2012, primarily due to higher base rates of \$25 million, environmental cost recoveries added to base rates of \$14 million and increased environmental investments of \$3 million, partially offset by lower volumes of \$9 million. The change in volumes was partially attributable to weather, as cooling degree days decreased 14% compared to the same period in 2012.

Margins increased for the six months ended June 30, 2013 compared with 2012, primarily due to higher base rates of \$56 million, environmental cost recoveries added to base rates of \$32 million, increased environmental investments of \$10 million and higher volumes of \$10 million. The change in volumes was attributable to weather, as heating degree days increased 40% compared to the same period in 2012, offsetting the lower cooling degree days for the three-month period.

The increase in base rates was the result of new KPSC rates effective January 1, 2013. The environmental cost recoveries added to base rates were due to the elimination of the 2005 and 2006 ECR plans as a result of the 2012 Kentucky rate cases. This elimination results in depreciation and other operation and maintenance expenses associated with the 2005 and 2006 ECR plans being excluded from Margins in 2013, while the recovery of such costs remain in Margins through base rates.

Pennsylvania Gross Delivery Margins

Distribution

Margins increased for the three months ended June 30, 2013 compared with 2012, primarily due to an \$11 million favorable effect of price as a result of higher base rates, effective January 1, 2013.

Margins increased for the six months ended June 30, 2013 compared with 2012, primarily due to a \$13 million adverse effect of mild weather in 2012 and a \$32 million favorable effect of price, largely comprised of higher base rates, effective January 1, 2013, and higher volumes of \$4 million.

Transmission

Margins increased for the three and six months ended June 30, 2013 compared with 2012, primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

Unregulated Gross Energy Margins

Eastern U.S.

The increase (decrease) in non-trading margins for the periods ended June 30, 2013 compared with 2012 were due to:

	<u>Three Months</u>	<u>Six Months</u>
Baseload energy prices	\$ (121)	\$ (246)
Nuclear fuel prices	(4)	(10)
Coal prices	1	(9)
Intermediate and peaking Spark Spreads	(7)	7
Nuclear generation volume	9	9
Full-requirement sales contracts	5	10
Gas optimization and storage	10	11
Ironwood Acquisition which eliminated tolling expense	2	17
Net economic availability of coal and hydroelectric plants	7	39
Capacity prices	36	47
Other	4	8
Total	<u>\$ (58)</u>	<u>\$ (117)</u>

Western U.S.

Non-trading margins for the three and six months ended June 30, 2013 compared with the same periods in 2012 were lower due to \$20 million and \$59 million of lower wholesale prices. The six-month period was partially offset by \$7 million of higher wholesale volumes.

Net Energy Trading Margins

Net energy trading margins for the three months ended June 30, 2013 compared with the same period in 2012 decreased as a result of lower margins of \$5 million on power positions and \$3 million on FTRs.

Net energy trading margins for the six months ended June 30, 2013 compared with the same period in 2012 decreased as a result of lower margins of \$15 million on gas positions and \$7 million on power positions.

Utility Revenues

The increase (decrease) in utility revenues for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Domestic:		
PPL Electric (a)	\$ 10	\$ 65
LKE (b)	24	119
Total Domestic	<u>34</u>	<u>184</u>
U.K.:		
Price (c)	50	113
Volume (d)	23	28
DPCR4 accrual adjustments (e)	(24)	(24)
Foreign currency exchange rates	(26)	(16)
Other (f)	(7)	1
Total U.K.	<u>16</u>	<u>102</u>
Total	<u>\$ 50</u>	<u>\$ 286</u>

(a) See "Pennsylvania Gross Delivery Margins" for further information.

(b) See "Kentucky Gross Margins" for further information.

(c) The increase for the three and six-month periods is primarily due to price increases effective April 1, 2013 and April 1, 2012.

(d) The increase for the three and six-month periods is primarily due to the favorable effect of weather.

(e) The decrease for the three and six-month periods is due to a \$24 million reduction in revenue based on information provided by Ofgem regarding the calculation of line loss incentive/penalty for all network operators related to DPCR4. See Note 6 to the Financial Statements for additional information.

(f) The decrease for the three month period is primarily related to a \$6 million reduction in third-party engineering revenue, which is partially offset by a reduction in costs in "Other operation and maintenance" on the Statements of Income.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Domestic:		
Uncollectible accounts (a)	\$ (4)	\$ (20)
LKE coal plant outages (b)	(4)	(17)
Brunner Island Unit 3 outage in 2012	(4)	(19)
PPL Susquehanna projects	(6)	(9)
PPL Susquehanna refueling outage	(5)	(8)
Act 129 (c)	(7)	(7)
Conemaugh Unit 2 outage in 2013	3	5
Other generation plant costs	(7)	(1)
Other	(7)	1
U.K.:		
Third-party engineering (d)	(3)	2
Network maintenance (e)	6	13
Insurance claim provision release	6	6
Severance compensation (f)	(4)	(8)
Pension	(2)	(4)
Foreign currency exchange rates	(5)	(3)
Other	2	(2)
Total	<u>\$ (41)</u>	<u>\$ (71)</u>

- (a) The decrease for the six-month period is primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code in 2011. \$11 million of damages billed to SMGT were fully reserved in 2012.
- (b) The decrease for the three and six month periods is due to the timing and scope of scheduled outages.
- (c) The decrease for the three and six month periods is due to a reduction in Act 129 energy efficiency and conservation plan costs for Phase 1 programs. Phase 1 ended May 31, 2013.
- (d) These costs are offset by revenues reflected in "Utility" on the Statement of Income.
- (e) The increase for the three and six month periods is primarily due to higher vegetation management costs.
- (f) The decrease for the three and six month periods is primarily due to costs incurred in 2012 related to the WPD Midlands reorganization.

Depreciation

The increase (decrease) in depreciation for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Additions to PP&E	\$ 23	\$ 44
LKE lower depreciation rates effective January 1, 2013	(6)	(11)
Ironwood Acquisition		6
Other	(2)	(4)
Total	<u>\$ 15</u>	<u>\$ 35</u>

Other Income (Expense) - net

The \$17 million decrease in other income (expense) - net for the three months ended June 30, 2013 compared with 2012 was primarily due to a decrease of \$21 million from realized and unrealized gains on foreign currency contracts.

The \$122 million increase in other income (expense) - net for the six months ended June 30, 2013 compared with 2012 was primarily due to an increase of \$116 million from realized and unrealized gains on foreign currency contracts.

See Note 12 to the Financial Statements for additional information on other income (expense) - net.

Interest Expense

The increase (decrease) in interest expense for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Long-term debt interest expense (a)	\$ 8	\$ 22
Loss on extinguishment of debt (b)	10	10
Ironwood Acquisition financing		4
Capitalized interest	3	4
Other	1	3
Total	<u>\$ 22</u>	<u>\$ 43</u>

- (a) The increase for the three-month period was primarily due to PPL Capital Funding's debt issuances in March 2013, June 2012 and October 2012. See Note 7 to the Financial Statements in this Form 10-Q and in PPL's 2012 Form 10-K for additional information.

The increase for the six-month period was primarily due to PPL Capital Funding's debt issuances as discussed above as well as higher accretion expense on WPD index linked notes and interest on WPD (East Midlands') April 2012 issuance of £100 million, 5.25% Senior Notes due 2023.



- (b) In May 2013, PPL Capital Funding remarketed and exchanged junior subordinated notes that were originally issued in June 2010 as a component of PPL's 2010 Equity Units. See Note 7 to the Financial Statements for additional information.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Higher (lower) pre-tax income	\$ 52	\$ (67)
Federal and state tax reserve adjustments (a)	(35)	(35)
U.S. income tax on foreign earnings net of foreign tax credit (b)	(6)	(6)
Foreign tax reserve adjustments (c)	8	5
Foreign tax return adjustments	(4)	(4)
Net operating loss carryforward adjustments (d)	3	9
State deferred tax rate change (e)		11
Other	3	
Total	<u>\$ 21</u>	<u>\$ (87)</u>

- (a) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling of the U.S. Court of Appeals for the Third Circuit on the creditability of U.K. Windfall Profits Tax for tax purposes. As a result of this decision, PPL recorded a tax benefit of \$44 million during the three and six months ended June 30, 2013. See Note 5 to the Financial Statements for additional information.
- (b) During the three and six months ended June 30, 2013, PPL recorded a \$14 million increase to income tax expense primarily attributable to a revision in the expected taxable amount of cash repatriation in 2013 and recorded a tax benefit of \$19 million associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that will be reflected on an amended 2010 U.S. tax return.
- (c) During the three and six months ended June 30, 2012, PPL recorded a tax benefit following resolution of a U.K. tax issue related to the tax deductibility of interest expense.
- (d) During the three and six months ended June 30, 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
- (e) During the six months ended June 30, 2012, PPL recorded adjustments related to state deferred tax liabilities.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

PPL had the following at:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 711	\$ 901
Short-term debt	\$ 1,206	\$ 652

At June 30, 2013, \$178 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL may be subject to additional U.S. income taxes, net of allowable foreign income tax credits. Historically, dividends paid by foreign subsidiaries have been distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2012 Form 10-K for additional information on undistributed earnings of WPD.

The \$190 million decrease in PPL's cash and cash equivalents position was primarily the net result of:

- capital expenditures of \$1.8 billion;
- the payment of \$426 million of common stock dividends;
- net cash provided by operating activities of \$947 million;
- net increase in short-term debt of \$563 million; and
- proceeds of \$450 million from the issuance of long-term debt.

PPL's cash provided by operating activities had no net change for the six months ended June 30, 2013 compared with 2012. The result was the net effect of:

- a \$219 million increase in net income, when adjusted for non-cash components; and
- a \$25 million decrease in defined benefit plan funding, offset by
- a \$245 million increase in cash used by components of working capital (primarily due to changes in accounts receivable of \$210 million and in counterparty collateral of \$118 million, partially offset by a \$95 million change in fuel, materials and supplies).

Capital expenditures increased by \$488 million for the six months ended June 30, 2013 compared with 2012, primarily due to PPL Electric's Susquehanna-Roseland transmission project and projects to enhance system reliability, and LKE's environmental projects at Mill Creek and Ghent and construction of Cane Run Unit 7.

Credit Facilities

PPL maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At June 30, 2013, PPL's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
PPL Energy Supply Credit Facilities	\$ 3,150		\$ 785	\$ 2,365
PPL Electric Credit Facilities	400		86	314
LG&E Syndicated Credit Facility	500		80	420
KU Credit Facilities	598		370	228
Total Domestic Credit Facilities (a)	<u>\$ 4,648</u>		<u>\$ 1,321</u>	<u>\$ 3,327</u>
Total WPD Credit Facilities (b)	<u>£ 1,055</u>	<u>£ 193</u>		<u>£ 862</u>

- (a) The commitments under PPL's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 8% of the total committed capacity.
- (b) At June 30, 2013, the USD equivalent of unused capacity under WPD's committed credit facilities was \$1.3 billion. The commitments under WPD's credit facilities are provided by a diverse bank group with no one bank providing more than 13% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL's credit facilities.

Commercial Paper

PPL Energy Supply maintains a commercial paper program for up to \$750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At June 30, 2013 and December 31, 2012, PPL Energy Supply had \$575 million and \$356 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.29% and 0.50%.

PPL Electric maintains a commercial paper program for up to \$300 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. At June 30, 2013, PPL Electric had \$85 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of 0.34%. PPL Electric had no commercial paper outstanding at December 31, 2012.

In April 2013, LG&E and KU each increased the capacity of their commercial paper programs from \$250 million to \$350 million to provide an additional financing source to fund their short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by LG&E's and KU's Syndicated Credit Facilities. At June 30, 2013 and December 31, 2012, LG&E had \$80 million and \$55 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.32% and 0.42%. At June 30, 2013 and December 31, 2012, KU had \$172 million and \$70 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.33% and 0.42%.

Long-term Debt and Equity Securities

See "Overview - Financial and Operational Developments" above for information regarding equity forward agreements and the 2010 Equity Units. PPL has no plans to issue new shares of common stock for the remainder of 2013.

In March 2013, PPL Capital Funding issued \$450 million of its 5.90% Junior Subordinated Notes due 2073. PPL Capital Funding received proceeds of \$436 million, net of underwriting fees, which was loaned to or invested in affiliates of PPL Capital Funding and used to fund their capital expenditures and other general corporate purposes.

In July 2013, PPL Electric issued \$350 million of 4.75% First Mortgage Bonds due 2043. PPL Electric received proceeds of \$345 million, net of a discount and underwriting fees, which will be used for capital expenditures, to fund pension obligations and for other general corporate purposes.

See Note 7 to the Financial Statements for further discussion of Long-term Debt and Equity Securities.

Common Stock Dividends

In May 2013, PPL declared its quarterly common stock dividend, payable July 1, 2013, at 36.75 cents per share (equivalent to \$1.47 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

Fitch, Moody's and S&P periodically review the credit ratings on the debt securities of PPL and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL and its subsidiaries are based on information provided by PPL and other sources. The ratings of Fitch, Moody's and S&P are not a recommendation to buy, sell or hold any securities of PPL or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

A downgrade in PPL's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. PPL and its subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies took the following actions related to PPL and its subsidiaries during 2013:

In February 2013, Moody's upgraded its rating, from B2 to Ba1, and revised the outlook from under review to stable for PPL Ironwood.

In March 2013, Fitch, Moody's and S&P assigned ratings of BB+, Ba1 and BB+ to PPL Capital Funding's \$450 million 5.90% Junior Subordinated Notes due 2073. Fitch also assigned a stable outlook to these notes.

In April 2013, Fitch affirmed the BBB- rating and stable outlook on PPL Montana's pass-through trust certificates due 2020.

In May 2013, Fitch, Moody's and S&P assigned ratings of BBB, Baa3 and BBB- to PPL Capital Funding's \$250 million 1.90% Senior Notes due 2018, \$600 million 3.40% Senior Notes due 2023 and \$300 million 4.70% Senior Notes due 2043. Fitch also assigned a stable outlook to these notes.

In July 2013, Fitch, Moody's and S&P assigned ratings of A-, A3 and A- to PPL Electric's \$350 million 4.75% First Mortgage Bonds due 2043. Fitch also assigned a stable outlook to these notes and S&P assigned a recovery rating of 1+.

In July 2013, S&P confirmed the AA+ ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds and KU's 2004 Series A, 2006 Series B and 2008 Series A Environmental Facilities Revenue Bonds. S&P also confirmed the A-1+ short term rating on these Bonds.

In July 2013, Moody's withdrew its rating and outlook for PPL Ironwood.

In July 2013, S&P lowered its rating, from BBB- to BB+, and retained the negative outlook for PPL Montana's pass-through trust certificates due 2020.

Ratings Triggers

PPL and PPL Energy Supply have various contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate and foreign currency instruments, which contain provisions that require PPL and PPL Energy Supply to post additional collateral or permit the counterparty to terminate the contract, if PPL's or PPL Energy Supply's credit rating were to fall below investment grade. See Note 14 to the Financial

Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at June 30, 2013.

For additional information on PPL's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2012 Form 10-K.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL's energy-related assets, liabilities and other contractual arrangements, PPL both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL's non-trading commodity derivative contracts range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Six Months	
	2013	2012	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 229	\$ 1,215	\$ 473	\$ 1,082
Contracts realized or otherwise settled during the period	(100)	(261)	(237)	(540)
Fair value of new contracts entered into during the period (a)	37	13	46	12
Other changes in fair value	119	(6)	3	407
Fair value of contracts outstanding at the end of the period	<u>\$ 285</u>	<u>\$ 961</u>	<u>\$ 285</u>	<u>\$ 961</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at June 30, 2013, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 226	\$ 32	\$ (10)	\$ 5	\$ 253
Prices based on significant unobservable inputs (Level 3)	10	18	4		32
Fair value of contracts outstanding at the end of the period	<u>\$ 236</u>	<u>\$ 50</u>	<u>\$ (6)</u>	<u>\$ 5</u>	<u>\$ 285</u>

PPL sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL's trading commodity derivative contracts range in maturity through 2018. The following table sets forth changes in the net fair value of trading commodity derivative contracts for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Six Months	
	2013	2012	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 15	\$ 2	\$ 29	\$ (4)
Contracts realized or otherwise settled during the period		(1)	(2)	(1)
Fair value of new contracts entered into during the period (a)	(4)	(1)	(16)	5
Other changes in fair value	7	17	7	17
Fair value of contracts outstanding at the end of the period	\$ 18	\$ 17	\$ 18	\$ 17

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at June 30, 2013, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 4	\$ 6			\$ 10
Prices based on significant unobservable inputs (Level 3)	6	2			8
Fair value of contracts outstanding at the end of the period	\$ 10	\$ 8			\$ 18

VaR Models

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the six months ended June 30, 2013 was as follows.

	Trading VaR	Non-Trading VaR
95% Confidence Level, Five-Day Holding Period		
Period End	\$ 2	\$ 8
Average for the Period	4	9
High	6	10
Low	2	8

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at June 30, 2013.

Interest Rate Risk

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. PPL utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL's debt portfolio due to changes in the absolute level of interest rates.

At June 30, 2013, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL is also exposed to changes in the fair value of its domestic and international debt portfolios. PPL estimated that a 10% decrease in interest rates at June 30, 2013 would increase the fair value of its debt portfolio by \$631 million.

At June 30, 2013, PPL had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
Cash flow hedges			
Interest rate swaps (c)	\$ 1,930	\$ 129	\$ (74)
Cross-currency swaps (d)	1,262	61	(171)
Economic activity			
Interest rate swaps (e)	179	(44)	(4)

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes foreign currency exchange rates.

(c) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or liabilities, if recoverable through rates. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. The positions outstanding at June 30, 2013 mature through 2044.

(d) PPL utilizes cross-currency swaps to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes. While PPL is exposed to changes in the fair value of these instruments, any change in the fair value of these instruments is recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings. The positions outstanding at June 30, 2013 mature through 2028.

(e) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic positions are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. The positions outstanding at June 30, 2013 mature through 2033.

Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

At June 30, 2013, PPL had the following foreign currency hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 166	\$ 11	\$ (25)
Economic activity (c)	1,185	71	(171)

- (a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
- (b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP. The positions outstanding at June 30, 2013 mature through 2014. Excludes the amount of intercompany loans classified as net investment hedges. See Note 14 to the Financial Statements for additional information.
- (c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP. The forwards and options outstanding at June 30, 2013 mature through 2015.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At June 30, 2013, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At June 30, 2013, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$57 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's 2012 Form 10-K for additional information.

Foreign Currency Translation

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation loss of \$269 million for the six months ended June 30, 2013, which primarily reflected a \$714 million reduction to PP&E and goodwill offset by a reduction of \$445 million to net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$104 million for the six months ended June 30, 2012, which primarily reflected a \$259 million reduction to PP&E and goodwill offset by a reduction of \$155 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions

PPL is not aware of any material ownership interests or operating responsibility by senior management of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL.

Acquisitions, Development and Divestitures

PPL from time to time evaluates opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to PPL's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of PPL's business. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the costs for their products or their demand for PPL's services.

Physical effects associated with possible climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL's generation assets, electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL has hydroelectric generating facilities or where river water is used to cool its fossil and nuclear powered generators. PPL cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

The following is a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous waste) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule. On July 25, 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from regulating CCRs under RCRA and sets rules governing state programs. Prospects remain uncertain for similar legislation to pass in the U.S. Senate.

Effluent Limitation Guidelines (ELGs)

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized. The proposal contains several alternative approaches, some of which could significantly impact PPL's coal-fired plants. PPL will work with industry groups to comment on the proposed regulation. The final regulation is expected in May 2014. At the present time, PPL is unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: requiring installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment); and imposing standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected to be issued in November 2013. The proposed regulation would apply to nearly all PPL-owned steam electric plants in Pennsylvania, Kentucky, and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

GHG Regulations

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum the EPA was directed to issue a new proposal for new power plants by September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016. Regulation of existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans. The Administration's recent increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may lead to more costly regulatory requirements. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect PPL and others in the industry as transmission system modifications to improve the ability to withstand major storms may be needed in order to meet those requirements.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. PPL is generally well-positioned to comply with MATS, primarily due to recent investments in environmental

controls and approved ECR plans to install additional controls at some of its Kentucky plants. Additionally, PPL is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS. The anticipated retirements of certain coal-fired electric generating units are in response to this and other environmental regulations.

Regional Haze

Under the EPA's regional haze programs (developed to eliminate man-made visibility degradation by 2064), states are required to make reasonable progress every decade, including the application of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977. For the eastern U.S., the EPA had determined that region-wide reductions under the CAIR or CSAPR trading program could be utilized by state programs to satisfy BART requirements. However, the August 2012 decision by the U.S. Court of Appeals for the District of Columbia Circuit (Circuit Court) to vacate and remand CSAPR exposes power plants located in the eastern U.S., including PPL's plants in Pennsylvania and Kentucky, to reductions in sulfur dioxide and nitrogen oxides as required by BART.

The EPA signed its final Federal Implementation Plan of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for Corette (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above).

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrogen oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern U.S. In December 2011, the Circuit Court stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Circuit Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place in the interim, and on June 24, 2013 the U.S. Supreme Court granted the EPA's petition for review of the Circuit Court's decision.

PPL plants in Pennsylvania and Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Circuit Court's August 2012 decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL's 2012 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment (excluding investments), loss accruals, AROs, income taxes, and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL's 2012 Form 10-K for a discussion of each critical accounting policy.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with PPL Energy Supply's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Energy Supply's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Energy Supply and its business strategy, a summary of Net Income Attributable to PPL Energy Supply Member and a discussion of certain events related to PPL Energy Supply's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL Energy Supply's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal line items on PPL Energy Supply's Statements of Income, comparing the three and six months ended June 30, 2013 with the same periods in 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Energy Supply's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of PPL Energy Supply's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Energy Supply is an energy company with headquarters in Allentown, Pennsylvania. Through its subsidiaries, PPL Energy Supply is primarily engaged in the competitive generation and marketing of electricity in two key markets - the northeastern and northwestern U.S.

The capacity (summer rating) of PPL Energy Supply's competitive electricity generation facilities at June 30, 2013 was:

<u>Primary Fuel</u>	<u>Ownership or Lease Interest in MW (a)</u>
Coal (b) (c)	4,146
Natural Gas/Oil	3,316
Nuclear (c)	2,275
Hydro	807
Other (d)	70
Total	<u>10,614</u>

- (a) The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units, and may be revised periodically to reflect changed circumstances. See "Item 2. Properties" in PPL Energy Supply's 2012 Form 10-K for additional information on ownership percentages.
- (b) Includes a leasehold interest held by PPL Montana. See Note 11 to the Financial Statements in PPL Energy Supply's 2012 Form 10-K for additional information.
- (c) Includes units that are jointly owned. Each owner is entitled to its proportionate share of the unit's total output and funds its proportionate share of fuel and other operating costs. See Note 14 to the Financial Statements in PPL Energy Supply's 2012 Form 10-K for additional information.
- (d) Includes facilities owned, controlled or for which PPL Energy Supply has the rights to the output.

Business Strategy

PPL Energy Supply's strategy is to achieve disciplined optimization of energy supply margins while mitigating near-term volatility in both cash flows and earnings. More specifically, PPL Energy Supply's strategy is to optimize the value from its competitive generation and marketing portfolios. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. PPL Energy

Supply is focused on managing profitability during the current and projected period of low commodity prices. See "Financial and Operational Developments - Economic and Market Conditions" below.

To manage financing costs and access to credit markets, a key objective for PPL Energy Supply is to maintain a strong credit profile and liquidity position. In addition, PPL Energy Supply has financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Developments

Net Income Attributable to PPL Energy Supply Member

Net Income Attributable to PPL Energy Supply Member for the three and six months ended June 30, 2013 was \$86 million and \$48 million compared to \$19 million and \$328 million for the same periods in 2012.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

Economic and Market Conditions

Current depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development and additional renewable energy sources, primarily wind in the western U.S. Unregulated Gross Energy Margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in energy and capacity market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, transmission constraints that impact the locational pricing of electricity at PPL Energy Supply's power plants, fuel transportation costs and the level and price of hedging activities. As a result of these factors, lower energy margins are expected when compared to the 2012 energy margins. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, its hedging strategies, and potential plant modifications to burn lower cost fuels.

As previously disclosed, PPL Energy Supply's businesses are subject to extensive federal, state and local environmental laws, rules and regulations, including those surrounding coal combustion residuals, GHG, effluent limitation guidelines and MATS. See "Financial Condition - Environmental Matters" below for additional information on these requirements. These more stringent environmental requirements, combined with low energy margins for competitive generation, have led several energy companies, including PPL Energy Supply, to announce plans to either temporarily or permanently close, or place in long-term reserve status, certain of their coal-fired generating plants.

In 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with MATS. PPL Energy Supply continues to monitor its Corette plant for potential impairment. The Corette plant asset group's carrying value at June 30, 2013 was \$68 million. See Note 10 to the Financial Statements for additional information. PPL Energy Supply believes its remaining competitive generation assets are well positioned to meet the additional environmental requirements based on prior and planned investments and does not currently anticipate the need to temporarily or permanently shut down additional coal-fired plants.

PPL Energy Supply cannot predict the future impact that economic and market conditions and changes in regulatory requirements may have on its financial condition or results of operations.

Susquehanna Turbine Blade Inspection

In the spring of 2013, PPL Susquehanna made modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant that was first identified in 2011. The modifications were made during the Unit 2 refueling outage and an additional planned outage for Unit 1. Additional modifications will be made during the planned outages in 2014 and 2015. Following completion of these modifications, PPL Susquehanna will continue monitoring the turbine blades using enhanced diagnostic equipment.

Colstrip Unit 4 Outage

On July 1, 2013, Colstrip Unit 4 tripped off line as a result of damage that occurred in the unit's generator. The cost to repair Unit 4 is estimated to be between \$30 million to \$40 million and is expected to take at least six months to complete. Property damage insurance for Unit 4 is subject to a \$2.5 million self-insured retention. PPL Montana operates Unit 4 pursuant to an agreement with the owners and, pursuant to a separate agreement with NorthWestern, is entitled to receive 15% of Unit 4's

electricity output and is responsible for 15% of the capital, operating, maintenance and repair costs associated with Unit 4. PPL Montana's estimated pre-tax loss of earnings attributable to the Unit 4 outage is between \$5 million and \$10 million.

Results of Operations

The following discussion provides a summary of PPL Energy Supply's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in Unregulated Gross Energy Margins by region and principal line items on PPL Energy Supply's Statements of Income, comparing the three and six months ended June 30, 2013 with the same periods in 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

Earnings

Net Income Attributable to PPL Energy Supply Member for the periods ended June 30 was:

	Three Months		Six Months	
	2013	2012	2013	2012
Net Income Attributable to PPL Energy Supply Member	\$ 86	\$ 19	\$ 48	\$ 328

The changes in the components of Net Income Attributable to PPL Energy Supply Member between these periods were due to the following factors, which reflect reclassifications for items included in Unregulated Gross Energy Margins and certain items that management considers special. See additional detail of these special items in the tables below.

	Three Months	Six Months
Unregulated Gross Energy Margins	\$ (88)	\$ (195)
Other operation and maintenance	17	30
Depreciation	(10)	(24)
Taxes, other than income	3	4
Other Income (Expense) - net	7	8
Interest Expense	(3)	(12)
Other	4	2
Income Taxes	25	58
Special items, after-tax	112	(151)
Total	\$ 67	\$ (280)

- See "Statement of Income Analysis - Unregulated Gross Energy Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Lower other operation and maintenance for the three-month period primarily due to \$11 million of lower 2013 project and refueling outage costs at PPL Susquehanna and \$4 million of Brunner Island Unit 3 outage costs in 2012 with no comparable outage in 2013.

Lower other operation and maintenance for the six-month period primarily due to \$19 million of Brunner Island Unit 3 outage costs in 2012 with no comparable outage in 2013 and \$17 million of lower 2013 project and refueling outage costs at PPL Susquehanna, partially offset by \$5 million of Conemaugh Unit 2 outage costs in 2013 with no comparable outage in 2012.

- Higher depreciation for the three and six-month periods primarily due to PP&E additions. The six-month period also includes \$6 million attributable to the Ironwood Acquisition.
- Higher other income (expense) - net for the three and six-month periods partially due to the impact of a worker's compensation adjustment of \$4 million.
- Higher interest expense for the six-month period primarily due to \$6 million of lower capitalized interest in 2013 and \$4 million due to financings associated with PPL Ironwood.
- Lower income taxes for the three and six-month periods due to lower pre-tax income in 2013, which reduced income taxes by \$30 million and \$77 million, partially offset for the six-month period by an \$11 million benefit from a state tax rate change recorded in 2012.

The following after-tax gains (losses), which management considers special items, also impacted the results during the periods ended June 30.

	Income Statement Line Item	Three Months		Six Months	
		2013	2012	2013	2012
Adjusted energy-related economic activity, net, net of tax of (\$51), \$23, \$28, (\$79)	(a)	\$ 76	\$ (32)	\$ (41)	\$ 118
Impairments:					
Adjustments - nuclear decommissioning trust investments, net of tax of \$0, (\$1), \$0, (\$2)	Other Income-net				1
Other:					
Change in tax accounting method related to repairs	Income Taxes	(3)		(3)	
Counterparty bankruptcy, net of tax of (\$1), \$0, (\$1), \$5 (b)	Other Operation and Maintenance	1		1	(6)
Wholesale supply cost reimbursement, net of tax of \$0, \$0, \$0, \$0	(c)		1		1
Ash basin leak remediation adjustment, net of tax of \$0, \$0, \$0, (\$1)	Other Operation and Maintenance				1
Coal contract modification payments, net of tax of \$0, \$5, \$0, \$5 (d)	Fuel		(7)		(7)
Total		<u>\$ 74</u>	<u>\$ (38)</u>	<u>\$ (43)</u>	<u>\$ 108</u>

(a) See "Reconciliation of Economic Activity" below.

(b) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012. In June 2013, PPL EnergyPlus received an approval for an administrative claim in the amount of \$2 million.

(c) Recorded in "Wholesale energy marketing - Realized" on the Statement of Income.

(d) As a result of lower electricity and natural gas prices, coal-fired generation output decreased during 2012. Contract modification payments were incurred to reduce 2012 and 2013 contracted coal deliveries.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) for the periods ended June 30, to the special item identified as "Adjusted energy-related economic activity, net."

	Three Months		Six Months	
	2013	2012	2013	2012
Operating Revenues				
Unregulated retail electric and gas	\$ 20	\$ (12)	\$ 12	\$ (2)
Wholesale energy marketing	590	(458)	(232)	394
Operating Expenses				
Fuel	(4)	(16)	(5)	(14)
Energy Purchases	(479)	442	155	(149)
Energy-related economic activity (a)	127	(44)	(70)	229
Option premiums		1	1	1
Adjusted energy-related economic activity	127	(43)	(69)	230
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010		12		33
Adjusted energy-related economic activity, net, pre-tax	<u>\$ 127</u>	<u>\$ (55)</u>	<u>\$ (69)</u>	<u>\$ 197</u>
Adjusted energy-related economic activity, net, after-tax	<u>\$ 76</u>	<u>\$ (32)</u>	<u>\$ (41)</u>	<u>\$ 118</u>

(a) See Note 14 to the Financial Statements for additional information.

2013 Outlook

Excluding special items, PPL Energy Supply projects lower earnings in 2013 compared with 2012, primarily driven by lower energy prices, higher fuel costs, higher depreciation and higher financing costs, partially offset by lower operation and maintenance expense, higher capacity prices and higher nuclear generation output.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL Energy Supply's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Unregulated Gross Energy Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Unregulated Gross Energy Margins." "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. In calculating this measure, PPL Energy Supply's energy revenues are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges and gross receipts tax, which is recorded in "Taxes, other than income". This performance measure is relevant to PPL Energy Supply due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "Wholesale energy marketing to affiliate" revenue. PPL Energy Supply excludes from "Unregulated Gross Energy Margins" adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in adjusted energy-related economic activity is the premium amortization associated with options and for 2012 the ineffective portion of qualifying cash flow hedges and realized economic activity associated with the monetization of certain full-requirement sales contracts in 2010. This economic activity was deferred, with the exception of the full-requirement sales contracts that were monetized, and included in "Unregulated Gross Energy Margins" over the delivery period that was hedged or upon realization. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Energy Supply believes that "Unregulated Gross Energy Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage PPL Energy Supply's operations, analyze actual results compared with budget and measure certain corporate financial goals used in determining variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Unregulated Gross Energy Margins" as defined by PPL Energy Supply to "Operating Income" for the periods ended June 30.

	2013 Three Months			2012 Three Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	\$ 812	\$ (1)	\$ 811	\$ 1,075	\$ 8 (c)	\$ 1,083
Unrealized economic activity		590 (d)	590		(458) (d)	(458)
Wholesale energy marketing to affiliate	12		12	17		17
Unregulated retail electric and gas	237	20 (d)	257	192	(12) (d)	180
Net energy trading margins				10		10
Energy-related businesses		122	122		112	112
Total Operating Revenues	<u>1,061</u>	<u>731</u>	<u>1,792</u>	<u>1,294</u>	<u>(350)</u>	<u>944</u>
Operating Expenses						
Fuel	223	1	224	170	26 (e)	196
Energy purchases						
Realized	419	(1)	418	617	18 (c)	635
Unrealized economic activity		479 (d)	479		(442) (d)	(442)
Energy purchases from affiliate	1		1			
Other operation and maintenance	3	267	270	7	287	294
Depreciation		79	79		69	69
Taxes, other than income	10	6	16	7	10	17
Energy-related businesses		118	118		109	109
Total Operating Expenses	<u>656</u>	<u>949</u>	<u>1,605</u>	<u>801</u>	<u>77</u>	<u>878</u>
Total	<u>\$ 405</u>	<u>\$ (218)</u>	<u>\$ 187</u>	<u>\$ 493</u>	<u>\$ (427)</u>	<u>\$ 66</u>

	2013 Six Months			2012 Six Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	\$ 1,789	\$ (2)	\$ 1,787	\$ 2,279	\$ 12 (c)	\$ 2,291
Unrealized economic activity		(232) (d)	(232)		394 (d)	394
Wholesale energy marketing to affiliate	26		26	38		38
Unregulated retail electric and gas	483	12 (d)	495	406	(2) (d)	404
Net energy trading margins	(11)		(11)	18		18
Energy-related businesses		235	235		208	208
Total Operating Revenues	2,287	13	2,300	2,741	612	3,353
Operating Expenses						
Fuel	522		522	385	22 (e)	407
Energy purchases						
Realized	855	(3)	852	1,251	43 (c)	1,294
Unrealized economic activity		(155) (d)	(155)		149 (d)	149
Energy purchases from affiliate	2		2	1		1
Other operation and maintenance	8	497	505	11	538	549
Depreciation		157	157		133	133
Taxes, other than income	18	15	33	16	19	35
Energy-related businesses		228	228		201	201
Total Operating Expenses	1,405	739	2,144	1,664	1,105	2,769
Total	\$ 882	\$ (726)	\$ 156	\$ 1,077	\$ (493)	\$ 584

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. For the three and six months ended June 30, 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include net pre-tax losses of \$12 million and \$33 million related to the monetization of certain full-requirement sales contracts.

(d) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.

(e) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. The three and six months ended June 30, 2012 include a pre-tax loss of \$12 million related to coal contract modification payments.

Changes in Non-GAAP Financial Measures

Unregulated Gross Energy Margins are generated through PPL Energy Supply's competitive non-trading and trading activities. PPL Energy Supply's non-trading energy business is managed on a geographic basis that is aligned with its generation fleet. The following table shows PPL Energy Supply's non-GAAP financial measure, Unregulated Gross Energy Margins, for the periods ended June 30, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Six Months		
	2013	2012	Change	2013	2012	Change
Non-trading						
Eastern U.S.	\$ 349	\$ 407	\$ (58)	\$ 779	\$ 896	\$ (117)
Western U.S.	56	76	(20)	114	163	(49)
Net energy trading		10	(10)	(11)	18	(29)
Total	\$ 405	\$ 493	\$ (88)	\$ 882	\$ 1,077	\$ (195)

Unregulated Gross Energy Margins

Eastern U.S.

The increase (decrease) in non-trading margins for the periods ended June 30, 2013 compared with 2012 were due to:

	<u>Three Months</u>	<u>Six Months</u>
Baseload energy prices	\$ (121)	\$ (246)
Nuclear fuel prices	(4)	(10)
Coal prices	1	(9)
Intermediate and peaking Spark Spreads	(7)	7
Nuclear generation volume	9	9
Full-requirement sales contracts	5	10
Gas optimization and storage	10	11
Ironwood Acquisition which eliminated tolling expense	2	17
Net economic availability of coal and hydroelectric plants	7	39
Capacity prices	36	47
Other	4	8
Total	<u>\$ (58)</u>	<u>\$ (117)</u>

Western U.S.

Non-trading margins for the three and six months ended June 30, 2013 compared with the same periods in 2012 were lower due to \$20 million and \$59 million of lower wholesale prices. The six-month period was partially offset by \$7 million of higher wholesale volumes.

Net Energy Trading Margins

Net energy trading margins for the three months ended June 30, 2013 compared with the same period in 2012 decreased as a result of lower margins of \$5 million on power positions and \$3 million on FTRs.

Net energy trading margins for the six months ended June 30, 2013 compared with the same period in 2012 decreased as a result of lower margins of \$15 million on gas positions and \$7 million on power positions.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Brunner Island Unit 3 outage in 2012	\$ (4)	\$ (19)
Uncollectible accounts (a)	(4)	(15)
PPL Susquehanna projects	(6)	(9)
PPL Susquehanna refueling outage	(5)	(8)
Conemaugh Unit 2 outage in 2013	3	5
Other generation plant costs	(7)	(1)
Other	(1)	3
Total	<u>\$ (24)</u>	<u>\$ (44)</u>

(a) The decrease for the six-month period is primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code in 2011. \$11 million of damages billed to SMGT were fully reserved in 2012.

Depreciation

Depreciation increased by \$10 million and \$24 million for the three and six months ended June 30, 2013 compared with 2012, primarily due to \$10 million and \$20 million related to PP&E additions, and \$6 million attributable to the Ironwood Acquisition for the six-month period.

Other Income (Expense) - net

For the three and six months ended June 30, 2013 compared with 2012, other income (expense) - net increased by \$6 million and \$5 million, primarily due to the impact of a \$4 million worker's compensation adjustment.

See Note 12 to the Financial Statements for additional information on other income (expense) - net.

Interest Expense

The increase (decrease) in interest expense for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Ironwood Acquisition financing		\$ 4
Capitalized interest	\$ 3	6
Other		2
Total	<u>\$ 3</u>	<u>\$ 12</u>

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Higher (lower) pre-tax income	\$ 53	\$ (172)
Federal and state tax reserve adjustments (a)	7	6
State deferred tax rate change (b)		11
Other	(2)	1
Total	<u>\$ 58</u>	<u>\$ (154)</u>

- (a) During the three and six months ended June 30, 2013, PPL Energy Supply reversed \$3 million tax benefit related to a 2008 change in method of accounting for certain expenditures for tax purposes and recorded \$4 million in federal tax reserves related to differences in over (under) payment interest rates applied to audit claims as a result of the U.S. Supreme Court decision related to the Windfall Profits tax.
- (b) During the six months ended June 30, 2012, PPL Energy Supply recorded adjustments related to state deferred tax liabilities.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

PPL Energy Supply had the following at:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 265	\$ 413
Short-term debt	<u>\$ 575</u>	<u>\$ 356</u>

The \$148 million decrease in PPL Energy Supply's cash and cash equivalents position was primarily the net result of:

- distributions to Member of \$408 million;
- capital expenditures of \$241 million;
- net cash provided by operating activities of \$227 million;
- contributions from Member of \$105 million; and
- an increase in short-term debt of \$219 million.

PPL Energy Supply's cash provided by operating activities decreased by \$81 million for the six months ended June 30, 2013, compared with 2012. This was partially due to a \$37 million increase in defined benefit plans funding and an \$11 million increase in cash used by components of working capital (primarily due to changes in counterparty collateral of \$118 million, partially offset by changes in fuel, materials and supplies of \$79 million). In addition, a change of \$31 million in other operating activities contributed to the decrease, partially due to changes in certain tax-related accounts.

Credit Facilities

PPL Energy Supply maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At June 30, 2013, PPL Energy Supply's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
PPL Energy Supply Credit Facilities (a)	<u>\$ 3,150</u>	<u>\$</u>	<u>\$ 785</u>	<u>\$ 2,365</u>

- (a) The commitments under PPL Energy Supply's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL Energy Supply's credit facilities.

Commercial Paper

PPL Energy Supply maintains a commercial paper program for up to \$750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At June 30, 2013 and December 31, 2012, PPL Energy Supply had \$575 million and \$356 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheets, at weighted-average interest rates of 0.29% and 0.50%.

Rating Agency Actions

Fitch, Moody's and S&P periodically review the credit ratings on the debt securities of PPL Energy Supply and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Energy Supply and its subsidiaries are based on information provided by PPL Energy Supply and other sources. The ratings of Fitch, Moody's and S&P are not a recommendation to buy, sell or hold any securities of PPL Energy Supply or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

A downgrade in PPL Energy Supply's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. PPL Energy Supply and its subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies took the following actions related to PPL Energy Supply and its subsidiaries in 2013:

In February 2013, Moody's upgraded its rating, from B2 to Ba1, and revised the outlook from under review to stable for PPL Ironwood.

In April 2013, Fitch affirmed the BBB- rating and stable outlook on PPL Montana's pass-through trust certificates due 2020.

In July 2013, Moody's withdrew its rating and outlook for PPL Ironwood.

In July 2013, S&P lowered its rating, from BBB- to BB+, and retained the negative outlook for PPL Montana's pass-through trust certificates due 2020.

Ratings Triggers

PPL Energy Supply has various contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate instruments, which contain provisions that require PPL Energy Supply to post additional collateral or permit the counterparty to terminate the contract, if PPL Energy Supply's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at June 30, 2013.

For additional information on PPL Energy Supply's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Energy Supply's 2012 Form 10-K.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL Energy Supply's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Six Months	
	2013	2012	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 229	\$ 1,215	\$ 473	\$ 1,082
Contracts realized or otherwise settled during the period	(100)	(261)	(237)	(540)
Fair value of new contracts entered into during the period (a)	37	13	46	12
Other changes in fair value	119	(6)	3	407
Fair value of contracts outstanding at the end of the period	\$ 285	\$ 961	\$ 285	\$ 961

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at June 30, 2013, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices based on significant observable inputs (Level 2)	\$ 226	\$ 32	\$ (10)	\$ 5	\$ 253
Prices based on significant unobservable inputs (Level 3)	10	18	4		32
Fair value of contracts outstanding at the end of the period	\$ 236	\$ 50	\$ (6)	\$ 5	\$ 285

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can

be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2018. The following table sets forth changes in the net fair value of trading commodity derivative contracts for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Six Months	
	2013	2012	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 15	\$ 2	\$ 29	\$ (4)
Contracts realized or otherwise settled during the period		(1)	(2)	(1)
Fair value of new contracts entered into during the period (a)	(4)	(1)	(16)	5
Other changes in fair value	7	17	7	17
Fair value of contracts outstanding at the end of the period	<u>\$ 18</u>	<u>\$ 17</u>	<u>\$ 18</u>	<u>\$ 17</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at June 30, 2013, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 4	\$ 6			\$ 10
Prices based on significant unobservable inputs (Level 3)	6	2			8
Fair value of contracts outstanding at the end of the period	<u>\$ 10</u>	<u>\$ 8</u>			<u>\$ 18</u>

VaR Models

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the six months ended June 30, 2013 was as follows.

	Trading VaR	Non-Trading VaR
95% Confidence Level, Five-Day Holding Period		
Period End	\$ 2	\$ 8
Average for the Period	4	9
High	6	10
Low	2	8

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at June 30, 2013.

Interest Rate Risk

PPL Energy Supply and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. PPL and PPL Energy Supply utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates. PPL Energy Supply had no interest rate hedges outstanding at June 30, 2013.

At June 30, 2013, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. PPL Energy Supply estimated that a 10% decrease in interest rates at June 30, 2013 would increase the fair value of its debt portfolio by \$50 million.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At June 30, 2013, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At June 30, 2013, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$57 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 11, 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL Energy Supply's 2012 Form 10-K for additional information.

Related Party Transactions

PPL Energy Supply is not aware of any material ownership interests or operating responsibility by senior management of PPL Energy Supply in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL Energy Supply. See Note 11 to the Financial Statements for additional information on related party transactions.

Acquisitions, Development and Divestitures

PPL Energy Supply from time to time evaluates opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to PPL Energy Supply's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of PPL Energy Supply's business. The costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, cost may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the costs for their products or their demand for PPL Energy Supply's services.

Physical effects associated with possible climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL Energy Supply's generation assets as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL Energy Supply has hydroelectric generating facilities or where river water is used to cool its fossil and nuclear powered generators. PPL Energy Supply cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

The following is a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous waste) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule. On July 25, 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from regulating CCRs under RCRA and sets rules governing state programs. Prospects remain uncertain for similar legislation to pass in the U.S. Senate.

Effluent Limitation Guidelines (ELGs)

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized. The proposal contains several alternative approaches, some of which could significantly impact PPL Energy Supply's coal-fired plants. PPL Energy Supply will work with industry groups to comment on the proposed regulation. A final regulation is expected in May 2014. At the present time, PPL Energy Supply is unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structures Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: requiring installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plants cooling water system (entrainment); and imposing standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected to be issued in November 2013. The proposed regulation would apply to nearly all PPL Energy Supply-owned steam electric plants in Pennsylvania and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL Energy Supply's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

GHG Regulations

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum the EPA was directed to issue a new proposal for new power plants by September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016. Regulation of existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and the state implementation plans. The Administration's recent increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may lead to more costly regulatory requirements.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. PPL Energy Supply is generally well-positioned to comply with MATS due to its recent investment in, and installation of, environmental controls such as wet flue gas desulfurization systems. PPL Energy Supply is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL Energy Supply announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS.

Regional Haze

Under the EPA's regional haze programs (developed to eliminate man-made visibility degradation by 2064), states are required to make reasonable progress every decade, including the application of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977. For the eastern U.S. the EPA had determined that region-wide reductions under the CAIR or CSAPR trading program could be utilized by states programs to satisfy BART requirements. However, the August 2012 decision by the U.S. Court of Appeals for the District of Columbia Circuit (Circuit Court) to

vacate and remand CSAPR will likely expose power plants located in the eastern U.S., including PPL Energy Supply's plants in Pennsylvania, to reductions in sulfur dioxide and nitrogen oxides as required by BART.

The EPA signed its final Federal Implementation Plan of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for Corette (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL Energy Supply expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above).

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrogen oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern U.S. In December 2011, the Circuit Court stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Circuit Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place in the interim, and on June 24, 2013 the U.S. Supreme Court granted the EPA's petition for review of the Circuit Court's decision.

PPL Energy Supply plants in Pennsylvania will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Circuit Court's August 2012 decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL Energy Supply's 2012 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment (excluding investments), loss accruals, AROs and income taxes. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Energy Supply's 2012 Form 10-K for a discussion of each critical accounting policy.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with PPL Electric's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Electric's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Electric and its business strategy, a summary of Net Income Available to PPL and a discussion of certain events related to PPL Electric's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL Electric's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal line items on PPL Electric's Statements of Income, comparing the three and six months ended June 30, 2013 with the same periods in 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Electric's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of PPL Electric's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Electric is an electricity transmission and distribution service provider in eastern and central Pennsylvania with headquarters in Allentown, Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

Business Strategy

PPL Electric's strategy for its regulated electricity delivery business is to provide safe, reliable service to its customers and achieve stable, long-term growth in earnings and rate base. Rate base is expected to grow as a result of significant capital expenditure programs aimed at maintaining existing assets and improving system reliability. PPL Electric is focused on timely recovery of costs, efficient operations, strong customer service and constructive regulatory relationships.

To manage financing costs and access to credit markets and to fund capital expenditure programs, a key objective for PPL Electric is to maintain a strong credit profile and strong liquidity position.

Timely recovery of costs to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets, is required in order to maintain strong cash flows and a strong credit profile. Traditionally, such cost recovery would be pursued through periodic base rate case proceedings with the PUC. As such costs continue to increase, more frequent rate case proceedings may be required in order to achieve more timely recovery. The recently approved DSIC mechanism will help reduce regulatory lag on distribution reliability-related capital investment. See "Financial and Operational Developments - Distribution System Improvement Charge" below for information on Pennsylvania's new alternative rate-making mechanism.

Transmission costs are recovered through a FERC Formula Rate mechanism, which is updated annually for costs incurred and assets placed in service. Accordingly, increased costs, including those related to the replacement of aging transmission assets and the PJM-approved Regional Transmission Line Expansion Plan, are recovered on a timely basis.

Financial and Operational Developments

Net Income Available to PPL

Net Income Available to PPL for the three and six months ended June 30, 2013 was \$45 million and \$109 million compared to \$29 million and \$62 million for the same periods in 2012, representing a 55% and 76% increase over the same periods in 2012.

See "Results of Operations" below for further discussion and analysis of PPL Electric's earnings.

Rate Case Proceeding

In December 2012, the PUC approved a total distribution revenue increase of about \$71 million, using a 10.4% return on equity. The approved rates became effective January 1, 2013.

Distribution System Improvement Charge

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery. In May 2013, the PUC approved PPL Electric's proposal to establish a DSIC, with an initial rate effective July 1, 2013, subject to refund after hearings. See Note 6 to the Financial Statements for additional information.

FERC Formula Rates

PPL Electric must follow FERC's Uniform System of Accounts, which requires subsidiaries to be presented, for FERC reporting purposes, using the equity method of accounting unless a waiver has been granted. The FERC has granted waivers of this requirement to other utilities when alternative accounting would more accurately present the integrated operations of a utility and its subsidiaries. In March 2013, as part of a routine FERC audit of PPL and its subsidiaries, PPL Electric determined that it never obtained a required waiver of the equity method accounting requirement for its subsidiary, PPL Receivables Corporation (PPL Receivables) for FERC Form No. 1 reporting. In March 2013, PPL Electric filed a request for waiver with the FERC that, if approved, would allow it to continue to consolidate the results of PPL Receivables, as it has done since 2004. If PPL Electric is not successful in obtaining the waiver, its revenue requirement calculated under the formula rate could be negatively impacted. The impact, if any, is not known at this time but could range between \$0 and \$40 million, pre-tax. PPL Electric cannot predict the outcome of the waiver or audit proceedings, which remain pending before the FERC. See Note 6 to the Financial Statements for additional information.

Results of Operations

The following discussion provides a summary of PPL Electric's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in Pennsylvania Gross Delivery Margins by component and principal line items on PPL Electric's Statements of Income, comparing the three and six months ended June 30, 2013 with the same periods in 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

Earnings

Net Income Available to PPL for the periods ended June 30 was:

	<u>Three Months</u>		<u>Six Months</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net Income Available to PPL	\$ 45	\$ 29	\$ 109	\$ 62

The changes in the components of Net Income Available to PPL between these periods were due to the following factors which reflect reclassifications for items included in Pennsylvania Gross Delivery Margins.

	<u>Three Months</u>	<u>Six Months</u>
Pennsylvania Gross Delivery Margins	\$ 21	\$ 61
Other operation and maintenance	13	20
Depreciation	(5)	(9)
Interest Expense	(1)	(2)
Other	1	(1)
Income Taxes	(13)	(26)
Distributions on preference stock		4
Total	<u>\$ 16</u>	<u>\$ 47</u>

- See "Statement of Income Analysis - Pennsylvania Gross Delivery Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Lower other operation and maintenance for the three-month period primarily due to lower corporate service costs of \$6 million and lower vegetation management of \$2 million.

Lower other operation and maintenance for the six-month period primarily due to lower corporate service costs of \$11 million and lower vegetation management of \$3 million.
- Higher depreciation for the three and six-month periods primarily due to the impact of PP&E additions related to the ongoing efforts to ensure the reliability of the delivery system and replace aging infrastructure.
- Higher income taxes for the three and six-month periods primarily due to higher pre-tax income.

2013 Outlook

Excluding special items, PPL Electric projects higher earnings in 2013 compared with 2012, primarily driven by higher distribution revenues from a distribution base rate increase and higher transmission margins, partially offset by higher depreciation and higher operation and maintenance expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL Electric's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Pennsylvania Gross Delivery Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Pennsylvania Gross Delivery Margins." "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's Pennsylvania regulated electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Energy purchases from affiliate," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income" which is primarily gross receipts tax. As a result, this measure represents the net revenues from PPL Electric's Pennsylvania regulated electric delivery operations. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Electric believes that "Pennsylvania Gross Delivery Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage PPL Electric's operations and analyze actual results to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Pennsylvania Gross Delivery Margins" to "Operating Income" as defined by PPL Electric for the periods ended June 30.

	2013 Three Months			2012 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	\$ 413		\$ 413	\$ 403		\$ 403
Electric revenue from affiliate	1		1	1		1
Total Operating Revenues	414		414	404		404
Operating Expenses						
Energy purchases	120		120	120		120
Energy purchases from affiliate	12		12	17		17
Other operation and maintenance	21	\$ 103	124	26	\$ 117	143
Depreciation		44	44		39	39
Taxes, other than income	19	3	22	20	2	22
Total Operating Expenses	172	150	322	183	158	341
Total	\$ 242	\$ (150)	\$ 92	\$ 221	\$ (158)	\$ 63

	2013 Six Months			2012 Six Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	\$ 925		\$ 925	\$ 860		\$ 860
Electric revenue from affiliate	2		2	2		2
Total Operating Revenues	927		927	862		862
Operating Expenses						
Energy purchases	292		292	273		273
Energy purchases from affiliate	26		26	38		38
Other operation and maintenance	43	\$ 214	257	49	\$ 234	283
Depreciation		87	87		78	78
Taxes, other than income	47	5	52	44	4	48
Total Operating Expenses	408	306	714	404	316	720
Total	\$ 519	\$ (306)	\$ 213	\$ 458	\$ (316)	\$ 142

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL Electric's non-GAAP financial measure, "Pennsylvania Gross Delivery Margins" for the periods ended June 30, as well as the change between periods. The factors that gave rise to the change are described below the table.

	Three Months			Six Months		
	2013	2012	Change	2013	2012	Change
PA Gross Delivery Margins by Component						
Distribution	\$ 183	\$ 170	\$ 13	\$ 407	\$ 359	\$ 48
Transmission	59	51	8	112	99	13
Total	\$ 242	\$ 221	\$ 21	\$ 519	\$ 458	\$ 61

Distribution

Margins increased for the three months ended June 30, 2013 compared with 2012, primarily due to an \$11 million favorable effect of price as a result of higher base rates, effective January 1, 2013.

Margins increased for the six months ended June 30, 2013 compared with 2012, primarily due to a \$13 million adverse effect of mild weather in 2012 and a \$32 million favorable effect of price, largely comprised of higher base rates, effective January 1, 2013, and higher volumes of \$4 million.

Transmission

Margins increased for the three and six months ended June 30, 2013 compared with 2012, primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Vegetation management	\$ (2)	\$ (3)
Act 129 costs (a)	(7)	(7)
Uncollectible accounts	(1)	(3)
Corporate service costs (b)	(6)	(11)
Other	(3)	(2)
Total	<u>\$ (19)</u>	<u>\$ (26)</u>

(a) The decrease is due to a reduction in Act 129 energy efficiency and conservation plan costs for Phase 1 programs. Phase 1 ended May 31, 2013.

(b) The decrease is partially due to storm insurance policy premiums for coverage that was in place in 2012 but was not renewed in 2013.

Depreciation

Depreciation increased by \$5 million and \$9 million for the three and six months ended June 30, 2013 compared with 2012, primarily due to PP&E additions as part of ongoing investments to enhance system reliability.

Taxes, Other Than Income

Taxes, other than income increased by \$4 million for the six months ended June 30, 2013 compared with 2012, primarily due to higher Pennsylvania gross receipts tax expense due to higher retail electricity revenue. This tax is included in "Pennsylvania Gross Delivery Margins."

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Higher (lower) pre-tax income	\$ 11	\$ 27
Depreciation not normalized	2	
Other		(1)
Total	<u>\$ 13</u>	<u>\$ 26</u>

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

PPL Electric had the following at:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 24	\$ 140
Short-term debt	<u>\$ 85</u>	<u>\$</u>

The \$116 million decrease in PPL Electric's cash and cash equivalents position was primarily the net result of:

- capital expenditures of \$451 million;
- the payment of \$66 million of common stock dividends to parent;
- contributions from parent of \$205 million;
- net cash provided by operating activities of \$115 million; and
- a net increase in short-term debt of \$85 million.

PPL Electric's cash provided by operating activities increased by \$14 million for the six months ended June 30, 2013 compared with 2012. The increase was primarily the net effect of a \$72 million increase in net income when adjusted for non-cash components, partially offset by an increase of \$55 million in cash used by components of working capital.

Capital expenditures increased by \$195 million for the six months ended June 30, 2013 compared with 2012, primarily due to the Susquehanna-Roseland transmission project and projects to enhance system reliability.

Credit Facilities

PPL Electric maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At June 30, 2013, PPL Electric's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
PPL Electric Credit Facilities (a)	\$ 400		\$ 86	\$ 314

(a) The commitments under the \$300 million syndicated credit facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 5% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL Electric's credit facilities.

Commercial Paper

PPL Electric maintains a commercial paper program for up to \$300 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. At June 30, 2013, PPL Electric had \$85 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of 0.34%. PPL Electric had no commercial paper outstanding at December 31, 2012.

Long-term Debt

In July 2013, PPL Electric issued \$350 million of 4.75% First Mortgage Bonds due 2043. PPL Electric received proceeds of \$345 million, net of a discount and underwriting fees, which will be used for capital expenditures, to fund pension obligations and for other general corporate purposes.

Rating Agency Actions

Fitch, Moody's and S&P periodically review the credit ratings on the debt securities of PPL Electric. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Electric are based on information provided by PPL Electric and other sources. The ratings of Fitch, Moody's and S&P are not a recommendation to buy, sell or hold any securities of PPL Electric. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

A downgrade in PPL Electric's credit ratings could result in higher borrowing costs and reduced access to capital markets. PPL Electric does not have credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies took the following actions related to PPL Electric in 2013:

In July 2013, Fitch, Moody's and S&P assigned ratings of A-, A3 and A- to PPL Electric's \$350 million 4.75% First Mortgage Bonds due 2043. Fitch also assigned a stable outlook to these notes and S&P assigned a recovery rating of 1+.

For additional information on PPL Electric's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Electric's 2012 Form 10-K.

Risk Management

Market Risk and Credit Risk

PPL Electric issues debt to finance its operations, which exposes it to interest rate risk. At June 30, 2013, PPL Electric's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Electric is also exposed to changes in the fair value of its debt portfolio. PPL Electric estimated that a 10% decrease in interest rates at June 30, 2013 would increase the fair value of its debt portfolio by \$95 million.

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management" in PPL Electric's 2012 Form 10-K for additional information on market and credit risk.

Related Party Transactions

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management of PPL Electric in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL Electric. See Note 11 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Physical effects associated with possible climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL Electric's electricity transmission and distribution systems, as well as impacts on customers. PPL Electric cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

The following is a discussion of the more significant environmental matters.

GHG Regulations

In June 2013, President Obama released his Climate Action Plan which, among other things, calls for actions to be taken to prepare the U.S. for the impacts of climate change. PPL Electric and others in the industry could be affected by resulting guidelines and standards which may require transmission system modifications to improve the ability of critical infrastructure to withstand major storms.

See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL Electric's 2012 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: defined benefits, loss accruals, income taxes, regulatory assets and liabilities and revenue recognition - unbilled revenue. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Electric's 2012 Form 10-K for a discussion of each critical accounting policy.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with LKE's Condensed Consolidated Financial Statements and the accompanying Notes and with LKE's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LKE and its business strategy, a summary of Net Income and a discussion of certain events related to LKE's results of operations and financial condition.
- "Results of Operations" provides a summary of LKE's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal line items on LKE's Statements of Income, comparing the three and six months ended June 30, 2013 with 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LKE's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of LKE's risk management programs relating to market and credit risk.

Overview

Introduction

LKE, headquartered in Louisville, Kentucky, is a holding company and a wholly owned subsidiary of PPL. LKE has regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electric energy. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

Business Strategy

LKE's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its member. Rate base is expected to grow as a result of significant capital expenditure programs to maintain reliable service and comply with federal and state regulations. LKE is focused on efficient operations, strong customer service, timely recovery of costs and constructive regulatory relationships.

A key objective for LKE is to maintain a strong credit profile through managing financing costs and access to credit markets. LKE continually focuses on maintaining an appropriate capital structure and liquidity position.

Financial and Operational Developments

Net Income

Net Income for the three and six months ended June 30, 2013 was \$64 million and \$160 million compared to \$44 million and \$97 million for the same periods in 2012 representing increases of 45% and 65% over 2012.

See "Results of Operations" for a discussion and analysis of LKE's earnings.

Economic and Market Conditions

The KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, a fuel adjustment clause, a gas supply clause and recovery on certain construction work-in-progress) that provide for recovery of prudently incurred costs. The utility

businesses are impacted by changes in customer usage levels which can be driven by a number of factors including weather conditions and economic factors that impact the load utilized by industrial and commercial customers.

LKE's businesses are subject to extensive federal, state and local environmental laws, rules and regulations. Certain regulated generation assets at LG&E and KU will require substantial capital investment. LG&E and KU project \$2.1 billion of capital investment over the next five years to satisfy certain of these requirements. See Note 10 to the Financial Statements for additional information on these requirements. These requirements have resulted in LKE's anticipated retirement by 2015 of five coal-fired units with a combined summer capacity rating of 726 MW. KU retired the 71 MW unit at the Tyrone plant in February 2013. The retirement of the five coal-fired units is not expected to have a material impact on the financial condition or results of operations of LKE. See Note 8 to the Financial Statements in LKE's 2012 Form 10-K for additional information regarding the anticipated retirement of these units as well as plans to build a combined-cycle natural gas facility in Kentucky.

LKE cannot predict the future impact that these economic and market conditions and changes in regulatory requirements may have on its financial condition or results of operations.

Rate Case Proceedings

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million for LG&E and \$51 million for KU and an increase in annual base gas rates of \$15 million for LG&E using a 10.25% return on equity. The approved rates became effective January 1, 2013.

Results of Operations

The following discussion provides a summary of LKE's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in Margins and principal line items on LKE's Statements of Income, comparing the three and six months ended June 30, 2013 with 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income for the periods ended June 30 was:

	<u>Three Months</u>		<u>Six Months</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net Income	\$ 64	\$ 44	\$ 160	\$ 97

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins and certain items that management considers special. See additional detail of these special items in the table below.

	<u>Three Months</u>	<u>Six Months</u>
Margins	\$ 32	\$ 107
Other operation and maintenance		10
Depreciation	(8)	(17)
Taxes, other than income		(1)
Other Income (Expense) - net	7	7
Interest Expense		1
Income Taxes	(17)	(47)
Special items, after-tax	6	3
Total	<u>\$ 20</u>	<u>\$ 63</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.

- Lower other operation and maintenance for the six-month period primarily due to \$17 million of lower costs due to the timing and scope of scheduled coal plant maintenance outages. This decrease was partially offset by \$4 million of adjustments to regulatory assets and liabilities and increased coal plant operation costs of \$3 million.
- Higher depreciation for the three and six-month periods primarily due to environmental costs related to the elimination of the 2005 and 2006 ECR plans now being included in base rates, which added \$13 million and \$26 million to depreciation that is excluded from Margins. This increase was partially offset by lower depreciation of \$6 million and \$11 million due to revised rates that were effective January 1, 2013. Both events are the result of the 2012 rate case proceedings.
- Higher other income (expense) - net for the three and six-month periods primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.
- Higher income taxes for the three and six-month periods primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted earnings during the periods ended June 30.

	Income Statement Line Item	Three Months		Six Months	
		2013	2012	2013	2012
EEI adjustments	Other Income (Expense) - net			\$	1
	Income Taxes and Other				
Net operating loss carryforward and other tax-related adjustments	Operation and Maintenance				\$
					4
Discontinued Operations, net of tax of (\$1), \$4, (\$1), \$4	Discontinued Operations	\$	1	\$	(5)
			(5)		1
Total		\$	1	\$	2
			(5)		(1)

2013 Outlook

LKE projects higher earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases, returns on additional environmental capital investments and load growth, partially offset by higher operation and maintenance expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in LKE's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margins is a single financial performance measure of LKE's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. Certain costs associated with these mechanisms, primarily ECR, DSM and GLT, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from LKE's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Margins" to "Operating Income" as defined by LKE for the periods ended June 30.

	2013 Three Months			2012 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 682		\$ 682	\$ 658		\$ 658
Operating Expenses						
Fuel	216		216	215		215
Energy purchases	37		37	34		34
Other operation and maintenance	23	\$ 174	197	24	\$ 173	197
Depreciation	2	81	83	13	73	86
Taxes, other than income		12	12		12	12
Total Operating Expenses	278	267	545	286	258	544
Total	\$ 404	\$ (267)	\$ 137	\$ 372	\$ (258)	\$ 114
	2013 Six Months			2012 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,482		\$ 1,482	\$ 1,363		\$ 1,363
Operating Expenses						
Fuel	447		447	428		428
Energy purchases	123		123	108		108
Other operation and maintenance	48	\$ 346	394	46	\$ 357	403
Depreciation	2	163	165	26	146	172
Taxes, other than income		24	24		23	23
Total Operating Expenses	620	533	1,153	608	526	1,134
Total	\$ 862	\$ (533)	\$ 329	\$ 755	\$ (526)	\$ 229

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins increased by \$32 million for the three-month period primarily due to higher base rates of \$25 million, environmental cost recoveries added to base rates of \$14 million and increased environmental investments of \$3 million, partially offset by lower volumes of \$9 million. The change in volumes was partially attributable to weather, as cooling degree days decreased 14% compared to the same period in 2012.

Margins increased by \$107 million for the six-month period primarily due to higher base rates of \$56 million, environmental cost recoveries added to base rates of \$32 million, increased environmental investments of \$10 million and higher volumes of \$10 million. The change in volumes was attributable to weather, as heating degree days increased 40% compared to the same period in 2012, offsetting the lower cooling degree days for the three-month period.

The increase in base rates was the result of new KPSC rates effective January 1, 2013. The environmental cost recoveries added to base rates were due to the elimination of the 2005 and 2006 ECR plans as a result of the 2012 Kentucky rate cases. This elimination results in depreciation and other operation and maintenance expenses associated with the 2005 and 2006 ECR plans being excluded from Margins in 2013, while the recovery of such costs remain in Margins through base rates.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended June 30, 2013 compared with 2012 was due to:

	Three Months	Six Months
Coal plant outages (a)	\$ (4)	\$ (17)
Adjustments to regulatory assets and liabilities		4
Coal plant operations		3
Other	4	1
Total	\$ 4	\$ (9)

(a) Decrease is due to the timing and scope of scheduled outages.

Depreciation

The increase (decrease) in depreciation for the periods ended June 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Lower depreciation rates effective January 1, 2013	\$ (6)	\$ (11)
Additions to PP&E	2	4
Other	1	
Total	<u>\$ (3)</u>	<u>\$ (7)</u>

Other Income (Expense) - net

Other income (expense) - net increased by \$7 million and \$8 million for the three and six months ended June 30, 2013 compared with 2012 primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.

Income Taxes

Income taxes increased by \$17 million and \$53 million for the three and six months ended June 30, 2013 compared with 2012 primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information on income taxes.

Income (Loss) from Discontinued Operations (net of income taxes)

Income (loss) from discontinued operations increased by \$7 million for the three and six months ended June 30, 2013 compared with 2012. The increase was primarily related to an adjustment to the estimated liability for indemnifications related to the 2009 termination of the WKE lease recorded in 2012.

Financial Condition

Liquidity and Capital Resources

LKE had the following at:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 23	\$ 43
Short-term debt (a)	\$ 252	\$ 125
Notes payable with affiliates	\$ 72	\$ 25

(a) Represents borrowings under LG&E's and KU's commercial paper programs. See Note 7 to the Financial Statements for additional information.

The \$20 million decrease in LKE's cash and cash equivalents position was primarily the net result of:

- capital expenditures of \$579 million; and
- distributions to member of \$69 million; partially offset by
- cash provided by operating activities of \$297 million;
- capital contributions from member of \$146 million;
- an increase in short term debt of \$127 million; and
- an increase in notes payable with affiliates of \$47 million.

LKE's cash provided by operating activities decreased by \$57 million for the six months ended June 30, 2013, compared with 2012, primarily due to:

- an increase in cash outflows from other operating activities of \$119 million driven by a \$94 million increase in discretionary defined benefit plan contributions; and
- a decline in working capital cash flow changes of \$36 million driven primarily by increases in accounts receivable and unbilled revenues due to extended payment terms and higher rates and a lower federal income tax accrual in 2013 as a result of a federal settlement payment, offset by an increase in accounts payable primarily due to timing of fuel purchase commitments and payments, and lower inventory levels in 2013 compared with 2012 driven by increased generation at the plants and higher gas consumption from storage; partially offset by

- an increase in net income adjusted for non-cash items of \$98 million (deferred income taxes and investment tax credits of \$39 million, defined benefit plans - expense of \$7 million, partially offset by depreciation of \$7 million and other non-cash items of \$4 million).

Capital expenditures increased by \$255 million during the six months ended June 30, 2013 compared with 2012 primarily due to environmental air projects at the Mill Creek and Ghent plants, coal consumption residual projects at the Ghent plant and construction of Cane Run Unit 7.

Credit Facilities

At June 30, 2013, LKE's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity
LKE Credit Facility with a subsidiary of PPL Energy Funding Corporation	\$ 300	\$ 72		\$ 228
LG&E Credit Facility (a)	500		\$ 80	420
KU Credit Facilities (a) (b)	598		370	228
Total LG&E and KU Credit Facilities (c)	<u>\$ 1,398</u>	<u>\$ 72</u>	<u>\$ 450</u>	<u>\$ 876</u>

- (a) Each company pays customary fees under their respective syndicated credit facilities, as well as KU's letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (b) In May 2013, KU extended its \$198 million letter of credit facility to May 2016.
- (c) The \$1.098 billion of commitments under LG&E's and KU's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 13% of the total committed capacity; however, the PPL affiliate provided a commitment of approximately 21% of the total facilities listed above. The syndicated credit facilities, as well as KU's letter of credit facility, each contain a financial covenant requiring debt to total capitalization not to exceed 70% for LG&E or KU, as calculated in accordance with the facility, and other customary covenants.

See Note 7 to the Financial Statements for further discussion of LKE's credit facilities.

Long-term Debt Securities

During 2012, LG&E and KU received KPSC and other state approvals to issue, up to \$350 million for LG&E and \$300 million for KU, of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LKE and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LKE and its subsidiaries are based on information provided by LKE and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LKE or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of LKE and its subsidiaries affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The rating agencies took the following action related to LKE and its subsidiaries during 2013:

In July 2013, S&P confirmed the long-term AA+ ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds and KU's 2004 Series A, 2006 Series B and 2008 Series A Environmental Facilities Revenue Bonds. S&P also confirmed the A-1+ short-term rating on these Bonds.

Ratings Triggers

LKE and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring

LKE and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if LKE's or its subsidiaries' credit ratings were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at June 30, 2013.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about LKE's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

LG&E's and KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LKE sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

LKE and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. LKE utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under LKE's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LKE's debt portfolio due to changes in the absolute level of interest rates.

At June 30, 2013, LKE's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LKE is also exposed to changes in the fair value of its debt portfolio. LKE estimated that a 10% decrease in interest rates at June 30, 2013, would increase the fair value of its debt portfolio by \$112 million.

At June 30, 2013, LKE had the following interest rate hedges outstanding:

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability) (a)</u>	<u>Effect of a 10% Adverse Movement In Interest Rates</u>
Economic activity			
Interest rate swaps (b)	\$ 179	\$ (44)	\$ (4)
Cash flow hedges			
Interest rate swaps (b)	500	72	(32)

(a) Includes accrued interest.

(b) LKE utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LKE is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic and cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. The positions outstanding at June 30, 2013 mature through 2043.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in LKE's 2012 Form 10-K for additional information.

Related Party Transactions

LKE is not aware of any material ownership interest or operating responsibility by senior management of LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with LKE. See Note 11 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of LKE's business. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for LG&E's and KU's services.

Physical effects associated with possible climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to LG&E's and KU's generation assets, electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where LG&E and KU have hydroelectric generating facilities or where river water is used to cool its fossil-powered generators. LKE cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential costs of their related consequences.

The following is a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous waste) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule. On July 25, 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from regulating CCRs under RCRA and sets rules governing state programs. Prospects remain uncertain for similar legislation to pass in the U.S. Senate.

Effluent Limitation Guidelines (ELGs)

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized. The proposal contains several alternative approaches, some of which could significantly impact LG&E's and KU's coal-fired plants. LG&E and KU will comment on the proposed regulation. The final regulation is expected in May 2014. At the present time, LKE is unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: requiring installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment); and imposing standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected to be issued in November 2013. The proposed regulation would apply to nearly all LG&E and KU-owned steam electric plants in Kentucky, potentially even including those equipped with closed-cycle cooling systems.

GHG Regulations

In June 2013, President Obama released his Climate Action Plan, which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum, the EPA was directed to issue a new proposal for new power plants by

September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016. Regulation of existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans. The Administration's recent increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may lead to more costly regulatory requirements. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect LKE and others in the industry as transmission system modifications to improve the ability to withstand major storms may be needed in order to meet those requirements.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. LG&E and KU are generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls and approved ECR plans to install additional controls at some of their Kentucky plants. In connection with a unanimous settlement agreement filed with the KPSC in November 2011, KU agreed to defer the requested approval for certain environmental upgrades to Units 1 and 2 at its E.W. Brown generating plant which represented approximately \$200 million in capital costs. LG&E and KU are evaluating, among other measures, chemical additive systems for mercury control at Trimble County and Brown plants. These measures, combined with the completion of recent feasibility studies conducted based on current market conditions, provide alternative compliance options for KU on Units 1 and 2 at the E.W. Brown station. The anticipated retirements of certain coal-fired electric generating units is in response to this and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrogen oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern U.S. In December 2011, the Circuit Court stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Circuit Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place in the interim, and on June 24, 2013, the U.S. Supreme Court granted the EPA's petition for review of the Circuit Court's decision.

LG&E and KU plants in Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Circuit Court's August 2012 decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

National Ambient Air Quality Standards

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2013 and 2014, respectively. Existing environmental plans for LG&E's and KU's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. However, depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant.

See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in LKE's 2012 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: revenue recognition - unbilled revenue, defined benefits, asset impairment, loss accruals, AROs, income taxes, and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in LKE's 2012 Form 10-K for a discussion of each critical accounting policy.

LOUISVILLE GAS AND ELECTRIC COMPANY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with LG&E's Condensed Financial Statements and the accompanying Notes and with LG&E's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LG&E and its business strategy, a summary of Net Income and a discussion of certain events related to LG&E's results of operations and financial condition.
- "Results of Operations" provides a summary of LG&E's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal line items on LG&E's Statements of Income, comparing the three and six months ended June 30, 2013 with 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LG&E's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of LG&E's risk management programs relating to market and credit risk.

Overview

Introduction

LG&E, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. LG&E and its affiliate, KU, are wholly owned subsidiaries of LKE. LKE is an intermediary holding company in PPL's group of companies.

Business Strategy

LG&E's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its shareowner. Rate base is expected to grow as a result of significant capital expenditure programs to maintain reliable service and comply with federal and state regulations. LG&E is focused on efficient operations, strong customer service, timely recovery of costs and constructive regulatory relationships.

A key objective for LG&E is to maintain a strong credit profile through managing financing costs and access to credit markets. LG&E continually focuses on maintaining an appropriate capital structure and liquidity position.

Financial and Operational Developments

Net Income

Net Income for the three and six months ended June 30, 2013 was \$29 million and \$73 million compared to \$26 million and \$51 million for the same periods in 2012 representing increases of 12% and 43% over 2012.

See "Results of Operations" for a discussion and analysis of LG&E's earnings.

Economic and Market Conditions

The KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, a fuel adjustment clause, a gas supply clause and recovery on certain construction work-in-progress) that provide for recovery of prudently incurred costs. LG&E is impacted by changes in customer usage levels which can be driven by a number of factors including weather conditions and economic factors that impact the load utilized by industrial and commercial customers.

LG&E is subject to extensive federal, state and local environmental laws, rules and regulations. Certain regulated generation assets will require substantial capital investment. LG&E projects \$1.1 billion of capital investment over the next five years to satisfy certain of these requirements. See Note 10 to the Financial Statements for additional information on these requirements. These requirements have resulted in LG&E's anticipated retirement by 2015 of three coal-fired units with a combined summer capacity rating of 563 MW. The retirement of the three coal-fired units is not expected to have a material impact on the financial condition or results of operations of LG&E. See Note 8 to the Financial Statements in LG&E's 2012 Form 10-K for additional information regarding the anticipated retirement of these units as well as plans to build a combined-cycle natural gas facility in Kentucky.

LG&E cannot predict the future impact that these economic and market conditions and changes in regulatory requirements may have on its financial condition or results of operations.

Rate Case Proceedings

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million and an increase in annual base gas rates of \$15 million using a 10.25% return on equity. The approved rates became effective January 1, 2013.

Results of Operations

The following discussion provides a summary of LG&E's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in Margins and principal line items on LG&E's Statements of Income, comparing the three and six months ended June 30, 2013 with 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income for the periods ended June 30 was:

	<u>Three Months</u>		<u>Six Months</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net Income	\$ 29	\$ 26	\$ 73	\$ 51

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins.

	<u>Three Months</u>	<u>Six Months</u>
Margins	\$ 8	\$ 29
Other operation and maintenance	(3)	5
Depreciation	1	3
Taxes, other than income		(1)
Other Income (Expense) - net		(2)
Interest Expense		1
Income Taxes	(3)	(13)
Total	<u>\$ 3</u>	<u>\$ 22</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Lower other operation and maintenance for the six-month period primarily due to the timing and scope of scheduled coal plant maintenance outages.
- Higher income taxes for the six-month period primarily due to higher pre-tax income.

2013 Outlook

LG&E projects higher earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases, returns

on additional environmental capital investments and load growth, partially offset by higher operation and maintenance expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in LG&E's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margins is a single financial performance measure of LG&E's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. Certain costs associated with these mechanisms, primarily ECR, DSM and GLT, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from LG&E's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Margins" to "Operating Income" as defined by LG&E for the periods ended June 30.

	2013 Three Months			2012 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 316		\$ 316	\$ 304		\$ 304
Operating Expenses						
Fuel	88		88	92		92
Energy purchases	34		34	25		25
Other operation and maintenance	10	\$ 84	94	11	\$ 81	92
Depreciation	1	36	37	1	37	38
Taxes, other than income		6	6		6	6
Total Operating Expenses	133	126	259	129	124	253
Total	\$ 183	\$ (126)	\$ 57	\$ 175	\$ (124)	\$ 51

	2013 Six Months			2012 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 706		\$ 706	\$ 657		\$ 657
Operating Expenses						
Fuel	184		184	181		181
Energy purchases	115		115	98		98
Other operation and maintenance	21	\$ 164	185	21	\$ 169	190
Depreciation	1	72	73	1	75	76
Taxes, other than income		12	12		11	11
Total Operating Expenses	321	248	569	301	255	556
Total	\$ 385	\$ (248)	\$ 137	\$ 356	\$ (255)	\$ 101

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins increased by \$8 million for the three-month period primarily due to higher base rates of \$10 million and increased environmental investments of \$3 million, partially offset by lower volumes of \$5 million. The change in volumes was partially attributable to weather, as cooling degree days decreased 25% compared to the same period in 2012.

Margins increased by \$29 million for the six-month period due to higher base rates of \$22 million and increased environmental investments of \$5 million.

The increase in base rates was the result of new KPSC rates effective January 1, 2013.

Other Operation and Maintenance

Other operation and maintenance decreased by \$5 million for the six months ended June 30, 2013 compared with 2012 primarily due to \$7 million of lower costs due to the timing and scope of scheduled coal plant maintenance outages.

Income Taxes

Income taxes increased by \$13 million for the six months ended June 30, 2013 compared with 2012 primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

LG&E had the following at:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 13	\$ 22
Short-term debt (a)	\$ 80	\$ 55

(a) Represents borrowings under LG&E's commercial paper program. See Note 7 to the Financial Statements for additional information.

The \$9 million decrease in LG&E's cash and cash equivalents position was primarily the net result of:

- capital expenditures of \$236 million; and
- the payment of common stock dividends to parent of \$48 million; partially offset by
- cash provided by operating activities of \$186 million,
- capital contributions from parent of \$54 million; and
- an increase in short term debt of \$25 million.

LG&E's cash provided by operating activities increased by \$26 million for the six months ended June 30, 2013, compared with 2012, primarily due to:

- an increase in working capital cash flow changes of \$26 million driven primarily by lower fuel levels in 2013 compared with 2012 due to increased generation at the plants and higher gas consumption from storage compared to 2012 due to the unseasonably milder weather in December 2011; and
- an increase in net income adjusted for non-cash items of \$18 million (other non-cash items of \$6 million; partially offset by deferred income taxes and investment tax credits of \$7 million and depreciation of \$3 million); partially offset by
- an increase in cash outflows from other operating activities of \$18 million driven by a \$19 million increase in discretionary defined benefit plan contributions.

Capital expenditures increased by \$116 million during the six months ended June 30, 2013 compared with 2012 primarily due to environmental air projects at Mill Creek plant and construction of Cane Run Unit 7.

Credit Facilities

At June 30, 2013, LG&E's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a) (b)	\$ 500		\$ 80	\$ 420

- (a) The commitments under LG&E's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity available to LG&E.
- (b) LG&E pays customary fees under its syndicated credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At June 30, 2013 and December 31, 2012, there was no balance outstanding.

See Note 7 to the Financial Statements for further discussion of LG&E's credit facilities.

Long-term Debt Securities

During 2012, LG&E received KPSC and other state approvals to issue, up to \$350 million of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LG&E. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LG&E are based on information provided by LG&E and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LG&E. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of LG&E affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The rating agencies did not take any actions related to LG&E during the second quarter of 2013.

Ratings Triggers

LG&E has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LG&E to post additional collateral, or permitting the counterparty to terminate the contract, if LG&E's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at June 30, 2013.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about LG&E's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

LG&E's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E is subject to commodity price risk for only a small portion of on-going business operations. LG&E sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

LG&E issues debt to finance its operations, which exposes it to interest rate risk. LG&E utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under LG&E's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LG&E's debt portfolio due to changes in the absolute level of interest rates.

At June 30, 2013, LG&E's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LG&E is also exposed to changes in the fair value of its debt portfolio. LG&E estimated that a 10% decrease in interest rates at June 30, 2013, would increase the fair value of its debt portfolio by \$27 million.

At June 30, 2013, LG&E had the following interest rate hedges outstanding:

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability) (a)</u>	<u>Effect of a 10% Adverse Movement in Interest Rates</u>
Economic activity			
Interest rate swaps (b)	\$ 179	\$ (44)	\$ (4)
Cash flow hedges			
Interest rate swaps (b)	250	36	(16)

(a) Includes accrued interest.

(b) LG&E utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LG&E is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic and cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. The positions outstanding at June 30, 2013 mature through 2043.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in LG&E's 2012 Form 10-K for additional information.

Related Party Transactions

LG&E is not aware of any material ownership interest or operating responsibility by senior management of LG&E in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with LG&E. See Note 11 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of LG&E's business. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for LG&E's services.

Physical effects associated with possible climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to LG&E's generation assets, electricity transmission and

distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where LG&E has hydroelectric generating facilities or where river water is used to cool its fossil-powered generators. LG&E cannot currently predict whether its business will experience these potential climate change-related risks or estimate the potential costs of their related consequences.

The following is a discussion of the more significant environmental matters.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous waste) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule. On July 25, 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from regulating CCRs under RCRA and sets rules governing state programs. Prospects remain uncertain for similar legislation to pass in the U.S. Senate.

Effluent Limitation Guidelines (ELGs)

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized. The proposal contains several alternative approaches, some of which could significantly impact LG&E's coal-fired plants. LG&E will comment on the proposed regulation. The final regulation is expected in May 2014. At the present time, LG&E is unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: requiring installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment); and imposing standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected to be issued in November 2013. The proposed regulation would apply to nearly all LG&E-owned steam electric plants in Kentucky, potentially even including those equipped with closed-cycle cooling systems.

GHG Regulations

In June 2013, President Obama released his Climate Action Plan, which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum, the EPA was directed to issue a new proposal for new power plants by September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016. Regulation of existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans. The Administration's recent increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may lead to more costly regulatory requirements. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect LG&E and others in the industry as transmission system modifications to improve the ability to withstand major storms may be needed in order to meet those requirements.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. LG&E is generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls and approved ECR plans to install additional controls at some of its Kentucky plants. LG&E is evaluating, among other measures, chemical additive systems for mercury control at Trimble County plant. The anticipated retirements of certain coal-fired electric generating units is in response to this and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrogen oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern U.S. In December 2011, Circuit Court stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Circuit Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place in the interim, and on June 24, 2013, the U.S. Supreme Court granted the EPA's petition for review of the Circuit Court's decision.

LG&E plants in Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Circuit Court's August 2012 decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

National Ambient Air Quality Standards

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2013 and 2014, respectively. Existing environmental plans for LG&E's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. However, depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant.

See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in LG&E's 2012 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: revenue recognition - unbilled revenue, defined benefits, asset impairment, loss accruals, AROs, income taxes, and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in LG&E's 2012 Form 10-K for a discussion of each critical accounting policy.

KENTUCKY UTILITIES COMPANY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with KU's Condensed Financial Statements and the accompanying Notes and with KU's 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of KU and its business strategy, a summary of Net Income and a discussion of certain events related to KU's results of operations and financial condition.
- "Results of Operations" provides a summary of KU's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal line items on KU's Statements of Income, comparing the three and six months ended June 30, 2013 with 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of KU's liquidity position and credit profile. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of KU's risk management programs relating to market and credit risk.

Overview

Introduction

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU and its affiliate, LG&E, are wholly owned subsidiaries of LKE. LKE is an intermediary holding company in PPL's group of companies.

Business Strategy

KU's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its shareowner. Rate base is expected to grow as a result of significant capital expenditure programs to maintain reliable service and comply with federal and state regulations. KU is focused on efficient operations, strong customer service, timely recovery of costs and constructive regulatory relationships.

A key objective for KU is to maintain a strong credit profile through managing financing costs and access to credit markets. KU continually focuses on maintaining an appropriate capital structure and liquidity position.

Financial and Operational Developments

Net Income

Net Income for the three and six months ended June 30, 2013 was \$44 million and \$108 million compared to \$30 million and \$68 million for the same periods in 2012 representing increases of 47% and 59% over 2012.

See "Results of Operations" for a discussion and analysis of KU's earnings.

Economic and Market Conditions

The KPSC has adopted a series of regulatory mechanisms (ECR, DSM, a fuel adjustment clause and recovery on certain construction work-in-progress) that provide for recovery of prudently incurred costs. KU is impacted by changes in customer usage levels which can be driven by a number of factors including weather conditions and economic factors that impact the load utilized by industrial and commercial customers.

KU is subject to extensive federal, state and local environmental laws, rules and regulations. Certain regulated generation assets will require substantial capital investment. KU projects \$1 billion of capital investment over the next five years to satisfy certain of these requirements. See Note 10 to the Financial Statements for additional information on these requirements. These requirements have resulted in KU's anticipated retirement by 2015 of two coal-fired units with a combined summer capacity rating of 163 MW. KU retired the 71 MW unit at the Tyrone plant in February 2013. The retirement of the two coal-fired units is not expected to have a material impact on the financial condition or results of operations of KU. See Note 8 to the Financial Statements in KU's 2012 Form 10-K for additional information regarding the anticipated retirement of these units as well as plans to build a combined-cycle natural gas facility in Kentucky.

KU cannot predict the future impact that these economic and market conditions and changes in regulatory requirements may have on its financial condition or results of operations.

Rate Case Proceedings

Virginia

During April 2013, KU filed an application with the VSCC to increase annual Virginia base electric revenue by approximately \$7 million, representing an increase of 9.6%. KU proposed an authorized 10.8% return on equity. Subject to regulatory approval, new rates would become effective January 1, 2014.

Kentucky

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$51 million using a 10.25% return on equity. The approved rates became effective January 1, 2013.

Results of Operations

The following discussion provides a summary of KU's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in Margins and principal line items on KU's Statements of Income, comparing the three and six months ended June 30, 2013 with 2012.

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income for the periods ended June 30 was:

	<u>Three Months</u>		<u>Six Months</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net Income	\$ 44	\$ 30	\$ 108	\$ 68

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins.

	<u>Three Months</u>	<u>Six Months</u>
Margins	\$ 23	\$ 77
Other operation and maintenance	1	
Depreciation	(9)	(19)
Other Income (Expense) - net	7	6
Income Taxes	(8)	(25)
Special item - EEI adjustments, after-tax		1
Total	<u>\$ 14</u>	<u>\$ 40</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Higher depreciation for the three and six-month periods primarily due to environmental costs related to the elimination of the 2005 and 2006 ECR plans now being included in base rates, which added \$12 million and \$24 million to depreciation

that is excluded from Margins. This increase was partially offset by lower depreciation of \$3 million and \$7 million due to revised rates that were effective January 1, 2013. Both events are the result of the 2012 rate case proceedings.

- Higher other income (expense) - net for the three and six-month periods primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.
- Higher income taxes for the three and six-month periods primarily due to higher pre-tax income.

2013 Outlook

KU projects higher earnings in 2013 compared with 2012, primarily driven by electric base rate increases, returns on additional environmental capital investments and load growth, partially offset by higher operation and maintenance expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in KU's 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margins is a single financial performance measure of KU's electricity generation, transmission and distribution operations. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from KU's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Margins" to "Operating Income" as defined by KU for the periods ended June 30.

	2013 Three Months			2012 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 383		\$ 383	\$ 374		\$ 374
Operating Expenses						
Fuel	128		128	123		123
Energy purchases	20		20	29		29
Other operation and maintenance	13	\$ 85	98	12	\$ 86	98
Depreciation	1	45	46	12	36	48
Taxes, other than income		6	6		6	6
Total Operating Expenses	162	136	298	176	128	304
Total	\$ 221	\$ (136)	\$ 85	\$ 198	\$ (128)	\$ 70

	2013 Six Months			2012 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 815		\$ 815	\$ 754		\$ 754
Operating Expenses						
Fuel	263		263	247		247
Energy purchases	47		47	58		58
Other operation and maintenance	27	\$ 168	195	25	\$ 168	193
Depreciation	1	91	92	24	72	96
Taxes, other than income		12	12		12	12
Total Operating Expenses	338	271	609	354	252	606
Total	\$ 477	\$ (271)	\$ 206	\$ 400	\$ (252)	\$ 148

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins increased by \$23 million for the three-month period primarily due to higher base rates of \$15 million and environmental cost recoveries added to base rates of \$13 million, partially offset by lower volumes of \$4 million.

Margins increased by \$77 million for the six-month period due to higher base rates of \$33 million, environmental cost recoveries added to base rates of \$30 million, higher volumes of \$9 million and increased environmental investments of \$5 million. The change in volumes was attributable to weather, as heating degree days increased 31% compared to the same period in 2012.

The increase in base rates was the result of new KPSC rates effective January 1, 2013. The environmental cost recoveries added to base rates were due to the elimination of the 2005 and 2006 ECR plans as a result of the 2012 Kentucky rate case. This elimination results in depreciation and other operation and maintenance expenses associated with the 2005 and 2006 ECR plans being excluded from Margins in 2013, while the recovery of such costs remain in Margins through base rates.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended June 30, 2013 compared with 2012 was due to:

	Three Months	Six Months
Coal plant outages (a)	\$ (5)	\$ (10)
Coal plant operations	2	4
Adjustments to regulatory assets and liabilities		4
Other	3	4
Total	\$ 0	\$ 2

(a) Decrease is due to the timing and scope of scheduled outages.

Depreciation

The increase (decrease) in depreciation for the periods ended June 30, 2013 compared with 2012 was due to:

	Three Months	Six Months
Lower depreciation rates effective January 1, 2013	\$ (3)	\$ (7)
Additions to PP&E	1	3
Total	\$ (2)	\$ (4)

Other Income (Expense) - net

Other income (expense) - net increased by \$7 million for the three and six months ended June 30, 2013 compared with 2012 primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.

Income Taxes

Income taxes increased by \$8 million and \$25 million for the three and six months ended June 30, 2013 compared with 2012 primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

KU had the following at:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 10	\$ 21
Short-term debt (a)	\$ 172	\$ 70

(a) Represents borrowings made under KU's commercial paper program. See Note 7 to the Financial Statements for additional information.

The \$11 million decrease in KU's cash and cash equivalents position was the net result of:

- capital expenditures of \$341 million; and
- the payment of common stock dividends to parent of \$55 million; partially offset by
- cash provided by operating activities of \$190 million;
- an increase in short term debt of \$102 million; and
- capital contributions from parent of \$92 million.

KU's cash provided by operating activities decreased by \$27 million for the six months ended June 30, 2013, compared with 2012, primarily due to:

- an increase in cash outflows from other operating activities of \$69 million driven by a \$43 million increase in discretionary defined benefit plan contributions; and
- a decline in working capital cash flow of \$18 million driven primarily by increases in accounts receivable due to higher sales volumes, higher rates and extended payment terms and a lower tax accrual due to timing of settlements, partially offset by an increase in accounts payable primarily due to timing of fuel purchase commitments and payments; partially offset by
- an increase in net income adjusted for non-cash items of \$60 million (deferred income taxes and investment tax credits of \$19 million and defined benefit plans - expense of \$7 million, partially offset by depreciation of \$4 million and other non-cash items of \$2 million).

Capital expenditures increased by \$138 million during the six months ended June 30, 2013 compared with 2012 primarily due to environmental air projects and coal consumption residual projects at the Ghent plant and construction of Cane Run Unit 7.

Credit Facilities

At June 30, 2013, KU's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
Total KU Credit Facilities (a) (b)	\$ 598		\$ 370	\$ 228

(a) The commitments under KU's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 22% of the total committed capacity available to KU.

(b) KU pays customary fees under its syndicated credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At June 30, 2013 and December 31, 2012, there was no balance outstanding.

See Notes 7 to the Financial Statements for further discussion of KU's credit facilities.

Long-term Debt Securities

During 2012, KU received KPSC and other state approvals to issue, up to \$300 million of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of KU. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of KU are based on information provided by KU and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of KU. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of KU affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The rating agencies took the following action related to KU during 2013:

In July 2013, S&P confirmed the long-term AA+ ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds and KU's 2004 Series A, 2006 Series B and 2008 Series A Environmental Facilities Revenue Bonds. S&P also confirmed the A-1+ short-term rating on these Bonds.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, and commodity transportation and storage, which contain provisions requiring KU to post additional collateral, or permitting the counterparty to terminate the contract, if KU's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at June 30, 2013.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about KU's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, KU is subject to commodity price risk for only a small portion of on-going business operations. KU sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

KU issues debt to finance its operations, which exposes it to interest rate risk. KU utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under KU's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of KU's debt portfolio due to changes in the absolute level of interest rates.

At June 30, 2013, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

KU is also exposed to changes in the fair value of its debt portfolio. KU estimated that a 10% decrease in interest rates at June 30, 2013, would increase the fair value of its debt portfolio by \$68 million.

At June 30, 2013, KU had the following interest rate hedges outstanding:

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability)</u>	<u>Effect of a 10% Adverse Movement in Interest Rates</u>
Cash flow hedges			
Interest rate swaps (a)	\$ 250	\$ 36	\$ (16)

(a) KU utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While KU is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. The positions outstanding at June 30, 2013 mature through 2043.

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Physical effects associated with possible climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to KU's generation assets, electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where KU has hydroelectric generating facilities or where river water is used to cool its fossil-powered generators. KU cannot currently predict whether its business will experience these potential climate change-related risks or estimate the potential costs of their related consequences.

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2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule. On July 25, 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from regulating CCRs under RCRA and sets rules governing state programs. Prospects remain uncertain for similar legislation to pass in the U.S. Senate.

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In June 2013, President Obama released his Climate Action Plan, which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum, the EPA was directed to issue a new proposal for new power plants by September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016. Regulation of existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans. The Administration's recent increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may lead to more costly regulatory requirements. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect KU and others in the industry as transmission system modifications to improve the ability to withstand major storms may be needed in order to meet those requirements.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. KU is generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls and approved ECR plans to install additional controls at some of its Kentucky plants. In connection with a unanimous settlement agreement filed with the KPSC in November 2011, KU agreed to defer the requested approval for certain environmental upgrades to Units 1 and 2 at its E.W. Brown generating plant which represented approximately \$200 million in capital costs. KU is evaluating, among other measures, chemical additive systems for mercury control at Trimble County and Brown plants. These measures, combined with the completion of recent feasibility studies conducted based on current market conditions, provide alternative compliance options for KU on Units 1 and 2 at the E.W. Brown station. The anticipated retirements of certain coal-fired electric generating units is in response to this and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrogen oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern U.S. In December 2011, the Circuit Court stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Circuit Court vacated and remanded CSAPR back to the EPA for further

rulemaking, again leaving CAIR in place in the interim, and on June 24, 2013, the U.S. Supreme Court granted the EPA's petition for review of the Circuit Court's decision.

KU plants in Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Circuit Court's August 2012 decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

National Ambient Air Quality Standards

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2013 and 2014, respectively. Existing environmental plans for KU's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. However, depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant.

See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in KU's 2012 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: revenue recognition - unbilled revenue, defined benefits, asset impairment, loss accruals, AROs, income taxes, and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in KU's 2012 Form 10-K for a discussion of each critical accounting policy.

PPL Corporation
PPL Energy Supply, LLC
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in each Registrant's "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of June 30, 2013, the registrants' disclosure controls and procedures are effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

- (b) Change in internal controls over financial reporting.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

The principal executive officers and principal financial officers of the above listed registrants have concluded that the implementation of a financial consolidation and reporting system for PPL and its primary U.S. subsidiaries during the quarter ended June 30, 2013 resulted in a material change to the registrants' internal control over financial reporting. The new system enhances the consolidation of subsidiary accounts, provides reporting tools for analysis and automates certain aspects of financial statement preparation for each of the registrants. Processes and controls over the consolidation and reporting processes that were previously considered to be effective were replaced with new or modified controls that were also determined to be effective.

The new consolidation and reporting system was subject to extensive testing and data reconciliation during implementation. Post-implementation reviews have been and will continue to be conducted to enable us to determine the effectiveness of the internal controls relating to the system implementation processes and to key business processes.

PPL Corporation

PPL's principal executive officer and principal financial officer have concluded that the implementation of a new general ledger system and a financial reporting system at WPD during the quarter ended June 30, 2013 resulted in a material change to its internal control over financial reporting. The general ledger system that was implemented at WPD replaced the existing mainframe system and resulted in more automation and enhanced controls over general ledger processing and consolidation. The reporting system that was implemented at WPD improves and automates controls over data transfer included in PPL's consolidation process and improves controls over GAAP and foreign currency adjustments. In each of the WPD system implementations, controls that were previously determined to be effective were replaced with new or modified controls that were also determined to be effective.

The general ledger and reporting systems were subject to extensive testing and data reconciliation during their implementation. Post-implementation reviews have been and will continue to be conducted to enable us to determine the effectiveness of the internal controls relating to the system implementation processes and to key business processes remain effective. Risks related to the system implementations at WPD were also partially mitigated by PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provided management additional time for review and analysis of WPD results and their incorporation into PPL's consolidated financial statements.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2012 Form 10-K; and
- Notes 5, 6 and 10 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrant's risk factors from those disclosed in "Item 1A. Risk Factors" of the 2012 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchase of Equity Securities during the Second Quarter of 2013:

	(a)	(b)	(c)	(d)
Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans of Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2013				
May 1 to May 31, 2013				
June 1 to June 30, 2013	930,000	\$29.92		
Total	930,000	\$29.92		

(1) Represents shares of common stock repurchased in the open market to offset a portion of shares issued under stock based compensation plans.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

- 3(a) - Amended and Restated Articles of Incorporation of PPL Corporation, effective as of May 15, 2013 (Exhibit 3(i) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 20, 2013)
- 3(b) - Amended and Restated Bylaws of PPL Corporation, effective as of May 15, 2013 (Exhibit 3(ii) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 20, 2013)
- 4(a) - Supplemental Indenture No. 10, dated as of May 24, 2013, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (formerly known as The Bank of New York), as Trustee (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(b) - Supplemental Indenture No. 11, dated as of May 24, 2013, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (formerly known as The Bank of New York), as Trustee (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(c) - Supplemental Indenture No. 12, dated as of May 24, 2013, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (formerly known as The Bank of New York), as Trustee (Exhibit 4.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(d) - Supplemental Indenture No. 15, dated as of July 1, 2013, of PPL Electric Utilities Corporation to The Bank of New York Mellon, as Trustee (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 11, 2013)
- *12(a) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(b) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *12(c) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(d) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *12(e) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- *12(f) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2013, filed by the following officers for the following companies:

- *31(a) - PPL Corporation's principal executive officer
- *31(b) - PPL Corporation's principal financial officer
- *31(c) - PPL Energy Supply, LLC's principal executive officer
- *31(d) - PPL Energy Supply, LLC's principal financial officer
- *31(e) - PPL Electric Utilities Corporation's principal executive officer
- *31(f) - PPL Electric Utilities Corporation's principal financial officer
- *31(g) - LG&E and KU Energy LLC's principal executive officer
- *31(h) - LG&E and KU Energy LLC's principal financial officer
- *31(i) - Louisville Gas and Electric Company's principal executive officer
- *31(j) - Louisville Gas and Electric Company's principal financial officer
- *31(k) - Kentucky Utilities Company's principal executive officer
- *31(l) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2013, furnished by the following officers for the following companies:

- *32(a) - PPL Corporation's principal executive officer and principal financial officer
- *32(b) - PPL Energy Supply, LLC's principal executive officer and principal financial officer
- *32(c) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- *32(d) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
- *32(e) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
- *32(f) - Kentucky Utilities Company's principal executive officer and principal financial officer

- 101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation
(Registrant)

PPL Energy Supply, LLC
(Registrant)

Date: August 2, 2013

/s/ Vincent Sorgi

Vincent Sorgi
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation
(Registrant)

Date: August 2, 2013

/s/ Dennis A. Urban, Jr.

Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal
Accounting Officer)

LG&E and KU Energy LLC
(Registrant)

Louisville Gas and Electric Company
(Registrant)

Kentucky Utilities Company
(Registrant)

Date: August 2, 2013

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	6 Months Ended June 30, 2013	Years Ended December 31,				
		2012	2011	2010	2009	2008
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 1,077	\$ 2,082	\$ 2,201	\$ 1,239	\$ 538	\$ 1,273
Adjustment to reflect earnings from equity method investments on a cash basis (a)		34	1	7	1	
	<u>1,077</u>	<u>2,116</u>	<u>2,202</u>	<u>1,246</u>	<u>539</u>	<u>1,273</u>
Total fixed charges as below	543	1,065	1,022	698	513	568
Less:						
Capitalized interest	(24)	53	51	30	43	57
Preferred security distributions of subsidiaries on a pre-tax basis		5	23	21	24	27
Interest expense and fixed charges related to discontinued operations			3	12	15	16
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>567</u>	<u>1,007</u>	<u>945</u>	<u>635</u>	<u>431</u>	<u>468</u>
Total earnings	<u>\$ 1,644</u>	<u>\$ 3,123</u>	<u>\$ 3,147</u>	<u>\$ 1,881</u>	<u>\$ 970</u>	<u>\$ 1,741</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 529	\$ 1,019	\$ 955	\$ 637	\$ 446	\$ 518
Estimated interest component of operating rentals	14	41	44	39	42	22
Preferred security distributions of subsidiaries on a pre-tax basis		5	23	21	24	27
Fixed charges of majority-owned share of 50% or less-owned persons				1	1	1
Total fixed charges (c)	<u>\$ 543</u>	<u>\$ 1,065</u>	<u>\$ 1,022</u>	<u>\$ 698</u>	<u>\$ 513</u>	<u>\$ 568</u>
Ratio of earnings to fixed charges	<u>3.0</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (d)	<u>3.0</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(c) Interest on unrecognized tax benefits is not included in fixed charges.

(d) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	6 Months	Years Ended December 31,				
	Ended June 30, 2013	2012	2011	2010	2009	2008
Earnings, as defined:						
Income (Loss) from Continuing Operations Before						
Income Taxes	\$ 80	\$ 738	\$ 1,213	\$ 881	\$ (13)	\$ 671
Adjustments to reflect earnings from equity method						
investments on a cash basis			1	7	1	
	<u>80</u>	<u>738</u>	<u>1,213</u>	<u>888</u>	<u>(12)</u>	<u>671</u>
Total fixed charges as below	120	238	259	426	364	390
Less:						
Capitalized interest	19	47	47	33	44	57
Interest expense and fixed charges related to						
discontinued operations			3	147	102	157
Total fixed charges included in Income (Loss) from						
Continuing Operations Before Income Taxes	<u>101</u>	<u>191</u>	<u>209</u>	<u>246</u>	<u>218</u>	<u>176</u>
Total earnings	<u>\$ 181</u>	<u>\$ 929</u>	<u>\$ 1,422</u>	<u>\$ 1,134</u>	<u>\$ 206</u>	<u>\$ 847</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 111	\$ 214	\$ 223	\$ 387	\$ 321	\$ 374
Estimated interest component of operating rentals	9	24	36	38	42	15
Fixed charges of majority-owned share of 50% or						
less-owned persons				1	1	1
Total fixed charges (b)	<u>\$ 120</u>	<u>\$ 238</u>	<u>\$ 259</u>	<u>\$ 426</u>	<u>\$ 364</u>	<u>\$ 390</u>
Ratio of earnings to fixed charges (c)	<u>1.5</u>	<u>3.9</u>	<u>5.5</u>	<u>2.7</u>	<u>0.6</u>	<u>2.2</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Global's operating results were reclassified as Discontinued Operations. Upon reflecting this reclassification, earnings were less than fixed charges for 2009. See Note 9 in PPL Energy Supply's 2011 Form 10-K for additional information. The total amount of fixed charges for this period was approximately \$364 million and the total amount of earnings was approximately \$206 million. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was approximately \$158 million.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	6 Months Ended June 30, 2013	Years Ended December 31,				
		2012	2011	2010	2009	2008
Earnings, as defined:						
Income Before Income Taxes	\$ 166	\$ 204	\$ 257	\$ 192	\$ 221	\$ 278
Total fixed charges as below	55	107	105	102	121	114
Total earnings	<u>\$ 221</u>	<u>\$ 311</u>	<u>\$ 362</u>	<u>\$ 294</u>	<u>\$ 342</u>	<u>\$ 392</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 53	\$ 104	\$ 102	\$ 101	\$ 120	\$ 113
Estimated interest component of operating rentals	2	3	3	1	1	1
Total fixed charges (b)	<u>\$ 55</u>	<u>\$ 107</u>	<u>\$ 105</u>	<u>\$ 102</u>	<u>\$ 121</u>	<u>\$ 114</u>
Ratio of earnings to fixed charges	<u>4.0</u>	<u>2.9</u>	<u>3.4</u>	<u>2.9</u>	<u>2.8</u>	<u>3.4</u>
Preferred stock dividend requirements on a pre-tax basis						
		\$ 6	\$ 21	\$ 23	\$ 28	\$ 28
Fixed charges, as above	\$ 55	107	105	102	121	114
Total fixed charges and preferred stock dividends	<u>\$ 55</u>	<u>\$ 113</u>	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 149</u>	<u>\$ 142</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>4.0</u>	<u>2.8</u>	<u>2.9</u>	<u>2.4</u>	<u>2.3</u>	<u>2.8</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of Dollars)

	Successor (a)				Predecessor (b)		
	6 Months Ended	Year Ended	Year Ended	2 Months Ended	10 Months Ended	Year Ended	
	Jun. 30, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Oct. 31, 2010	December 31, 2009	December 31, 2008
Earnings, as defined:							
Income from Continuing Operations							
Before Income Taxes	\$ 253	\$ 331	\$ 419	\$ 70	\$ 300	\$ (1,235)	\$ (1,536)
Adjustment to reflect earnings from equity method investments on a cash basis (c)		33	(1)		(4)	11	
Loss on impairment of goodwill						1,493	1,806
Mark to market impact of derivative instruments				2	(20)	(19)	34
	<u>253</u>	<u>364</u>	<u>418</u>	<u>72</u>	<u>276</u>	<u>250</u>	<u>304</u>
Total fixed charges as below	<u>77</u>	<u>157</u>	<u>153</u>	<u>25</u>	<u>158</u>	<u>186</u>	<u>199</u>
Total earnings	<u>\$ 330</u>	<u>\$ 521</u>	<u>\$ 571</u>	<u>\$ 97</u>	<u>\$ 434</u>	<u>\$ 436</u>	<u>\$ 503</u>
Fixed charges, as defined:							
Interest charges (d)	\$ 74	\$ 151	\$ 147	\$ 24	\$ 153	\$ 176	\$ 184
Estimated interest component of operating rentals	3	6	6	1	5	5	5
Estimated discontinued operations interest component of rental expense						5	10
Total fixed charges	<u>\$ 77</u>	<u>\$ 157</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 158</u>	<u>\$ 186</u>	<u>\$ 199</u>
Ratio of earnings to fixed charges	<u>4.3</u>	<u>3.3</u>	<u>3.7</u>	<u>3.9</u>	<u>2.7</u>	<u>2.3</u>	<u>2.5</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes other-than-temporary impairment loss of \$25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)				Predecessor (b)		
	6 Months Ended	Year Ended	Year Ended	2 Months Ended	10 Months Ended	Year Ended	
	Jun. 30, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Oct. 31, 2010	2009	2008
Earnings, as defined:							
Income Before Income Taxes	\$ 115	\$ 192	\$ 195	\$ 29	\$ 167	\$ 142	\$ 131
Mark to market impact of derivative instruments				1	(20)	(20)	35
	<u>115</u>	<u>192</u>	<u>195</u>	<u>30</u>	<u>147</u>	<u>122</u>	<u>166</u>
Total fixed charges as below	<u>21</u>	<u>44</u>	<u>46</u>	<u>8</u>	<u>40</u>	<u>46</u>	<u>60</u>
Total earnings	<u>\$ 136</u>	<u>\$ 236</u>	<u>\$ 241</u>	<u>\$ 38</u>	<u>\$ 187</u>	<u>\$ 168</u>	<u>\$ 226</u>
Fixed charges, as defined:							
Interest charges (c)	\$ 20	\$ 42	\$ 44	\$ 8	\$ 38	\$ 44	\$ 58
Estimated interest component of operating rentals	1	2	2		2	2	2
Total fixed charges	<u>\$ 21</u>	<u>\$ 44</u>	<u>\$ 46</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 46</u>	<u>\$ 60</u>
Ratio of earnings fixed charges	<u>6.5</u>	<u>5.4</u>	<u>5.2</u>	<u>4.8</u>	<u>4.7</u>	<u>3.7</u>	<u>3.8</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)				Predecessor (b)		
	6 Months Ended	Year Ended	Year Ended	2 Months Ended	10 Months Ended	Year Ended	
	Jun. 30, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Oct. 31, 2010	December 31, 2009	December 31, 2008
Earnings, as defined:							
Income Before Income Taxes	\$ 173	\$ 215	\$ 282	\$ 55	\$ 218	\$ 200	\$ 226
Adjustment to reflect earnings from equity method investments on a cash basis (c)		33	(1)		(4)	11	
Mark to market impact of derivative instruments						1	(1)
	<u>173</u>	<u>248</u>	<u>281</u>	<u>55</u>	<u>214</u>	<u>212</u>	<u>225</u>
Total fixed charges as below	<u>36</u>	<u>72</u>	<u>73</u>	<u>11</u>	<u>71</u>	<u>79</u>	<u>77</u>
Total earnings	<u>\$ 209</u>	<u>\$ 320</u>	<u>\$ 354</u>	<u>\$ 66</u>	<u>\$ 285</u>	<u>\$ 291</u>	<u>\$ 302</u>
Fixed charges, as defined:							
Interest charges (d)	\$ 34	\$ 69	\$ 70	\$ 10	\$ 69	\$ 76	\$ 74
Estimated interest component of operating rentals	<u>2</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>3</u>
Total fixed charges	<u>\$ 36</u>	<u>\$ 72</u>	<u>\$ 73</u>	<u>\$ 11</u>	<u>\$ 71</u>	<u>\$ 79</u>	<u>\$ 77</u>
Ratio of earnings to fixed charges	<u>5.8</u>	<u>4.4</u>	<u>4.8</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>	<u>3.9</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes other-than-temporary impairment loss of \$25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ David G. DeCampli
David G. DeCampli
President
(Principal Executive Officer)
PPL Energy Supply, LLC

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ Paul A. Farr

 Paul A. Farr
 Executive Vice President
 (Principal Financial Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ Gregory N. Dudkin

Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

CERTIFICATION

I, DENNIS A. URBAN, JR., certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ Dennis A. Urban, Jr.

Dennis A. Urban, Jr.

Controller

(Principal Financial Officer and Principal Accounting Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2013

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2013

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2013

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2013

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, David G. DeCampli, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2013

/s/ David G. DeCampli
David G. DeCampli
President
(Principal Executive Officer)
PPL Energy Supply, LLC

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
(Principal Financial Officer)
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2013

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Dennis A. Urban, Jr., the Principal Financial and Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2013

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial and Accounting Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2013

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2013

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2013

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

LG&E & KU ENERGY LLC

FORM 10-Q (Quarterly Report)

Filed 11/01/13 for the Period Ending 09/30/13

Address	220 WEST MAIN STREET LOUISVILLE, KY 40202
Telephone	502-672-2000
CIK	0001518339
SIC Code	4931 - Electric and Other Services Combined
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2013
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	PPL Energy Supply, LLC (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 630,249,634 shares outstanding at October 25, 2013.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 25, 2013.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2013.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2013.

This document is available free of charge at the Investor Center on PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

**PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2013

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants' financial statements in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS
PPL Corporation and its subsidiaries

Central Networks - collectively, Central Networks East plc, Central Networks Limited and certain other related assets and liabilities. On April 1, 2011, PPL WEM Holdings plc (formerly WPD Investment Holdings Limited) purchased all of the outstanding ordinary share capital of these companies from E.ON AG subsidiaries. Central Networks West plc (subsequently renamed Western Power Distribution (West Midlands) plc), wholly owned by Central Networks Limited (subsequently renamed WPD Midlands Holdings Limited), and Central Networks East plc (subsequently renamed Western Power Distribution (East Midlands) plc) are British regional electricity distribution utility companies.

Kentucky Registrants - LKE, LG&E and KU, collectively, SEC Registrants that directly or through subsidiaries own or control operations primarily in Kentucky.

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Brunner Island - PPL Brunner Island, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electric supply to its retail customers as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Energy Supply, PPL Global and other subsidiaries.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that primarily, through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Ironwood - PPL Ironwood, LLC, an indirect subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Montour - PPL Montour, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides services to PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, a subsidiary of PPL Generation that owns a nuclear-powered generating station.

PPL WEM - PPL WEM Holdings plc (formerly WPD Investment Holdings Limited), an indirect, U.K. subsidiary of PPL Global. PPL WEM indirectly owns both WPD (East Midlands) and WPD (West Midlands).

PPL WW - PPL WW Holdings Limited (formerly Western Power Distribution Holdings Limited), an indirect, U.K. subsidiary of PPL Global. PPL WW Holdings indirectly owns WPD (South Wales) and WPD (South West).

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Subsidiary Registrant(s) - the Registrants that are subsidiaries of PPL. PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company. The company (formerly Central Networks East plc) was acquired and renamed in April 2011.

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company. The company (formerly Central Networks West plc) was acquired and renamed in April 2011.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Purchase Contract(s) - a contract that is a component of a 2010 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to May 1, 2014.

2012 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2012.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and changes the existing Alternative Energy Portfolio Standard.

AEPS - Alternative Energy Portfolio Standard.

AFUDC - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Baseload generation - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

CAIR - Clean Air Interstate Rule.

Cane Run Unit 7 - a combined-cycle natural gas unit under construction in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 141 MW and 499 MW to LG&E and KU by 2015.

CCR - Coal Combustion Residuals. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

COLA - license application for a combined construction permit and operating license from the NRC for a nuclear plant.

CSAPR - Cross-State Air Pollution Rule.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

DPCR4 - Distribution Price Control Review 4, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2005.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of DSM programs and revenues lost by implementing those programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which apply to coal combustion and by-products from the production of energy from coal.

EEl - Electric Energy, Inc., owns and operates a coal-fired plant and a natural gas facility in southern Illinois. KU's 20% ownership interest in EEI is accounted for as an equity method investment.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ESOP - Employee Stock Ownership Plan.

FERC - Federal Energy Regulatory Commission, the federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

Fitch - Fitch, Inc., a credit rating agency.

FTRs - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations (source and sink).

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved LG&E's recovery of costs associated with gas service lines, gas risers, leak mitigation, and gas main replacements. Rate recovery became effective on January 1, 2013.

If-Converted Method - A method applicable for calculating diluted EPS for a company with convertible debt outstanding. The method is applied as follows: Interest charges (after-tax) applicable to the convertible debt are added back to net income and the convertible debt is assumed to have been converted to equity at the beginning of the period and the resulting common shares are treated as outstanding shares. Both adjustments are made only for purposes of calculating diluted EPS. This method was applied to PPL's Equity Units prior to settlement beginning in the first quarter of 2013.

Intermediate and peaking generation - includes the output provided by PPL's competitive oil- and natural gas-fired units.

Ironwood Acquisition - In April 2012, PPL Ironwood Holdings, LLC, an indirect, wholly owned subsidiary of PPL Energy Supply, completed the acquisition from a subsidiary of The AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which together own and operate, a natural gas-fired power plant in Lebanon, Pennsylvania.

IRS - Internal Revenue Service, a U.S. government agency.

ISO - Independent System Operator.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

kV - Kilovolt

LIBOR - London Interbank Offered Rate.

LTIIP - Long Term Infrastructure Improvement Plan.

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NorthWestern - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception receive accrual accounting treatment.

NRC - Nuclear Regulatory Commission, the U.S. federal agency that regulates nuclear power facilities.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

Opacity - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity of power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined nameplate capacities of 2,390 MW.

PADEP - the Pennsylvania Department of Environmental Protection, a state government agency.

PJM - PJM Interconnection, L.L.C., operator of the electric transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts (which are components of the 2010 and 2011 Equity Units.)

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base.

RECs - renewable energy credits.

Regional Transmission Line Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies what changes and additions to the grid are needed to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects assigned to them by the PJM Board that are needed to maintain reliability standards.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - Reliability First Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RMC - Risk Management Committee.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting and requires an independent auditor to make its own assessment.

SCR - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

SMGT - Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus that was terminated effective April 1, 2012.

SNCR - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

Spark Spread - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

Superfund - federal environmental legislation that addresses remediation of contaminated sites; states also have similar statutes.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2 or 549 MW of the capacity.

Tolling agreement - agreement whereby the owner of an electric generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

VIE - variable interest entity.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

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FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2012 Form 10-K and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical, nuclear decommissioning liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery filings by PPL Electric, LG&E, KU or WPD;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions and our ability to successfully operate acquired businesses and realize expected benefits from business acquisitions.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating Revenues				
Utility	\$ 1,739	\$ 1,693	\$ 5,344	\$ 5,012
Unregulated retail electric and gas	264	218	758	620
Wholesale energy marketing				
Realized	980	1,076	2,767	3,367
Unrealized economic activity (Note 14)	(49)	(716)	(281)	(322)
Net energy trading margins	12	(11)	1	7
Energy-related businesses	159	143	423	380
Total Operating Revenues	3,105	2,403	9,012	9,064
Operating Expenses				
Operation				
Fuel	494	570	1,464	1,405
Energy purchases				
Realized	592	583	1,855	2,253
Unrealized economic activity (Note 14)	(37)	(569)	(192)	(420)
Other operation and maintenance	669	650	2,043	2,095
Depreciation	289	278	859	813
Taxes, other than income	90	90	272	268
Energy-related businesses	151	137	403	363
Total Operating Expenses	2,248	1,739	6,704	6,777
Operating Income	857	664	2,308	2,287
Other Income (Expense) - net	(116)	(44)	19	(31)
Other-Than-Temporary Impairments	1		1	1
Interest Expense	246	248	755	714
Income from Continuing Operations Before Income Taxes	494	372	1,571	1,541
Income Taxes	84	17	344	364
Income from Continuing Operations After Income Taxes	410	355	1,227	1,177
Income (Loss) from Discontinued Operations (net of income taxes)	1		2	(6)
Net Income	411	355	1,229	1,171
Net Income Attributable to Noncontrolling Interests	1		1	4
Net Income Attributable to PPL Shareowners	\$ 410	\$ 355	\$ 1,228	\$ 1,167
Amounts Attributable to PPL Shareowners:				
Income from Continuing Operations After Income Taxes	\$ 409	\$ 355	\$ 1,226	\$ 1,173
Income (Loss) from Discontinued Operations (net of income taxes)	1		2	(6)
Net Income	\$ 410	\$ 355	\$ 1,228	\$ 1,167
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners:				
Basic	\$ 0.65	\$ 0.61	\$ 2.03	\$ 2.01
Diluted	\$ 0.62	\$ 0.61	\$ 1.90	\$ 2.01

Net Income Available to PPL Common Shareowners:								
Basic	\$	0.65	\$	0.61	\$	2.03	\$	2.00
Diluted	\$	0.62	\$	0.61	\$	1.90	\$	2.00
Dividends Declared Per Share of Common Stock								
	\$	0.3675	\$	0.36	\$	1.1025	\$	1.08
Weighted-Average Shares of Common Stock Outstanding (in thousands)								
Basic		631,046		580,585		601,275		579,847
Diluted		664,343		582,636		662,094		580,930

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 411	\$ 355	\$ 1,229	\$ 1,171
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of \$8, \$1, \$1, \$1	87	152	(165)	49
Available-for-sale securities, net of tax of (\$15), (\$14), (\$42), (\$32)	15	13	40	30
Qualifying derivatives, net of tax of \$2, \$14, (\$41), (\$29)	(9)	(41)	77	39
Equity investees' other comprehensive income (loss), net of tax of \$0, \$0, \$0, \$2				(3)
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$0, \$0, \$28				(85)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$1, \$0, \$2, \$1			(2)	(6)
Qualifying derivatives, net of tax of \$11, \$51, \$68, \$210	(6)	(61)	(122)	(335)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	(1)		(1)	
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$3), (\$4)	2	1	5	6
Net actuarial loss, net of tax of (\$12), (\$6), (\$37), (\$17)	33	17	101	54
Total other comprehensive income (loss) attributable to PPL Shareowners	121	81	(67)	(251)
Comprehensive income (loss)	532	436	1,162	920
Comprehensive income attributable to noncontrolling interests	1		1	4
Comprehensive income (loss) attributable to PPL Shareowners	\$ 531	\$ 436	\$ 1,161	\$ 916

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 1,229	\$ 1,171
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	859	813
Amortization	164	144
Defined benefit plans - expense	135	123
Deferred income taxes and investment tax credits	301	298
Unrealized (gains) losses on derivatives, and other hedging activities	126	21
Other	92	34
Change in current assets and current liabilities		
Accounts receivable	(79)	19
Accounts payable	(140)	(175)
Unbilled revenues	197	121
Counterparty collateral	(77)	13
Taxes payable	76	29
Uncertain tax positions	(104)	(4)
Accrued interest	8	43
Other	(111)	8
Other operating activities		
Defined benefit plans - funding	(505)	(526)
Other assets	(59)	1
Other liabilities	111	(39)
Net cash provided by operating activities	<u>2,223</u>	<u>2,094</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(2,768)	(2,078)
Ironwood Acquisition, net of cash acquired		(84)
Purchases of nuclear plant decommissioning trust investments	(102)	(112)
Proceeds from the sale of nuclear plant decommissioning trust investments	92	102
Net (increase) decrease in restricted cash and cash equivalents	13	62
Other investing activities	(23)	(6)
Net cash provided by (used in) investing activities	<u>(2,788)</u>	<u>(2,116)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	862	824
Retirement of long-term debt	(309)	(105)
Repurchase of common stock	(74)	
Issuance of common stock	1,409	54
Payment of common stock dividends	(645)	(623)
Redemption of preference stock of a subsidiary		(250)
Debt issuance and credit facility costs	(37)	(10)
Contract adjustment payments	(72)	(71)
Net increase (decrease) in short-term debt	(148)	(51)
Other financing activities	(20)	(8)
Net cash provided by (used in) financing activities	<u>966</u>	<u>(240)</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>(11)</u>	<u>6</u>
Net Increase (Decrease) in Cash and Cash Equivalents	390	(256)
Cash and Cash Equivalents at Beginning of Period	<u>901</u>	<u>1,202</u>
Cash and Cash Equivalents at End of Period	<u>\$ 1,291</u>	<u>\$ 946</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,291	\$ 901
Restricted cash and cash equivalents	52	54
Accounts receivable (less reserve: 2013, \$65; 2012, \$64)		
Customer	857	745
Other	117	79
Unbilled revenues	652	857
Fuel, materials and supplies	686	673
Prepayments	173	166
Price risk management assets	1,045	1,525
Regulatory assets	31	19
Other current assets	67	49
Total Current Assets	4,971	5,068
Investments		
Nuclear plant decommissioning trust funds	804	712
Other investments	47	47
Total Investments	851	759
Property, Plant and Equipment		
Regulated utility plant	26,498	25,196
Less: accumulated depreciation - regulated utility plant	4,636	4,164
Regulated utility plant, net	21,862	21,032
Non-regulated property, plant and equipment		
Generation	11,653	11,295
Nuclear fuel	590	524
Other	834	726
Less: accumulated depreciation - non-regulated property, plant and equipment	6,173	5,942
Non-regulated property, plant and equipment, net	6,904	6,603
Construction work in progress	2,822	2,397
Property, Plant and Equipment, net (a)	31,588	30,032
Other Noncurrent Assets		
Regulatory assets	1,423	1,483
Goodwill	4,050	4,158
Other intangibles	932	925
Price risk management assets	550	572
Other noncurrent assets	623	637
Total Other Noncurrent Assets	7,578	7,775
Total Assets	\$ 44,988	\$ 43,634

(a) At September 30, 2013 and December 31, 2012, includes \$413 million and \$428 million of PP&E, consisting primarily of "Generation," including leasehold improvements from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 499	\$ 652
Long-term debt due within one year	751	751
Accounts payable	1,079	1,252
Taxes	170	90
Interest	325	325
Dividends	232	210
Price risk management liabilities	823	1,065
Regulatory liabilities	68	61
Other current liabilities	1,001	1,219
Total Current Liabilities	<u>4,948</u>	<u>5,625</u>
Long-term Debt	<u>19,092</u>	<u>18,725</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,777	3,387
Investment tax credits	345	328
Price risk management liabilities	538	629
Accrued pension obligations	1,529	2,076
Asset retirement obligations	678	536
Regulatory liabilities	1,054	1,010
Other deferred credits and noncurrent liabilities	665	820
Total Deferred Credits and Other Noncurrent Liabilities	<u>8,586</u>	<u>8,786</u>
Commitments and Contingent Liabilities (Notes 5, 6 and 10)		
Equity		
PPL Shareowners' Common Equity		
Common stock - \$0.01 par value (a)	6	6
Additional paid-in capital	8,305	6,936
Earnings reinvested	6,040	5,478
Accumulated other comprehensive loss	(2,007)	(1,940)
Total PPL Shareowners' Common Equity	<u>12,344</u>	<u>10,480</u>
Noncontrolling Interests	18	18
Total Equity	<u>12,362</u>	<u>10,498</u>
Total Liabilities and Equity	<u>\$ 44,988</u>	<u>\$ 43,634</u>

(a) 780,000 shares authorized; 630,239 and 581,944 shares issued and outstanding at September 30, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	PPL Shareowners						Total
	Common stock outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non-controlling interests	
June 30, 2013 (b)	591,622	\$ 6	\$ 7,195	\$ 5,863	\$ (2,128)	\$ 18	\$ 10,954
Common stock issued (c)	40,117		1,151				1,151
Common stock repurchased (d)	(1,500)		(46)				(46)
Stock-based compensation (e)			5				5
Net income				410		1	411
Dividends, dividend equivalents, redemptions and distributions (f)				(233)		(1)	(234)
Other comprehensive income (loss)					121		121
September 30, 2013 (b)	<u>630,239</u>	<u>\$ 6</u>	<u>\$ 8,305</u>	<u>\$ 6,040</u>	<u>\$ (2,007)</u>	<u>\$ 18</u>	<u>\$ 12,362</u>
December 31, 2012 (b)	581,944	\$ 6	\$ 6,936	\$ 5,478	\$ (1,940)	\$ 18	\$ 10,498
Common stock issued (c)	50,725		1,433				1,433
Common stock repurchased (d)	(2,430)		(74)				(74)
Cash settlement of equity forward agreements (d)			(13)				(13)
Stock-based compensation (e)			23				23
Net income				1,228		1	1,229
Dividends, dividend equivalents, redemptions and distributions (f)				(666)		(1)	(667)
Other comprehensive income (loss)					(67)		(67)
September 30, 2013 (b)	<u>630,239</u>	<u>\$ 6</u>	<u>\$ 8,305</u>	<u>\$ 6,040</u>	<u>\$ (2,007)</u>	<u>\$ 18</u>	<u>\$ 12,362</u>
June 30, 2012	580,213	\$ 6	\$ 6,886	\$ 5,190	\$ (1,120)	\$ 18	\$ 10,980
Common stock issued (c)	757		21				21
Stock-based compensation (e)			5				5
Net income				355			355
Dividends, dividend equivalents redemptions and distributions (f)				(210)			(210)
Other comprehensive income (loss)					81		81
September 30, 2012	<u>580,970</u>	<u>\$ 6</u>	<u>\$ 6,912</u>	<u>\$ 5,335</u>	<u>\$ (1,039)</u>	<u>\$ 18</u>	<u>\$ 11,232</u>
December 31, 2011	578,405	\$ 6	\$ 6,813	\$ 4,797	\$ (788)	\$ 268	\$ 11,096
Common stock issued (c)	2,565		71				71
Stock-based compensation (e)			28				28
Net income				1,167		4	1,171
Dividends, dividend equivalents redemptions and distributions (f)				(629)		(254)	(883)
Other comprehensive income (loss)					(251)		(251)
September 30, 2012	<u>580,970</u>	<u>\$ 6</u>	<u>\$ 6,912</u>	<u>\$ 5,335</u>	<u>\$ (1,039)</u>	<u>\$ 18</u>	<u>\$ 11,232</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

(b) See Note 18 for disclosure of balances of each component of AOCI.

(c) Each period includes shares of common stock issued through various stock and incentive compensation plans. The 2013 periods include the April and July issuances of shares of common stock. See Note 7 for additional information.

(d) See Note 7 for additional information.

(e) The three and nine months ended September 30, 2013 include \$8 million and \$44 million and the three and nine months ended September 30, 2012 include \$7 million and \$42 million of stock-based compensation expense related to new and existing unvested equity awards. The three and nine months ended September 30, 2013 include \$(3) million and \$(21) million and the three and nine months ended September 30, 2012 include \$(2) million and \$(14) million related primarily to the reclassification from "Stock-based compensation" to "Common stock issued" for the issuance of common stock after applicable equity award vesting periods and tax adjustments related to stock-based compensation.

(f) "Earnings reinvested" includes dividends and dividend equivalents on PPL common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests. In June 2012, PPL Electric redeemed all of its outstanding preference stock at par value, which was classified as noncontrolling interest.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating Revenues				
Wholesale energy marketing				
Realized	\$ 980	\$ 1,076	\$ 2,767	\$ 3,367
Unrealized economic activity (Note 14)	(49)	(716)	(281)	(322)
Wholesale energy marketing to affiliate	11	23	37	61
Unregulated retail electric and gas	266	219	761	623
Net energy trading margins	12	(11)	1	7
Energy-related businesses	143	128	378	336
Total Operating Revenues	1,363	719	3,663	4,072
Operating Expenses				
Operation				
Fuel	258	321	780	728
Energy purchases				
Realized	425	421	1,277	1,715
Unrealized economic activity (Note 14)	(37)	(569)	(192)	(420)
Energy purchases from affiliate	1	1	3	2
Other operation and maintenance	243	220	748	769
Depreciation	80	73	237	206
Taxes, other than income	18	18	51	53
Energy-related businesses	138	125	366	326
Total Operating Expenses	1,126	610	3,270	3,379
Operating Income	237	109	393	693
Other Income (Expense) - net	2	5	18	16
Other-Than-Temporary Impairments	1		1	1
Interest Expense	39	43	131	123
Income Before Income Taxes	199	71	279	585
Income Taxes	74	16	106	202
Net Income	125	55	173	383
Net Income Attributable to Noncontrolling Interests	1	1	1	1
Net Income Attributable to PPL Energy Supply Member	\$ 124	\$ 54	\$ 172	\$ 382

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net income	\$ 125	\$ 55	\$ 173	\$ 383
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Available-for-sale securities, net of tax of (\$15), (\$14), (\$42), (\$32)	15	13	40	30
Qualifying derivatives, net of tax of \$0, (\$1), \$0, (\$41)		(1)		58
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$1, \$0, \$2, \$1			(2)	(6)
Qualifying derivatives, net of tax of \$19, \$62, \$63, \$218	(29)	(92)	(96)	(351)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$2), (\$2)	1	1	3	4
Net actuarial loss, net of tax of (\$2), (\$1), (\$7), (\$1)	3	2	11	8
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	(10)	(77)	(44)	(257)
Comprehensive income (loss)	115	(22)	129	126
Comprehensive income attributable to noncontrolling interests	1	1	1	1
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ 114	\$ (23)	\$ 128	\$ 125

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 173	\$ 383
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	237	206
Amortization	111	93
Defined benefit plans - expense	39	33
Deferred income taxes and investment tax credits	112	132
Unrealized (gains) losses on derivatives, and other hedging activities	98	(37)
Other	32	33
Change in current assets and current liabilities		
Accounts receivable	71	(26)
Accounts payable	(131)	(110)
Unbilled revenues	135	78
Fuel, materials and supplies	(18)	(20)
Counterparty collateral	(77)	12
Other	(32)	(28)
Other operating activities		
Defined benefit plans - funding	(107)	(70)
Other assets	(32)	(16)
Other liabilities	(28)	11
Net cash provided by operating activities	<u>583</u>	<u>674</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(341)	(460)
Ironwood Acquisition, net of cash acquired		(84)
Expenditures for intangible assets	(33)	(36)
Purchases of nuclear plant decommissioning trust investments	(102)	(112)
Proceeds from the sale of nuclear plant decommissioning trust investments	92	102
Net (increase) decrease in notes receivable from affiliates		198
Net (increase) decrease in restricted cash and cash equivalents	9	70
Other investing activities	24	14
Net cash provided by (used in) investing activities	<u>(351)</u>	<u>(308)</u>
Cash Flows from Financing Activities		
Retirement of long-term debt	(309)	(6)
Contributions from member	980	472
Distributions to member	(408)	(733)
Net increase (decrease) in short-term debt	(356)	(45)
Other financing activities	(1)	(1)
Net cash provided by (used in) financing activities	<u>(94)</u>	<u>(313)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	138	53
Cash and Cash Equivalents at Beginning of Period	<u>413</u>	<u>379</u>
Cash and Cash Equivalents at End of Period	<u>\$ 551</u>	<u>\$ 432</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 551	\$ 413
Restricted cash and cash equivalents	37	46
Accounts receivable (less reserve: 2013, \$20; 2012, \$23)		
Customer	203	183
Other	104	31
Accounts receivable from affiliates	37	125
Unbilled revenues	234	369
Fuel, materials and supplies	345	327
Prepayments	22	15
Price risk management assets	961	1,511
Other current assets	22	10
Total Current Assets	2,516	3,030
Investments		
Nuclear plant decommissioning trust funds	804	712
Other investments	41	41
Total Investments	845	753
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,663	11,305
Nuclear fuel	590	524
Other	307	294
Less: accumulated depreciation - non-regulated property, plant and equipment	6,025	5,817
Non-regulated property, plant and equipment, net	6,535	6,306
Construction work in progress	739	987
Property, Plant and Equipment, net (a)	7,274	7,293
Other Noncurrent Assets		
Goodwill	86	86
Other intangibles	262	252
Price risk management assets	519	557
Other noncurrent assets	362	404
Total Other Noncurrent Assets	1,229	1,299
Total Assets	\$ 11,864	\$ 12,375

(a) At September 30, 2013 and December 31, 2012, includes \$413 million and \$428 million of PP&E, consisting primarily of "Generation," including leasehold improvements from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt		\$ 356
Long-term debt due within one year	\$ 741	751
Accounts payable	328	438
Accounts payable to affiliates	3	31
Taxes	19	62
Interest	53	31
Price risk management liabilities	773	1,010
Deferred income taxes	45	158
Other current liabilities	264	319
Total Current Liabilities	2,226	3,156
Long-term Debt	2,221	2,521
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,429	1,232
Investment tax credits	207	186
Price risk management liabilities	462	556
Accrued pension obligations	203	293
Asset retirement obligations	388	365
Other deferred credits and noncurrent liabilities	180	218
Total Deferred Credits and Other Noncurrent Liabilities	2,869	2,850
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	4,530	3,830
Noncontrolling interests	18	18
Total Equity	4,548	3,848
Total Liabilities and Equity	\$ 11,864	\$ 12,375

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	<u>Member's equity</u>	<u>Non- controlling interests</u>	<u>Total</u>
June 30, 2013 (a)	\$ 3,541	\$ 18	\$ 3,559
Net income	124	1	125
Other comprehensive income (loss)	(10)		(10)
Contributions from member	875		875
Distributions		(1)	(1)
September 30, 2013 (a)	<u>\$ 4,530</u>	<u>\$ 18</u>	<u>\$ 4,548</u>
December 31, 2012 (a)	\$ 3,830	\$ 18	\$ 3,848
Net income	172	1	173
Other comprehensive income (loss)	(44)		(44)
Contributions from member	980		980
Distributions	(408)	(1)	(409)
September 30, 2013 (a)	<u>\$ 4,530</u>	<u>\$ 18</u>	<u>\$ 4,548</u>
June 30, 2012	\$ 3,982	\$ 18	\$ 4,000
Net income	54	1	55
Other comprehensive income (loss)	(77)		(77)
Distributions	(76)	(1)	(77)
September 30, 2012	<u>\$ 3,883</u>	<u>\$ 18</u>	<u>\$ 3,901</u>
December 31, 2011	\$ 4,019	\$ 18	\$ 4,037
Net income	382	1	383
Other comprehensive income (loss)	(257)		(257)
Contributions from member	472		472
Distributions	(733)	(1)	(734)
September 30, 2012	<u>\$ 3,883</u>	<u>\$ 18</u>	<u>\$ 3,901</u>

(a) See Note 18 for disclosure of balances of each component of AOCI.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating Revenues				
Retail electric	\$ 463	\$ 443	\$ 1,388	\$ 1,303
Electric revenue from affiliate	1	1	3	3
Total Operating Revenues	464	444	1,391	1,306
Operating Expenses				
Operation				
Energy purchases	144	137	436	410
Energy purchases from affiliate	11	23	37	61
Other operation and maintenance	134	148	391	431
Depreciation	45	41	132	119
Taxes, other than income	25	24	77	72
Total Operating Expenses	359	373	1,073	1,093
Operating Income	105	71	318	213
Other Income (Expense) - net	2	3	5	6
Interest Expense	30	25	80	73
Income Before Income Taxes	77	49	243	146
Income Taxes	26	16	83	47
Net Income (a)	51	33	160	99
Distributions on Preference Stock				4
Net Income Available to PPL	\$ 51	\$ 33	\$ 160	\$ 95

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 160	\$ 99
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	132	119
Amortization	13	13
Defined benefit plans - expense	16	17
Deferred income taxes and investment tax credits	103	72
Other	2	3
Change in current assets and current liabilities		
Accounts receivable	(14)	48
Accounts payable	(51)	(43)
Unbilled revenues	34	18
Taxes payable	24	
Other	(19)	(4)
Other operating activities		
Defined benefit plans - funding	(88)	(54)
Other assets	6	
Other liabilities	9	(27)
Net cash provided by operating activities	<u>327</u>	<u>261</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(688)	(407)
Net (increase) decrease in notes receivable from affiliates		(210)
Other investing activities	(9)	3
Net cash provided by (used in) investing activities	<u>(697)</u>	<u>(614)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	348	249
Contributions from parent	205	150
Redemption of preference stock		(250)
Payment of common stock dividends to parent	(94)	(75)
Other financing activities	(4)	(10)
Net cash provided by (used in) financing activities	<u>455</u>	<u>64</u>
Net Increase (Decrease) in Cash and Cash Equivalents	85	(289)
Cash and Cash Equivalents at Beginning of Period	<u>140</u>	<u>320</u>
Cash and Cash Equivalents at End of Period	<u>\$ 225</u>	<u>\$ 31</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 225	\$ 140
Accounts receivable (less reserve: 2013, \$20; 2012, \$18)		
Customer	273	249
Other	14	5
Accounts receivable from affiliates	4	29
Unbilled revenues	76	110
Materials and supplies	35	39
Prepayments	67	76
Deferred income taxes	46	45
Other current assets	18	4
Total Current Assets	<u>758</u>	<u>697</u>
Property, Plant and Equipment		
Regulated utility plant	6,771	6,286
Less: accumulated depreciation - regulated utility plant	2,421	2,316
Regulated utility plant, net	4,350	3,970
Other, net	2	2
Construction work in progress	519	370
Property, Plant and Equipment, net	<u>4,871</u>	<u>4,342</u>
Other Noncurrent Assets		
Regulatory assets	857	853
Intangibles	208	171
Other noncurrent assets	35	55
Total Other Noncurrent Assets	<u>1,100</u>	<u>1,079</u>
Total Assets	<u>\$ 6,729</u>	<u>\$ 6,118</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Liabilities and Equity		
Current Liabilities		
Long term debt due within one year	\$ 10	
Accounts payable	244	\$ 259
Accounts payable to affiliates	46	63
Taxes	36	12
Interest	23	26
Regulatory liabilities	51	52
Other current liabilities	94	93
Total Current Liabilities	<u>504</u>	<u>505</u>
Long-term Debt	<u>2,305</u>	<u>1,967</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,334	1,233
Investment tax credits	3	3
Accrued pension obligations	157	237
Regulatory liabilities	14	8
Other deferred credits and noncurrent liabilities	79	103
Total Deferred Credits and Other Noncurrent Liabilities	<u>1,587</u>	<u>1,584</u>
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	1,340	1,135
Earnings reinvested	629	563
Total Equity	<u>2,333</u>	<u>2,062</u>
Total Liabilities and Equity	<u>\$ 6,729</u>	<u>\$ 6,118</u>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Preference stock	Common stock	Additional paid-in capital	Earnings reinvested	Total
June 30, 2013	66,368		\$ 364	\$ 1,340	\$ 606	\$ 2,310
Net income					51	51
Cash dividends declared on common stock					(28)	(28)
September 30, 2013	<u>66,368</u>		<u>\$ 364</u>	<u>\$ 1,340</u>	<u>\$ 629</u>	<u>\$ 2,333</u>
December 31, 2012	66,368		\$ 364	\$ 1,135	\$ 563	\$ 2,062
Net income					160	160
Capital contributions from PPL				205		205
Cash dividends declared on common stock					(94)	(94)
September 30, 2013	<u>66,368</u>		<u>\$ 364</u>	<u>\$ 1,340</u>	<u>\$ 629</u>	<u>\$ 2,333</u>
June 30, 2012	66,368		\$ 364	\$ 979	\$ 538	\$ 1,881
Net income					33	33
Capital contributions from PPL				150		150
Cash dividends declared on common stock					(19)	(19)
September 30, 2012	<u>66,368</u>		<u>\$ 364</u>	<u>\$ 1,129</u>	<u>\$ 552</u>	<u>\$ 2,045</u>
December 31, 2011	66,368	\$ 250	\$ 364	\$ 979	\$ 532	\$ 2,125
Net income					99	99
Redemption of preference stock (b)		(250)				(250)
Capital contributions from PPL				150		150
Cash dividends declared on preference stock					(4)	(4)
Cash dividends declared on common stock					(75)	(75)
September 30, 2012	<u>66,368</u>	<u>\$</u>	<u>\$ 364</u>	<u>\$ 1,129</u>	<u>\$ 552</u>	<u>\$ 2,045</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

(b) In June 2012, PPL Electric redeemed all of its outstanding preference stock.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating Revenues	\$ 744	\$ 732	\$ 2,226	\$ 2,095
Operating Expenses				
Operation				
Fuel	237	249	684	677
Energy purchases	23	27	146	135
Other operation and maintenance	188	186	582	589
Depreciation	84	87	249	259
Taxes, other than income	12	11	36	34
Total Operating Expenses	<u>544</u>	<u>560</u>	<u>1,697</u>	<u>1,694</u>
Operating Income	200	172	529	401
Other Income (Expense) - net	(4)	(4)	(6)	(14)
Interest Expense	37	37	110	112
Interest Expense with Affiliate			<u>1</u>	
Income from Continuing Operations Before Income Taxes	159	131	412	275
Income Taxes	<u>59</u>	<u>48</u>	<u>153</u>	<u>89</u>
Income from Continuing Operations After Income Taxes	100	83	259	186
Income (Loss) from Discontinued Operations (net of income taxes)			<u>1</u>	<u>(6)</u>
Net Income (a)	<u>\$ 100</u>	<u>\$ 83</u>	<u>\$ 260</u>	<u>\$ 180</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 260	\$ 180
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	249	259
Amortization	19	20
Defined benefit plans - expense	38	30
Deferred income taxes and investment tax credits	99	92
Other	6	(5)
Change in current assets and current liabilities		
Accounts receivable	(78)	(25)
Accounts payable	34	4
Accounts payable to affiliates	1	
Unbilled revenues	19	26
Fuel, materials and supplies	1	4
Income tax receivable		3
Taxes payable	83	51
Accrued interest	30	29
Other		19
Other operating activities		
Defined benefit plans - funding	(159)	(66)
Settlement of interest rate swaps	98	
Other assets	(1)	(3)
Other liabilities	14	28
Net cash provided by operating activities	<u>713</u>	<u>646</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(891)	(525)
Net (increase) decrease in notes receivable from affiliates		9
Net (increase) decrease in restricted cash and cash equivalents	10	(3)
Other investing activities	2	
Net cash provided by (used in) investing activities	<u>(879)</u>	<u>(519)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	27	
Net increase (decrease) in short-term debt	87	
Debt issuance and credit facility costs		(1)
Distributions to member	(116)	(95)
Contributions from member	146	
Net cash provided by (used in) financing activities	<u>144</u>	<u>(96)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(22)	31
Cash and Cash Equivalents at Beginning of Period	43	59
Cash and Cash Equivalents at End of Period	<u>\$ 21</u>	<u>\$ 90</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 21	\$ 43
Accounts receivable (less reserve: 2013, \$22; 2012, \$19)		
Customer	216	133
Other	18	20
Unbilled revenues	137	156
Accounts receivable from affiliates		1
Fuel, materials and supplies	275	276
Prepayments	24	28
Price risk management assets from affiliates		14
Deferred income taxes	20	13
Regulatory assets	29	19
Other current assets	6	4
Total Current Assets	<u>746</u>	<u>707</u>
Property, Plant and Equipment		
Regulated utility plant	8,434	8,073
Less: accumulated depreciation - regulated utility plant	713	519
Regulated utility plant, net	7,721	7,554
Other, net	3	3
Construction work in progress	1,341	750
Property, Plant and Equipment, net	<u>9,065</u>	<u>8,307</u>
Other Noncurrent Assets		
Regulatory assets	566	630
Goodwill	996	996
Other intangibles	232	271
Other noncurrent assets	97	108
Total Other Noncurrent Assets	<u>1,891</u>	<u>2,005</u>
Total Assets	<u>\$ 11,702</u>	<u>\$ 11,019</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	September 30, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 212	\$ 125
Notes payable with affiliates	52	25
Accounts payable	312	283
Accounts payable to affiliates	2	1
Customer deposits	49	48
Taxes	109	26
Price risk management liabilities	4	5
Price risk management liabilities with affiliates	14	
Regulatory liabilities	17	9
Interest	51	21
Other current liabilities	104	100
Total Current Liabilities	926	643
Long-term Debt	4,076	4,075
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	651	541
Investment tax credits	136	138
Accrued pension obligations	267	414
Asset retirement obligations	245	125
Regulatory liabilities	1,040	1,002
Price risk management liabilities	37	53
Other deferred credits and noncurrent liabilities	249	242
Total Deferred Credits and Other Noncurrent Liabilities	2,625	2,515
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	4,075	3,786
Total Liabilities and Equity	\$ 11,702	\$ 11,019

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Member's Equity
June 30, 2013	\$ 4,022
Net income	100
Distributions to member	(47)
September 30, 2013	<u>\$ 4,075</u>
December 31, 2012	\$ 3,786
Net income	260
Contributions from member	146
Distributions to member	(116)
Other comprehensive income (loss)	(1)
September 30, 2013	<u>\$ 4,075</u>
June 30, 2012	\$ 3,774
Net income	83
Distributions to member	(35)
September 30, 2012	<u>\$ 3,822</u>
December 31, 2011	\$ 3,741
Net income	180
Distributions to member	(95)
Other comprehensive income (loss)	(4)
September 30, 2012	<u>\$ 3,822</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating Revenues				
Retail and wholesale	\$ 332	\$ 324	\$ 1,003	\$ 939
Electric revenue from affiliate	11	9	46	51
Total Operating Revenues	343	333	1,049	990
Operating Expenses				
Operation				
Fuel	100	100	284	281
Energy purchases	18	18	129	110
Energy purchases from affiliate	2	3	6	9
Other operation and maintenance	93	87	278	277
Depreciation	37	38	110	114
Taxes, other than income	6	6	18	17
Total Operating Expenses	256	252	825	808
Operating Income	87	81	224	182
Other Income (Expense) - net	(1)	(3)	(3)	(3)
Interest Expense	10	10	30	31
Income Before Income Taxes	76	68	191	148
Income Taxes	27	25	69	54
Net Income (a)	\$ 49	\$ 43	\$ 122	\$ 94

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 122	\$ 94
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	110	114
Amortization	9	8
Defined benefit plans - expense	13	14
Deferred income taxes and investment tax credits	22	40
Other	10	(11)
Change in current assets and current liabilities		
Accounts receivable	(20)	(5)
Accounts payable	18	2
Accounts payable to affiliates	7	
Unbilled revenues	10	16
Fuel, materials and supplies	2	(10)
Taxes payable	32	21
Other	12	13
Other operating activities		
Defined benefit plans - funding	(45)	(26)
Settlement of interest rate swaps	49	
Other assets	(1)	(2)
Other liabilities	2	(1)
Net cash provided by operating activities	<u>352</u>	<u>267</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(376)	(193)
Net (increase) decrease in restricted cash and cash equivalents	10	(3)
Net cash provided by (used in) investing activities	<u>(366)</u>	<u>(196)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	17	
Debt issuance and credit facility costs		(1)
Payment of common stock dividends to parent	(67)	(47)
Contributions from parent	54	
Net cash provided by (used in) financing activities	<u>4</u>	<u>(48)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(10)	23
Cash and Cash Equivalents at Beginning of Period	22	25
Cash and Cash Equivalents at End of Period	<u>\$ 12</u>	<u>\$ 48</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 12	\$ 22
Accounts receivable (less reserve: 2013, \$2; 2012, \$1)		
Customer	93	59
Other	9	16
Unbilled revenues	62	72
Accounts receivable from affiliates	8	14
Fuel, materials and supplies	140	142
Prepayments	4	7
Price risk management from affiliates		7
Deferred income taxes	3	
Regulatory assets	19	19
Other current assets	1	1
Total Current Assets	<u>351</u>	<u>359</u>
Property, Plant and Equipment		
Regulated utility plant	3,340	3,187
Less: accumulated depreciation - regulated utility plant	309	220
Regulated utility plant, net	3,031	2,967
Other, net	1	
Construction work in progress	490	259
Property, Plant and Equipment, net	<u>3,522</u>	<u>3,226</u>
Other Noncurrent Assets		
Regulatory assets	359	400
Goodwill	389	389
Other intangibles	126	144
Other noncurrent assets	33	44
Total Other Noncurrent Assets	<u>907</u>	<u>977</u>
Total Assets	<u>\$ 4,780</u>	<u>\$ 4,562</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 72	\$ 55
Accounts payable	147	117
Accounts payable to affiliates	30	23
Customer deposits	24	23
Taxes	34	2
Price risk management liabilities	4	5
Price risk management liabilities with affiliates	7	
Regulatory liabilities	11	4
Interest	10	5
Other current liabilities	34	34
Total Current Liabilities	373	268
Long-term Debt	1,112	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	577	544
Investment tax credits	39	40
Accrued pension obligations	56	102
Asset retirement obligations	69	56
Regulatory liabilities	489	471
Price risk management liabilities	37	53
Other deferred credits and noncurrent liabilities	109	106
Total Deferred Credits and Other Noncurrent Liabilities	1,376	1,372
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,332	1,278
Earnings reinvested	163	108
Total Equity	1,919	1,810
Total Liabilities and Equity	\$ 4,780	\$ 4,562

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
June 30, 2013	21,294	\$ 424	\$ 1,332	\$ 133	\$ 1,889
Net income				49	49
Cash dividends declared on common stock				(19)	(19)
September 30, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,332</u>	<u>\$ 163</u>	<u>\$ 1,919</u>
December 31, 2012	21,294	\$ 424	\$ 1,278	\$ 108	\$ 1,810
Net income				122	122
Capital contributions from LKE			54		54
Cash dividends declared on common stock				(67)	(67)
September 30, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,332</u>	<u>\$ 163</u>	<u>\$ 1,919</u>
June 30, 2012	21,294	\$ 424	\$ 1,278	\$ 80	\$ 1,782
Net income				43	43
Cash dividends declared on common stock				(16)	(16)
September 30, 2012	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 107</u>	<u>\$ 1,809</u>
December 31, 2011	21,294	\$ 424	\$ 1,278	\$ 60	\$ 1,762
Net income				94	94
Cash dividends declared on common stock				(47)	(47)
September 30, 2012	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 107</u>	<u>\$ 1,809</u>

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating Revenues				
Retail and wholesale	\$ 412	\$ 408	\$ 1,223	\$ 1,156
Electric revenue from affiliate	2	3	6	9
Total Operating Revenues	414	411	1,229	1,165
Operating Expenses				
Operation				
Fuel	137	149	400	396
Energy purchases	5	9	17	25
Energy purchases from affiliate	11	9	46	51
Other operation and maintenance	91	93	286	286
Depreciation	46	49	138	145
Taxes, other than income	6	5	18	17
Total Operating Expenses	296	314	905	920
Operating Income	118	97	324	245
Other Income (Expense) - net	(2)	1	(1)	(5)
Interest Expense	17	18	51	52
Income Before Income Taxes	99	80	272	188
Income Taxes	36	30	101	70
Net Income (a)	\$ 63	\$ 50	\$ 171	\$ 118

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 171	\$ 118
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	138	145
Amortization	9	9
Defined benefit plans - expense	16	9
Deferred income taxes and investment tax credits	73	78
Other	(3)	1
Change in current assets and current liabilities		
Accounts receivable	(46)	(34)
Accounts payable	25	9
Accounts payable to affiliates	(9)	(4)
Unbilled revenues	9	10
Fuel, materials and supplies	(1)	16
Taxes payable	39	26
Accrued interest	15	14
Other	(3)	18
Other operating activities		
Defined benefit plans - funding	(62)	(20)
Settlement of interest rate swaps	49	
Other assets	(2)	(1)
Other liabilities	1	16
Net cash provided by operating activities	<u>419</u>	<u>410</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(512)	(331)
Other investing activities	2	
Net cash provided by (used in) investing activities	<u>(510)</u>	<u>(331)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	70	
Payment of common stock dividends to parent	(83)	(68)
Contributions from parent	92	
Net cash provided by (used in) financing activities	<u>79</u>	<u>(68)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(12)</u>	<u>11</u>
Cash and Cash Equivalents at Beginning of Period	21	31
Cash and Cash Equivalents at End of Period	<u>\$ 9</u>	<u>\$ 42</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 9	\$ 21
Accounts receivable (less reserve: 2013, \$4; 2012, \$2)		
Customer	123	74
Other	8	13
Unbilled revenues	75	84
Accounts receivable from affiliates	10	7
Fuel, materials and supplies	135	134
Prepayments	11	10
Price risk management assets from affiliates		7
Deferred income taxes	3	3
Regulatory assets	10	
Other current assets	5	3
Total Current Assets	389	356
Property, Plant and Equipment		
Regulated utility plant	5,094	4,886
Less: accumulated depreciation - regulated utility plant	404	299
Regulated utility plant, net	4,690	4,587
Other, net	1	1
Construction work in progress	849	490
Property, Plant and Equipment, net	5,540	5,078
Other Noncurrent Assets		
Regulatory assets	207	230
Goodwill	607	607
Other intangibles	106	127
Other noncurrent assets	57	57
Total Other Noncurrent Assets	977	1,021
Total Assets	\$ 6,906	\$ 6,455

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2013	December 31, 2012
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 140	\$ 70
Accounts payable	155	147
Accounts payable to affiliates	24	33
Customer deposits	25	25
Taxes	65	26
Price risk management liabilities with affiliates	7	
Regulatory liabilities	6	5
Interest	25	10
Other current liabilities	31	33
Total Current Liabilities	478	349
Long-term Debt	1,843	1,842
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	660	587
Investment tax credits	97	98
Accrued pension obligations	45	104
Asset retirement obligations	176	69
Regulatory liabilities	551	531
Other deferred credits and noncurrent liabilities	93	92
Total Deferred Credits and Other Noncurrent Liabilities	1,622	1,481
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,440	2,348
Accumulated other comprehensive income (loss)	1	1
Earnings reinvested	214	126
Total Equity	2,963	2,783
Total Liabilities and Equity	\$ 6,906	\$ 6,455

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2013 and December 31, 2012.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
June 30, 2013	37,818	\$ 308	\$ 2,440	\$ 179	\$ 1	\$ 2,928
Net income				63		63
Cash dividends declared on common stock				(28)		(28)
September 30, 2013	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,440</u>	<u>\$ 214</u>	<u>\$ 1</u>	<u>\$ 2,963</u>
December 31, 2012	37,818	\$ 308	\$ 2,348	\$ 126	\$ 1	\$ 2,783
Net income				171		171
Capital contributions from LKE			92			92
Cash dividends declared on common stock				(83)		(83)
September 30, 2013	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,440</u>	<u>\$ 214</u>	<u>\$ 1</u>	<u>\$ 2,963</u>
June 30, 2012	37,818	\$ 308	\$ 2,348	\$ 109	\$ (4)	\$ 2,761
Net income				50		50
Cash dividends declared on common stock				(20)		(20)
September 30, 2012	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 139</u>	<u>\$ (4)</u>	<u>\$ 2,791</u>
December 31, 2011	37,818	\$ 308	\$ 2,348	\$ 89		\$ 2,745
Net income				118		118
Cash dividends declared on common stock				(68)		(68)
Other comprehensive income (loss)					\$ (4)	(4)
September 30, 2012	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 139</u>	<u>\$ (4)</u>	<u>\$ 2,791</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for their related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2012 is derived from that Registrant's 2012 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2012 Form 10-K. The results of operations for the three and nine months ended September 30, 2013, are not necessarily indicative of the results to be expected for the full year ending December 31, 2013, or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the September 30, 2013 financial statements.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2012 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable *(PPL, PPL Energy Supply and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three and nine months ended September 30, 2013, PPL Electric purchased \$259 million and \$738 million of accounts receivable from unaffiliated third parties and \$75 million and \$222 million from PPL EnergyPlus. During the three and nine months ended September 30, 2012, PPL Electric purchased \$225 million and \$647 million of accounts receivable from unaffiliated third parties and \$81 million and \$237 million from PPL EnergyPlus.

Depreciation *(PPL and Kentucky Registrants)*

The KPSC approved new lower depreciation rates for LG&E and KU as part of the rate-case settlement agreement reached in 2012. The new rates became effective January 1, 2013 and will result in lower depreciation of approximately \$19 million (\$9 million for LG&E and \$10 million for KU) in 2013, exclusive of net additions to PP&E since the rate case.

New Accounting Guidance Adopted *(All Registrants)*

Improving Disclosures about Offsetting Balance Sheet Items

Effective January 1, 2013, the Registrants retrospectively adopted accounting guidance issued to enhance disclosures about derivative instruments that either (1) offset on the balance sheet or (2) are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the balance sheet.

The adoption of this guidance resulted in enhanced disclosures but did not have a significant impact on the Registrants. See Note 14 for the new disclosures.

Testing Indefinite-Lived Intangible Assets for Impairment

Effective January 1, 2013, the Registrants prospectively adopted accounting guidance that allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of an indefinite-lived intangible asset. If, based on this assessment, the entity determines that it is more likely than not that the fair value of the indefinite-lived intangible asset exceeds the carrying amount, a quantitative impairment test does not need to be performed. If the entity concludes otherwise, a quantitative impairment test must be performed by determining the fair value of the asset and comparing it with the carrying value. The entity would record an impairment charge, if necessary.

The adoption of this guidance did not have a significant impact on the Registrants.

Reporting Amounts Reclassified Out of AOCI

Effective January 1, 2013, the Registrants prospectively adopted accounting guidance issued to improve the reporting of reclassifications out of AOCI. The Registrants are required to provide information about the effects on net income of significant amounts reclassified out of AOCI by their respective statement of income line item, if the item is required to be reclassified to net income in its entirety. For items not reclassified to net income in their entirety, the Registrants are required to reference other disclosures that provide greater detail about these reclassifications.

The adoption of this guidance resulted in enhanced disclosures but did not have a significant impact on the Registrants. See Note 18 for the new disclosures.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2012 Form 10-K for a discussion of reportable segments. "Corporate and Other" primarily includes financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain unallocated assets, which is presented to reconcile segment information to PPL's consolidated results. For 2012, there were no significant costs or assets in this category.

In 2013, costs included in the Corporate and Other category increased, as anticipated, primarily due to an increase in financing at PPL Capital Funding not directly attributable to a particular segment. PPL's growth in rate-regulated businesses provides the organization an enhanced corporate-level financing alternative, through PPL Capital Funding, that further enables PPL to cost-effectively support targeted credit profiles across all of PPL's rated companies. As a result, PPL plans to further utilize PPL Capital Funding in addition to continued direct financing by the operating companies. The financing costs associated primarily with PPL Capital Funding's new securities issuances, with certain exceptions including the remarketing of the debt component of the Equity Units, have not been directly assigned or allocated to any segment and generally have been reflected in Corporate and Other in 2013.

For the periods ended September 30, financial data for the segments are:

	Three Months		Nine Months	
	2013	2012	2013	2012
Income Statement Data				
Revenues from external customers				
U.K. Regulated	\$ 543	\$ 528	\$ 1,763	\$ 1,647
Kentucky Regulated	744	732	2,226	2,095
Pennsylvania Regulated	463	443	1,388	1,303
Supply (a)	1,352	700	3,626	4,019
Corporate and Other	3		9	
Total	\$ 3,105	\$ 2,403	\$ 9,012	\$ 9,064
Intersegment electric revenues				
Pennsylvania Regulated	\$ 1	\$ 1	\$ 3	\$ 3
Supply	11	23	37	61

	Three Months		Nine Months	
	2013	2012	2013	2012
Net Income Attributable to PPL Shareowners				
U.K. Regulated (a)	\$ 183	\$ 202	\$ 741	\$ 563
Kentucky Regulated	93	72	227	148
Pennsylvania Regulated	51	33	160	95
Supply (a)	91	48	122	361
Corporate and Other	(8)		(22)	
Total	<u>\$ 410</u>	<u>\$ 355</u>	<u>\$ 1,228</u>	<u>\$ 1,167</u>

Balance Sheet Data	September 30,		December 31,	
	2013	2012	2013	2012
Assets				
U.K. Regulated			\$ 14,329	\$ 14,073
Kentucky Regulated			11,368	10,670
Pennsylvania Regulated			6,729	6,023
Supply			12,198	12,868
Corporate and Other (b)			364	
Total assets			<u>\$ 44,988</u>	<u>\$ 43,634</u>

- (a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.
(b) Primarily consists of unallocated assets, including cash, PP&E and the elimination of inter-segment transactions.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method or If-Converted Method, as applicable. The If-Converted Method was applied to the Equity Units prior to settlement beginning in the first quarter of 2013. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

See Note 7 for information on the April and May 2013 settlements of forward sale agreements and the July 2013 issuance of PPL common stock to settle the 2010 Purchase Contracts.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended September 30 used in the EPS calculation are:

	Three Months		Nine Months	
	2013	2012	2013	2012
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL shareowners	\$ 409	\$ 355	\$ 1,226	\$ 1,173
Less amounts allocated to participating securities	2	2	6	7
Income from continuing operations after income taxes available to PPL common shareowners - Basic	407	353	1,220	1,166
Plus interest charges (net of tax) related to Equity Units	7		37	
Income from continuing operations after income taxes available to PPL common shareowners - Diluted	<u>\$ 414</u>	<u>\$ 353</u>	<u>\$ 1,257</u>	<u>\$ 1,166</u>
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	<u>\$ 1</u>	<u>\$</u>	<u>\$ 2</u>	<u>\$ (6)</u>
Net income attributable to PPL shareowners	\$ 410	\$ 355	\$ 1,228	\$ 1,167
Less amounts allocated to participating securities	2	2	6	7
Net income available to PPL common shareowners - Basic	408	353	1,222	1,160
Plus interest charges (net of tax) related to Equity Units	7		37	
Net income available to PPL common shareowners - Diluted	<u>\$ 415</u>	<u>\$ 353</u>	<u>\$ 1,259</u>	<u>\$ 1,160</u>

	Three Months		Nine Months	
	2013	2012	2013	2012
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	631,046	580,585	601,275	579,847
Add incremental non-participating securities:				
Share-based payment awards	1,163	635	1,035	522
Equity Units	32,134	439	59,171	146
Forward sale agreements		977	613	415
Weighted-average shares - Diluted EPS	<u>664,343</u>	<u>582,636</u>	<u>662,094</u>	<u>580,930</u>

Basic EPS

Available to PPL common shareowners:				
Income from continuing operations after income taxes	\$ 0.65	\$ 0.61	\$ 2.03	\$ 2.01
Income (loss) from discontinued operations (net of income taxes)				(0.01)
Net Income	<u>\$ 0.65</u>	<u>\$ 0.61</u>	<u>\$ 2.03</u>	<u>\$ 2.00</u>

Diluted EPS

Available to PPL common shareowners:				
Income from continuing operations after income taxes	\$ 0.62	\$ 0.61	\$ 1.90	\$ 2.01
Income (loss) from discontinued operations (net of income taxes)				(0.01)
Net Income	<u>\$ 0.62</u>	<u>\$ 0.61</u>	<u>\$ 1.90</u>	<u>\$ 2.00</u>

For the periods ended September 30, PPL issued common stock related to stock-based compensation plans, ESOP and DRIP as follows:

(Shares in thousands)

	Three Months		Nine Months	
	2013	2012	2013	2012
Stock-based compensation plans (a)	85	159	1,469	512
ESOP			275	280
DRIP		598	549	1,773

(a) Includes stock options exercised, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

See Note 7 for information on the repurchase of shares of PPL common stock that offset the 2013 issuances of common stock under stock-based compensation plans, ESOP and DRIP.

For the periods ended September 30, the following were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Nine Months	
	2013	2012	2013	2012
(Shares in thousands)				
Stock options	1,136	4,935	4,793	5,622
Performance units	1		73	76
Restricted stock units			39	

5. Income Taxes

Reconciliations of income taxes for the periods ended September 30 are:

(PPL)

	Three Months		Nine Months	
	2013	2012	2013	2012
Federal income tax on Income from Continuing Operations Before				
Income Taxes at statutory tax rate - 35%	<u>\$ 173</u>	<u>\$ 130</u>	<u>\$ 550</u>	<u>\$ 539</u>

	Three Months		Nine Months	
	2013	2012	2013	2012
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	12	6	29	38
State valuation allowance adjustments (a)	38	2	38	2
Impact of lower U.K. income tax rates (b)	(38)	(30)	(101)	(75)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	10	1	5	2
Federal and state tax reserve adjustments (d)	(1)	(2)	(41)	(7)
Foreign tax reserve adjustments	(2)		(2)	(5)
Federal and state income tax return adjustments	(4)		(4)	
Enactment of the U.K.'s Finance Acts 2013 and 2012 (b)	(93)	(74)	(93)	(74)
Federal income tax credits	(4)	(5)	(9)	(12)
Amortization of investment tax credit	(1)	(2)	(6)	(7)
Depreciation not normalized	(2)	(2)	(6)	(6)
State deferred tax rate change (e)		(6)		(17)
Net operating loss carryforward adjustments (f)				(9)
Intercompany interest on U.K. financing entities (g)	(2)	(3)	(7)	(8)
Other	(2)	2	(9)	3
Total increase (decrease)	(89)	(113)	(206)	(175)
Total income taxes from continuing operations	\$ 84	\$ 17	\$ 344	\$ 364

- (a) During the three and nine months ended September 30, 2013, PPL recorded an increase in state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income over the remaining carryforward period of Pennsylvania net operating losses.
- (b) The U.K. Finance Act 2013, enacted in July 2013, reduced the U.K. statutory income tax rate from 23% to 21% effective April 1, 2014 and from 21% to 20% effective April 1, 2015. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2013 related to both rate decreases.

The U.K. Finance Act 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2012 related to both rate decreases.

- (c) During the three and nine months ended September 30, 2013, PPL recorded a \$10 million and \$24 million increase to income tax expense primarily attributable to a revision in the expected taxable amount of cash repatriation in 2013.

During the nine months ended September 30, 2013, PPL recorded a tax benefit of \$19 million associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that was reflected on an amended 2010 U.S. tax return.

- (d) In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in the fourth quarter of 2011. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition and oral argument was held in February 2013. On May 20, 2013, the Supreme Court reversed the Third Circuit's opinion and ruled that the WPT is a creditable tax. As a result of the Supreme Court ruling, PPL recorded a tax benefit of \$44 million during the nine months ended September 30, 2013, of which \$19 million relates to interest.
- (e) During the three and nine months ended September 30, 2012, PPL recorded adjustments related to state deferred tax liabilities.
- (f) During the nine months ended September 30, 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
- (g) PPL recorded foreign income tax benefits related to interest expense on intercompany loans for which there was no domestic income tax expense.

(PPL Energy Supply)

	Three Months		Nine Months	
	2013	2012	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 70	\$ 25	\$ 98	\$ 205
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	7	1	10	25
State valuation allowance adjustments	4	2	4	2
Federal and state tax reserve adjustments (a)			6	
Federal income tax credits	(4)	(4)	(7)	(10)
State deferred tax rate change (b)		(6)		(17)
Other	(3)	(2)	(5)	(3)
Total increase (decrease)	4	(9)	8	(3)
Total income taxes	\$ 74	\$ 16	\$ 106	\$ 202

- (a) During the nine months ended September 30, 2013, PPL Energy Supply reversed \$3 million in tax benefits related to a 2008 change in method of accounting for certain expenditures for tax purposes and recorded \$4 million in federal tax reserves related to differences in over (under) payment interest rates applied to audit claims as a result of the U.S. Supreme Court decision related to Windfall Profits Tax.
- (b) During the three and nine months ended September 30, 2012, PPL Energy Supply recorded adjustments related to state deferred tax liabilities.

(PPL Electric)

	Three Months		Nine Months	
	2013	2012	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 27	\$ 17	\$ 85	\$ 51
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	2	13	7
Federal and state tax reserve adjustments	(2)	(2)	(6)	(5)
Depreciation not normalized	(2)	(1)	(6)	(5)
Other	(2)		(3)	(1)
Total increase (decrease)	(1)	(1)	(2)	(4)
Total income taxes	\$ 26	\$ 16	\$ 83	\$ 47

(LKE)

	Three Months		Nine Months	
	2013	2012	2013	2012
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 56	\$ 46	\$ 144	\$ 96
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	6	5	14	7
Amortization of investment tax credit	(1)	(1)	(3)	(4)
Net operating loss carryforward adjustments (a)				(9)
Other	(2)	(2)	(2)	(1)
Total increase (decrease)	3	2	9	(7)
Total income taxes from continuing operations	\$ 59	\$ 48	\$ 153	\$ 89

(a) During the nine months ended September 30, 2012, LKE recorded adjustments to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

(LG&E)

	Three Months		Nine Months	
	2013	2012	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 27	\$ 24	\$ 67	\$ 52
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	2	7	5
Other	(3)	(1)	(5)	(3)
Total increase (decrease)		1	2	2
Total income taxes	\$ 27	\$ 25	\$ 69	\$ 54

(KU)

	Three Months		Nine Months	
	2013	2012	2013	2012
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 35	\$ 28	\$ 95	\$ 66
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	3	10	6
Other	(3)	(1)	(4)	(2)
Total increase (decrease)	1	2	6	4
Total income taxes	\$ 36	\$ 30	\$ 101	\$ 70

Unrecognized Tax Benefits (All Registrants)

Changes to unrecognized tax benefits for the periods ended September 30 were as follows.

	Three Months		Nine Months	
	2013	2012	2013	2012
PPL				
Beginning of period	\$ 36	\$ 113	\$ 92	\$ 145
Additions based on tax positions of prior years		2		6
Reductions based on tax positions of prior years			(26)	(31)
Additions based on tax positions related to the current year			4	
Reductions based on tax positions related to the current year		(1)		(2)
Settlements			(30)	
Lapse of applicable statutes of limitations	(5)	(2)	(9)	(6)
End of period	\$ 31	\$ 112	\$ 31	\$ 112
PPL Energy Supply				
Beginning of period	\$ 15	\$ 31	\$ 30	\$ 28
Additions based on tax positions of prior years				4
Reductions based on tax positions of prior years			(15)	(1)
End of period	\$ 15	\$ 31	\$ 15	\$ 31
PPL Electric				
Beginning of period	\$ 12	\$ 43	\$ 26	\$ 73
Reductions based on tax positions of prior years		(1)	(10)	(28)
Additions based on tax positions related to the current year				1
Lapse of applicable statutes of limitations	(3)	(2)	(7)	(6)
End of period	\$ 9	\$ 40	\$ 9	\$ 40

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits were insignificant for the three and nine months ended September 30, 2013 and 2012.

At September 30, 2013, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts.

	Increase	Decrease
PPL	\$ 16	\$ 30
PPL Energy Supply		15
PPL Electric	16	8

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

At September 30, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective income tax rate were as follows.

	2013	2012
PPL	\$ 21	\$ 34
PPL Energy Supply	14	14

The amounts for PPL Electric, LKE, LG&E and KU were insignificant.

Other (PPL, PPL Energy Supply and PPL Electric)

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for Pennsylvania operations. PPL made the same change for its Montana operations for the 2009 tax year. In 2011, the IRS issued guidance on repair expenditures related to network assets providing a safe harbor method of determining whether the repair expenditures can be currently deducted for tax purposes. On April 30, 2013, the IRS issued Revenue Procedure 2013-24 providing guidance to taxpayers to determine whether expenditures to maintain, replace or improve steam or electric generation property must be capitalized for tax purposes. The IRS may assert, and ultimately conclude, that PPL's deduction

for generation-related expenditures should be less than the amount determined by PPL. PPL believes that it has established adequate reserves for this contingency.

6. Utility Rate Regulation

(All Registrants except PPL Energy Supply)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Current Regulatory Assets:				
ECR	\$ 7			
Gas supply clause	13	\$ 11		
Fuel adjustment clause		6		
Other	11	2	\$ 2	
Total current regulatory assets	\$ 31	\$ 19	\$ 2	
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 683	\$ 730	\$ 345	\$ 362
Taxes recoverable through future rates	302	293	302	293
Storm costs	152	168	55	59
Unamortized loss on debt	88	96	58	65
Interest rate swaps	49	67		
Accumulated cost of removal of utility plant AROs	95	71	95	71
Other	37	26		
	17	32	2	3
Total noncurrent regulatory assets	\$ 1,423	\$ 1,483	\$ 857	\$ 853
Current Regulatory Liabilities:				
Generation supply charge	\$ 21	\$ 27	\$ 21	\$ 27
ECR		4		
Gas supply clause	2	4		
Transmission service charge	9	6	9	6
Transmission formula rate	9		9	
Universal service rider	11	17	11	17
Gas line tracker	6			
Other	10	3	1	2
Total current regulatory liabilities	\$ 68	\$ 61	\$ 51	\$ 52
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 690	\$ 679		
Coal contracts (a)	108	141		
Power purchase agreement - OVEC (a)	102	108		
Net deferred tax assets	32	34		
Act 129 compliance rider	14	8	\$ 14	\$ 8
Defined benefit plans	18	17		
Interest rate swaps	84	14		
Other	6	9		
Total noncurrent regulatory liabilities	\$ 1,054	\$ 1,010	\$ 14	\$ 8

	LKE		LG&E		KU	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Current Regulatory Assets:						
ECR	\$ 7		\$ 2		\$ 5	
Gas supply clause	13	\$ 11	13	\$ 11		
Fuel adjustment clause		6		6		
Other	9	2	4	2	5	
Total current regulatory assets	\$ 29	\$ 19	\$ 19	\$ 19	\$ 10	

	LKE		LG&E		KU	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 338	\$ 368	\$ 212	\$ 232	\$ 126	\$ 136
Storm costs	97	109	53	59	44	50
Unamortized loss on debt	30	31	19	20	11	11
Interest rate swaps	49	67	49	67		
AROs	37	26	20	15	17	11
Other	15	29	6	7	9	22
Total noncurrent regulatory assets	\$ 566	\$ 630	\$ 359	\$ 400	\$ 207	\$ 230
Current Regulatory Liabilities:						
ECR		\$ 4				\$ 4
Gas supply clause	\$ 2	4	\$ 2	4		
Gas line tracker	6		6			
Other	9	1	3		\$ 6	1
Total current regulatory liabilities	\$ 17	\$ 9	\$ 11	\$ 4	\$ 6	\$ 5
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal						
of utility plant	\$ 690	\$ 679	\$ 300	\$ 297	\$ 390	\$ 382
Coal contracts (a)	108	141	47	61	61	80
Power purchase agreement - OVEC (a)	102	108	71	75	31	33
Net deferred tax assets	32	34	26	28	6	6
Defined benefit plans	18	17			18	17
Interest rate swaps	84	14	42	7	42	7
Other	6	9	3	3	3	6
Total noncurrent regulatory liabilities	\$ 1,040	\$ 1,002	\$ 489	\$ 471	\$ 551	\$ 531

(a) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

Kentucky Activities (PPL and Kentucky Registrants)

Rate Case Proceedings

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million for LG&E and \$51 million for KU and an increase in annual base gas rates of \$15 million for LG&E using a 10.25% return on equity. The approved rates became effective January 1, 2013.

Pennsylvania Activities (PPL and PPL Electric)

Rate Case Proceeding

In December 2012, the PUC approved a total distribution revenue increase of about \$71 million for PPL Electric, using a 10.40% return on equity. The approved rates became effective January 1, 2013.

Storm Damage Expense Rider

In its December 28, 2012 final rate case order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider (SDER). PPL Electric filed its proposed SDER on March 28, 2013, including requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy, which the PUC previously approved for deferral. PPL Electric proposed that the SDER become effective January 1, 2013 for storm costs incurred in 2013, with those costs and the 2012 Hurricane Sandy costs included in rates effective January 1, 2014. Several parties filed comments opposing the SDER. PPL Electric and several other parties filed reply comments in May 2013. In October 2013, the PUC adopted an Order requesting submission of additional comments and reply comments on PPL Electric's proposal. This matter remains pending before the PUC.

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are subject to significant penalties.

Under Act 129, EDCs must file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. EDCs are able to recover the costs (capped at 2.0% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's Phase I EE&C Plan ending May 31, 2013.

Act 129 requires EDCs to reduce overall electricity consumption by 1.0% by May 2011 and by 3.0% by May 2013, and reduce peak demand by 4.5%. The overall consumption reduction is measured against PUC-forecasted consumption for the twelve months ended May 31, 2010. The peak demand reduction must occur for the 100 hours of highest demand, which is determined by actual demand reduction during the June 2012 through September 2012 period. PPL Electric believes it has met the May 2011 requirement and will determine if it met the May 2013 peak demand reduction and energy reduction targets after it completes the final program evaluation in the fourth quarter of 2013. PPL Electric does not expect the PUC to formally determine compliance for either the 2011 or 2013 requirements before the first quarter of 2014.

Act 129 requires the PUC to evaluate the costs and benefits of the EE&C program by November 30, 2013 and adopt additional reductions if the benefits of the program exceed the costs. In August 2012, after receiving input from stakeholders, the PUC issued a Final Implementation Order establishing a three-year Phase II program, ending May 31, 2016, with individual consumption reduction targets for each EDC. PPL Electric's Phase II reduction target is 2.1% of the total energy consumption forecasted by the PUC for the twelve months ended May 31, 2010. The PUC did not establish demand reduction targets for the Phase II program. PPL Electric filed its Phase II EE&C Plan with the PUC on November 15, 2012 and, in March 2013, the PUC approved PPL Electric's Phase II EE&C Plan with minor modifications. PPL Electric filed a Revised Phase II EE&C Plan on May 13, 2013 pursuant to the PUC's March Order. On July 11, 2013, the PUC issued an Order approving PPL Electric's Revised Phase II EE&C Plan. PPL Electric began its Phase II Plan implementation on June 1, 2013.

Act 129 also requires Default Service Providers (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

The PUC has approved PPL Electric's DSP procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric has concluded all competitive solicitations to procure power for its PLR obligations under that plan.

The PUC has directed all EDCs to file default service procurement plans for the period June 1, 2013 through May 31, 2015. PPL Electric filed its plan in May 2012. In that plan, PPL Electric proposed a process to obtain supply for its default service customers and a number of initiatives designed to encourage more customers to purchase electricity from the competitive retail market. In January 2013, the PUC approved PPL Electric's plan with modifications and directed PPL Electric to establish collaborative processes to address several retail competition issues. In February 2013, PPL Electric filed a revised Default Service Supply Master Agreement and a revised Request for Proposals Process and Rules which the PUC approved. PPL Electric filed revised retail competition initiatives and a revised plan consistent with the PUC's January order, and in May 2013, the PUC approved PPL Electric's most recent filing with minor changes. PPL Electric began implementing its revised plan on June 1, 2013. See Note 10 for additional information.

Smart Meter Rider

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric continues to conduct pilot projects to evaluate additional applications of its current advanced metering technology pursuant to the requirements of Act 129. PPL Electric recovers the cost of its pilot projects through a cost recovery mechanism, the Smart Meter Rider (SMR). In August 2013, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter Plan during 2013 and its planned actions for 2014. PPL Electric also submitted revised SMR charges that will become effective January 1, 2014. PPL Electric will submit its final Smart Meter Plan by June 30, 2014.

PUC Investigation of Retail Electricity Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market to be conducted in two phases. Phase one addressed the status of the existing retail market and explored potential changes. Questions issued by the PUC for phase one of the investigation focused primarily on default service issues. Phase two was initiated in July 2011 to develop specific proposals for changes to the retail market and default service model. From December 2011 through the end of 2012, the PUC issued several orders and other pronouncements related to the investigation. A final implementation order was issued in February 2013, and the PUC created several working groups to address continuing competitive issues. Although the final implementation order contains provisions that will require numerous modifications to PPL Electric's current default service model for retail customers, those modifications are not expected to have a material adverse effect on PPL Electric's results of operations.

Distribution System Improvement Charge

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC.

In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC. The PUC approved the LTIP on January 10, 2013 and, on January 15, 2013, PPL Electric filed a petition requesting permission to establish a DSIC. Several parties filed responses to PPL Electric's petition. In an order entered on May 23, 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four specific issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. The Judge's recommended decision is expected in early 2014. The case remains pending before the PUC.

Federal Matters

FERC Audit Proceedings (All Registrants except PPL Energy Supply)

In November 2011, the FERC commenced an audit of PPL and its subsidiaries, including an audit of the FERC transmission formula rate mechanisms at PPL Electric, LG&E and KU beginning in April 2012. The audit identified several matters related to separate aspects of formula rate mechanics at PPL Electric, LG&E and KU. As previously reported, among the audit matters related to PPL Electric was the determination that PPL Electric had not obtained a waiver of the equity method accounting requirement with respect to its wholly owned subsidiary, PPL Receivables Corporation, which was formed in 2004 to purchase eligible accounts receivable and unbilled revenue from PPL Electric to collateralize commercial paper issuances and reduce borrowing costs. PPL, PPL Electric, LKE, LG&E and KU currently believe that the total amount of refunds, if any, that may be required with respect to the formula rate and all other issues identified during the course of the audit will not be material to any of these Registrants. PPL, PPL Electric, LKE, LG&E and KU, however, cannot predict the ultimate outcome of these matters.

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form No. 1, filed under the FERC's Uniform System of Accounts. PPL Electric has initiated separate formula rate Annual Updates for each of the years 2010-2013. The 2010, 2011, and 2012 updates were subsequently challenged by a group of municipal customers, which challenges PPL Electric has opposed. In August 2011, the FERC issued an order substantially rejecting the 2010 formal challenge and the municipal customers filed a request for rehearing of that order. In September 2012, the FERC issued an order setting for evidentiary hearings and settlement judge procedures a number of issues raised in the 2010 and 2011 formal challenges. Settlement conferences were held in late 2012 and early 2013. In February 2013, the FERC set for evidentiary hearings and settlement judge procedures a number of issues in the 2012 formal challenge and consolidated that challenge with the 2010 and 2011 challenges. PPL Electric filed a request for rehearing of the February Order which remains pending before the FERC. PPL Electric and the group of municipal customers have exchanged confidential settlement proposals and PPL Electric anticipates that there will be additional settlement conferences held in 2013. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings, which remain pending before the FERC.

U. K. Activities (PPL)

Ofgem Review of Line Loss Calculation

Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentive/penalty for the DPCR4. On July 12, 2013, Ofgem issued a decision paper on the process to follow for closing out the line loss incentive/penalty. Subsequent to the July 2013 decision paper, WPD received additional information from Ofgem and as a result revised the estimated potential loss exposure to be in the range of \$93 million to \$226 million as of September 30, 2013. On October 21, 2013, Ofgem issued a further consultation paper requesting additional information. During the three and nine months ended September 30, 2013, WPD recorded \$21 million and \$45 million increases to the liability with reductions to "Utility" revenue on the Statement of Income. At September 30, 2013, the liability was \$93 million compared with \$94 million at December 31, 2012. Other changes to this line loss liability included reductions of \$41 million resulting from refunds being included in tariffs and foreign exchange movements during the nine months ended September 30, 2013. PPL cannot predict the outcome of this matter.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support, and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	Expiration Date	September 30, 2013				December 31, 2012	
		Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backup
PPL							
<i>WPD Credit Facilities</i>							
<i>PPL WW Syndicated</i>							
Credit Facility (a) (b)	Dec. 2016	£ 210	£ 106	n/a	£ 104	£ 106	n/a
<i>WPD (South West)</i>							
Syndicated Credit Facility	Jan. 2017	245		n/a	245		n/a
<i>WPD (East Midlands)</i>							
Syndicated Credit Facility (b)	Apr. 2016	300	44		256		
<i>WPD (West Midlands)</i>							
Syndicated Credit Facility (b)	Apr. 2016	300	34		266		
<i>Uncommitted Credit Facilities</i>							
		84		£ 5	79		£ 4
Total WPD Credit Facilities (c)		£ 1,139	£ 184	£ 5	£ 950	£ 106	£ 4
PPL Energy Supply							
Syndicated Credit Facility	Nov. 2017	\$ 3,000		\$ 61	\$ 2,939		\$ 499
Letter of Credit Facility (d)	Mar. 2014	150	n/a	109	41	n/a	132
<i>Uncommitted Credit Facilities (e)</i>							
		175	n/a	51	124	n/a	40
Total PPL Energy Supply Credit Facilities		\$ 3,325		\$ 221	\$ 3,104		\$ 671
PPL Electric							
Syndicated Credit Facility	Oct. 2017	\$ 300		\$ 1	\$ 299		\$ 1
LG&E							
Syndicated Credit Facility	Nov. 2017	\$ 500		\$ 72	\$ 428		\$ 55
KU							
Syndicated Credit Facility	Nov. 2017	\$ 400		\$ 140	\$ 260		\$ 70
Letter of Credit Facility (f)	May 2016	198		198			198
Total KU Credit Facilities		\$ 598		\$ 338	\$ 260		\$ 268

(a) In December 2012, the PPL WW syndicated credit facility that was set to expire in January 2013 was replaced and the capacity was increased from £150 million.

- (b) PPL WW's amounts borrowed at September 30, 2013 and December 31, 2012 were USD-denominated borrowings of \$166 million and \$171 million, which equated to £106 million at the time of borrowings and bore interest at 1.89% and 0.85%. WPD (East Midlands) amount borrowed at September 30, 2013 was a GBP-denominated borrowing of £44 million, which equated to \$68 million and bore interest at 1.30%. WPD (West Midlands) amount borrowed at September 30, 2013 was a GBP-denominated borrowing of £34 million, which equated to \$53 million and bore interest at 1.30%.
- (c) At September 30, 2013, the USD equivalent of unused capacity under WPD's credit facilities was \$1.5 billion.
- (d) In February 2013, PPL Energy Supply extended the expiration date from March 2013 and, effective April 2013, the capacity was reduced from \$200 million.
- (e) In August 2013, the capacity was reduced from \$200 million.
- (f) In May 2013, KU extended the letter of credit facility from April 2014.

In September 2013, PPL Electric terminated its asset-backed commercial paper program sponsored by a financial institution. See Note 7 in PPL's and PPL Electric's 2012 Form 10-K for more information regarding the asset-backed commercial paper program.

In October 2013, LKE entered into a \$75 million syndicated credit facility that expires in October 2018.

PPL Energy Supply, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund their short-term liquidity needs, if and when necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	September 30, 2013			December 31, 2012		
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Energy Supply		\$ 750		\$ 750	0.50%	\$ 356
PPL Electric		300		300		
LG&E (a)	0.28%	350	\$ 72	278	0.42%	55
KU (a)	0.28%	350	140	210	0.42%	70
Total		\$ 1,750	\$ 212	\$ 1,538		\$ 481

- (a) In April 2013, the capacity was increased from \$250 million.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At September 30, 2013, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an \$800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2017, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at September 30, 2013.

(LKE)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt and Equity Securities

(PPL)

In connection with an April 2012 registered public offering of 9.9 million shares of PPL common stock, PPL entered into forward sale agreements with two counterparties. In conjunction with that offering, the underwriters exercised an overallotment option and PPL entered into additional forward sale agreements covering 591 thousand shares of PPL common stock.

In April 2013, PPL settled the initial forward sale agreements by issuing 8.4 million shares of PPL common stock and cash settling the remaining 1.5 million shares. PPL received net cash proceeds of \$205 million, which was calculated based on an initial forward price of \$27.02 per share, reduced during the period the contracts were outstanding as specified in the forward sale agreements. PPL used the net proceeds to repay short-term debt obligations and for other general corporate purposes. In May 2013, PPL cash settled the forward sale agreements covering the 591 thousand remaining shares for \$4 million.

The forward sale agreements were classified as equity transactions. As a result, no amounts were recorded in the consolidated financial statements until the April 2013 settlement of the initial forward sale agreements. However, prior to settlement, incremental shares were included within the calculation of diluted EPS using the treasury stock method. See Note 4 for the impact on the calculation of diluted EPS.

In March 2013, PPL Capital Funding issued \$450 million of 5.90% Junior Subordinated Notes due 2073. PPL Capital Funding received proceeds of \$436 million, net of underwriting fees, which was loaned to or invested in affiliates of PPL Capital Funding and used to fund their capital expenditures and for other general corporate purposes.

In May 2013, PPL Capital Funding remarketed \$1.150 billion of 4.625% Junior Subordinated Notes due 2018 that were originally issued in June 2010 as a component of PPL's 2010 Equity Units. In connection with the remarketing, PPL Capital Funding issued \$300 million of 2.04% Junior Subordinated Notes due 2016 and \$850 million of 2.77% Junior Subordinated Notes due 2018, which were simultaneously exchanged into three tranches of Senior Notes. As a result of the exchange, the new Senior Notes include \$250 million of 1.90% Senior Notes due 2018, \$600 million of 3.40% Senior Notes due 2023 and \$300 million of 4.70% Senior Notes due 2043. The transaction was accounted for as a debt extinguishment, resulting in a \$10 million loss on extinguishment of the Junior Subordinated Notes, which was recorded to "Interest Expense" on the Statement of Income. The transaction was considered non-cash activity that was excluded from the 2013 Statement of Cash Flows.

In July 2013, PPL issued 40 million shares of common stock at \$28.73 per share to settle the 2010 Purchase Contracts. PPL received net cash proceeds of \$1.150 billion, which will be used to repay short-term and long-term debt obligations and for other general corporate purposes.

During the nine months ended September 30, 2013, PPL repurchased 2.4 million shares of its common stock for \$74 million to offset the 2013 issuances of common stock under stock-based compensation plans, ESOP and DRIP. These repurchases were recorded as a reduction to "Additional paid-in capital" on the Balance Sheet.

In September 2013, WPD (East Midlands) issued £40 million aggregate principal amount of 1.676% Index-linked Senior Notes due 2052. WPD (East Midlands) received proceeds of £40 million, which equated to \$64 million at the time of issuance. The proceeds will be used for general corporate purposes. Although WPD's results are generally recorded on a one-month lag, this transaction was recognized in the current period financial statements.

In October 2013, WPD (East Midlands) issued £25 million aggregate principal amount of 1.676% Index-linked Senior Notes due 2052. WPD (East Midlands) received proceeds of £25 million, which equated to \$40 million at the time of issuance. The proceeds will be used for general corporate purposes.

In October 2013, WPD (West Midlands) issued £400 million aggregate principal amount of 3.875% Senior Notes due 2024. WPD (West Midlands) received proceeds of £394 million, which equated to \$637 million at the time of issuance, net of a discount and underwriting fees. The net proceeds will be used for general corporate purposes.

See Note 7 in PPL's 2012 Form 10-K for information on the 2011 Equity Units (with respect to which the related \$978 million of Notes are expected to be remarketed as early as the first quarter of 2014).

(PPL and PPL Energy Supply)

In February 2013, PPL Energy Supply completed an offer to exchange up to all, but not less than a majority, of PPL Ironwood's 8.857% Senior Secured Bonds due 2025, (Ironwood Bonds), for newly issued PPL Energy Supply Senior Notes, Series 4.60% due 2021. A total of \$167 million aggregate principal amount of outstanding Ironwood Bonds was exchanged for \$212 million aggregate principal amount of Senior Notes, Series 4.60% due 2021. This transaction was accounted for as a modification of the existing debt; therefore, the amount of debt on the Balance Sheet remained at \$167 million and will be accreted to \$212 million over the life of the new Senior Notes. No gain or loss was recorded and the exchange was considered non-cash activity that was excluded from the 2013 Statement of Cash Flows.

In July 2013, PPL Energy Supply repaid the entire \$300 million principal amount of its 6.30% Senior Notes upon maturity.

(PPL and PPL Electric)

In July 2013, PPL Electric issued \$350 million of 4.75% First Mortgage Bonds due 2043. PPL Electric received proceeds of \$345 million, net of a discount and underwriting fees, which will be used for capital expenditures, to fund pension obligations and for other general corporate purposes.

Legal Separateness

(All Registrants)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay such creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions and Capital Contributions

(PPL)

In August 2013, PPL declared its quarterly common stock dividend, payable October 1, 2013, at 36.75 cents per share (equivalent to \$1.47 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

(All Registrants except PPL)

During the nine months ended September 30, 2013, the following distributions and capital contributions occurred:

	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Dividends/distributions paid to parent/member	\$ 408	\$ 94	\$ 116	\$ 67	\$ 83
Capital contributions received from parent/member	980	205	146	54	92

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results.

Acquisitions

Ironwood Acquisition *(PPL and PPL Energy Supply)*

See Note 10 in PPL's and PPL Energy Supply's 2012 Form 10-K for information on the April 13, 2012 Ironwood Acquisition. See Note 7 for information on the February 2013 exchange of a portion of long-term debt assumed through consolidation as a result of the acquisition.

Development

Future Capacity Needs (*PPL and Kentucky Registrants*)

Construction activity continues on the previously announced natural gas combined-cycle generating unit at the Cane Run station, scheduled to be operational in May 2015. In October 2013, LG&E and KU announced plans to build a second natural gas combined-cycle generating unit at KU's Green River generating site. Subject to finalizing details, regulatory applications, permitting and construction schedules, the facility is expected to have approximately 700 MW of capacity at an estimated cost of \$700 million and is planned to be operational in 2018. At the same time, LG&E and KU also announced plans for a potential 10 MW solar generation facility to be operational in 2016 at an estimated cost of \$25 million.

(*PPL and PPL Energy Supply*)

Bell Bend COLA

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) for the proposed construction of the Bell Bend nuclear generating unit (Bell Bend) adjacent to PPL's Susquehanna nuclear generating plant. PPL Bell Bend does not expect to complete the COLA review process with the NRC prior to 2016. PPL Bell Bend has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized to spend up to \$205 million on the COLA and other permitting costs necessary for construction, which is expected to be sufficient to fund the project through receipt of the license. At September 30, 2013 and December 31, 2012, \$169 million and \$154 million of costs, which includes capitalized interest, associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL Bell Bend believes that the estimated fair value of the COLA currently exceeds the costs expected to be capitalized associated with the licensing application. See Note 8 in PPL's and PPL Energy Supply's 2012 Form 10-K for additional information.

Hydroelectric Expansion Project

In the first quarter of 2013, the 63 MW Rainbow hydroelectric redevelopment project in Great Falls, Montana was placed in service.

Regional Transmission Line Expansion Plan (*PPL and PPL Electric*)

Susquehanna-Roseland

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas Company (PSE&G) as the preferred alternative under the NPS's National Environmental Policy Act review. In October 2012, a complaint was filed in the U.S. District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation. PPL Electric and PSE&G intervened in the lawsuit. In December 2012, PPL Electric received federal construction and right of way permits to build on National Park Service lands.

On August 19, 2013, the environmental groups filed a petition for injunctive relief seeking to prohibit all construction activities until the court issued a final decision on the complaint. On August 30, 2013, the District Court ruled in favor of PPL Electric, PSE&G and the U.S. Government and dismissed the lawsuit filed by the environmental groups. The environmental groups have publicly stated that they do not intend to appeal the District Court decision. PPL Electric began construction on the National Park Service lands in Pennsylvania on October 1, 2013.

Construction activities have been underway on other portions of the 101-mile route in Pennsylvania since 2012. The line is expected to be completed before the peak summer demand period of 2015. At September 30, 2013, PPL Electric's estimated share of the project cost was \$630 million.

PPL and PPL Electric cannot predict any future legal challenges to the project or what additional actions, if any, PJM might take in the event of a further delay to the scheduled in-service date for the new line.

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line that includes three new substations and upgrades to adjacent facilities). The FERC granted the incentive for inclusion in rate base of all prudently incurred construction work in progress (CWIP) costs but denied the incentive for a 100 basis point adder to the return on equity. The order required a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project, which PPL Electric submitted to the FERC in March 2013 and the FERC subsequently approved in April 2013.

In December 2012, PPL Electric submitted an application to the PUC requesting permission to site and construct the project. A number of parties have protested the application, which has been assigned to an Administrative Law Judge (ALJ). Evidentiary hearings were held in July 2013. In October 2013, the ALJ concluded that PPL met its burden on all issues, and recommended that the PUC approve the siting application, two zoning petitions, and the remaining eminent domain applications. A final PUC order is expected in the first quarter of 2014. PPL Electric expects the project to be completed in 2017. At September 30, 2013, PPL Electric's estimated cost of the project was \$335 million, an increase from its original estimate of \$200 million at December 31, 2012. The increased cost is primarily related to higher material and labor costs and additional scope due to revised construction standards. Of the total estimated cost, \$308 million qualifies for the CWIP treatment.

See Note 8 in PPL's and PPL Electric's 2012 Form 10-K for additional information.

Other (PPL and PPL Energy Supply)

Montana Transactions

In September 2013, PPL Montana executed a definitive agreement to sell 633 MW of hydroelectric facilities to NorthWestern for \$900 million in cash, subject to certain adjustments. The sale, which is not expected to close before the second half of 2014, includes 11 hydroelectric power facilities and related assets. The sale is subject to closing conditions, including receipt of regulatory approvals by the FERC and Montana Public Service Commission and certain third-party consents. Due to the uncertainties related to certain of these conditions as of September 30, 2013, the sale did not meet the applicable accounting criteria for the assets and liabilities included in the transaction to be classified as held for sale on the Balance Sheet.

In a related transaction, in September 2013, PPL Montana negotiated and entered into an agreement to pay \$271 million to terminate a sale-leaseback arrangement and reacquire its interests in the Colstrip coal-fired facilities. See Note 11 in PPL's and PPL Energy Supply's 2012 Form 10-K for additional information on the sale-leaseback. This transaction is anticipated to occur by the end of the first quarter of 2014, subject to approval by the FERC. At lease termination, in addition to recording a charge for the cash payment, a non-cash charge is expected to be recorded related to the existing lease-related assets on PPL's and PPL Energy Supply's Balance Sheets. The book value of these assets was approximately \$450 million at September 30, 2013. These lease-related assets will be written-off and the reacquired Colstrip assets will be recorded at fair value as of the acquisition date. The total loss is currently estimated at between \$310 million and \$430 million, after-tax, which is dependent on the fair value assigned to the reacquired Colstrip assets.

Lower Mt. Bethel Plant Transaction

In December 2001, a subsidiary of PPL Energy Supply entered into an operating lease arrangement, as lessee, for the development, construction and operation of the Lower Mt. Bethel plant. The owner/lessor of the Lower Mt. Bethel plant was determined to be a VIE and has been consolidated in PPL's and PPL Energy Supply's financial statements since December 31, 2003. See Note 22 in PPL's and PPL Energy Supply's 2012 Form 10-K for additional information on the VIE. A subsidiary of PPL Energy Supply now intends to purchase the Lower Mt. Bethel plant for \$455 million at the lease termination date in December 2013, subject to approval by the FERC. The proceeds are expected to be used by the VIE to repay outstanding debt and make a distribution to its equity investors (currently presented as noncontrolling interests in PPL's and PPL Energy Supply's financial statements). The transaction will not result in any gain or loss as it will be treated as a

transfer of assets between entities under common control and will not result in any change to the presentation of the Lower Mt. Bethel plant assets as they are currently included in PPL's and PPL Energy Supply's consolidated financial statements.

9. Defined Benefits

(All Registrants except PPL Electric and KU)

Certain net periodic defined benefit costs are applied to accounts that are further distributed between capital and expense, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL, PPL Energy Supply, LKE and LG&E for the periods ended September 30:

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2013	2012	2013	2012	2013	2012	2013	2012
PPL								
Service cost	\$ 31	\$ 25	\$ 18	\$ 13	\$ 94	\$ 77	\$ 52	\$ 40
Interest cost	53	55	79	85	160	165	238	254
Expected return on plan assets	(73)	(65)	(115)	(115)	(220)	(195)	(346)	(340)
Amortization of:								
Prior service cost	6	6		1	17	18		3
Actuarial (gain) loss	20	11	37	19	60	32	112	59
Net periodic defined benefit costs (credits)	\$ 37	\$ 32	\$ 19	\$ 3	\$ 111	\$ 97	\$ 56	\$ 16

	Pension Benefits			
	Three Months		Nine Months	
	2013	2012	2013	2012
	PPL Energy Supply			
Service cost	\$ 1	\$ 1	\$ 5	\$ 4
Interest cost	2	2	6	6
Expected return on plan assets	(2)	(2)	(7)	(7)
Amortization of:				
Actuarial (gain) loss	1	1	2	2
Net periodic defined benefit costs (credits)	\$ 2	\$ 2	\$ 6	\$ 5

LKE				
Service cost	\$ 6	\$ 5	\$ 19	\$ 16
Interest cost	16	16	47	48
Expected return on plan assets	(20)	(17)	(61)	(52)
Amortization of:				
Prior service cost	1	2	3	4
Actuarial (gain) loss	8	5	25	16
Net periodic defined benefit costs (credits)	\$ 11	\$ 11	\$ 33	\$ 32

LG&E				
Service cost	\$ 1	\$ 2	\$ 1	\$ 1
Interest cost	3	4	10	11
Expected return on plan assets	(5)	(5)	(15)	(14)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial (gain) loss	3	3	10	8
Net periodic defined benefit costs (credits)	\$ 3	\$ 3	\$ 9	\$ 8

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2013	2012	2013	2012
	PPL			
Service cost	\$ 4	\$ 3	\$ 11	\$ 9
Interest cost	7	7	21	23
Expected return on plan assets	(6)	(6)	(18)	(17)
Amortization of:				
Transition obligation				1
Prior service cost		1		1
Actuarial (gain) loss	1	1	4	3
Net periodic defined benefit costs (credits)	\$ 6	\$ 6	\$ 18	\$ 20

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2013	2012	2013	2012
LKE				
Service cost	\$ 2	\$ 1	\$ 4	\$ 3
Interest cost	2	3	6	7
Expected return on plan assets	(2)	(1)	(4)	(3)
Amortization of:				
Transition obligation				1
Prior service cost	1		2	2
Actuarial (gain) loss				(1)
Net periodic defined benefit costs (credits)	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 8</u>	<u>\$ 9</u>

(All Registrants except PPL)

In addition to the specific defined benefit plans they sponsor, PPL Energy Supply subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services and LG&E is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. PPL Electric and KU do not independently sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. For the periods ended September 30, PPL Services allocated the following net periodic defined benefit costs to PPL Energy Supply subsidiaries and PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU.

	Three Months		Nine Months	
	2013	2012	2013	2012
PPL Energy Supply	\$ 11	\$ 10	\$ 34	\$ 29
PPL Electric	9	8	27	23
LG&E	3	3	9	9
KU	4	4	13	13

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL and PPL Energy Supply)

PPL Energy Supply enters into long-term purchase contracts to supply the coal requirements for its coal-fired generating facilities. These contracts include commitments to purchase coal through 2019. In 2012, as a result of lower electricity and natural gas prices, coal unit utilization began to decrease. To mitigate the risk of exceeding available coal storage, PPL Energy Supply incurred pre-tax charges of \$17 million and \$29 million during the three and nine months ended September 30, 2012 to reduce its 2012 and 2013 contracted coal deliveries. These charges were recorded to "Fuel" on the Statement of Income.

(PPL and PPL Electric)

In May 2012, PPL Electric filed a plan with the PUC to purchase its electricity supply for default customers for the period June 2013 through May 2015. The PUC approved the plan in January 2013. The approved plan provides that PPL Electric procure this electricity through competitive solicitations twice each plan year beginning in April 2013. The solicitations will include layered short-term full-requirement products ranging from three months to 12 months for residential and small commercial and industrial PLR customers as well as a recurring 12 month spot market product for large commercial and industrial PLR customers. Through October 2013, two of four solicitations have been completed.

(PPL Electric)

See Note 11 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification (PPL and LKE)

See footnote (1) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(PPL and PPL Energy Supply)

Sierra Club Litigation

In July 2012, PPL Montana received a Notice of Intent to Sue (Notice) for violations of the Clean Air Act at Colstrip Steam Electric Station (Colstrip) from counsel on behalf of the Sierra Club and the Montana Environmental Information Center (MEIC). An Amended Notice was received on September 4, 2012, and a Second Amended Notice was received in October 2012. A Supplemental Notice was received in December 2012. The Notice, Amended Notice, Second Amended Notice and Supplemental Notice (the Notices) were all addressed to the Owner or Managing Agent of Colstrip, and to the other Colstrip co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, Northwestern Energy and PacificCorp. The Notices allege certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements.

On March 6, 2013, the Sierra Club and MEIC filed a complaint against PPL Montana and the other Colstrip co-owners in the U.S. District Court, District of Montana, Billings Division. PPL Montana operates Colstrip on behalf of the co-owners. The complaint is generally consistent with the prior Notices and lists 39 separate claims for relief. All but three of the claims allege Prevention of Significant Deterioration (PSD) related violations under the federal Clean Air Act for various plant maintenance projects completed since 1992. For each such project or set of projects, there are separate claims for failure to obtain a PSD permit, for failure to obtain a Montana Air Quality Permit to operate after the project(s) were completed and for operating after completion of such project(s) without "Best Available Control Technology". The remaining three claims relate to the alleged failure to update the Title V operating permit for Colstrip to reflect the alleged major modifications described in the other claims, allege that the previous Title V compliance certifications were incomplete because they did not address the major plant modifications, and that numerous opacity violations have occurred at the plant since 2007. The complaint requests injunctive relief and civil penalties on average of \$36,000 per day per violation, including a request that the owners remediate environmental damage and that \$100,000 of the civil penalties be used for beneficial mitigation projects. Trial in this matter as to liability has been scheduled for October 2014. Trial as to remedies, if there is a finding of liability, is scheduled for August 2015.

On July 27, 2013, the Sierra Club and MEIC filed an additional Notice, identifying additional plant projects that are alleged not to be in compliance with the Clean Air Act. On September 27, 2013, the plaintiffs filed an amended complaint. This amended complaint drops all claims regarding pre-2001 plant projects, as well as the plaintiffs' Title V and opacity claims. It does, however, add claims with respect to a number of post-2000 plant projects, which effectively increased the number of projects subject to the litigation by about 40. PPL Montana and the other Colstrip Owners filed a motion to dismiss the amended complaint on October 11, 2013. Although PPL Montana believes it and the other co-owners have numerous defenses to the allegations set forth in this complaint and will vigorously assert the same, PPL Montana cannot predict the ultimate outcome of this matter at this time.

Regulatory Issues

(All Registrants)

See Note 6 for information on regulatory matters related to utility rate regulation. See Note 15 to the Registrants' 2012 Form 10-K for a discussion of Enactment of Financial Reform Legislation.

(PPL, PPL Energy Supply and PPL Electric)

New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as the generation that may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. Several parties have filed appeals of the FERC's order. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution and requesting declaratory and injunctive relief barring implementation of the Act by the BPU Commissioners. In October 2011, the court denied the BPU's motion to dismiss the proceeding and in September 2012 the U.S. District Court denied all summary judgment motions. Trial of this matter was completed in June 2013. In October 2013, the U.S. District Court in New Jersey issued a decision finding the Act unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision has been appealed to the U.S. Court of Appeals for the Third Circuit by CPV Power Development, Inc. and is expected to be appealed by the State of New Jersey. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electric generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution and requested declaratory and injunctive relief barring implementation of the order by the MD PSC Commissioners. In August 2012, the court denied the MD PSC and CPV Maryland, LLC motions to dismiss the proceeding. Trial of this matter was completed in March 2013. In September 2013, the U.S. District Court in Maryland issued a decision finding the MD PSC order unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision is expected to be appealed to the U.S. Court of Appeals for the Fourth Circuit. PPL, PPL Energy Supply, and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Pacific Northwest Markets (PPL and PPL Energy Supply)

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to

consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence. In July 2012, PPL Montana and the City of Tacoma, one of the two parties claiming refunds at FERC, reached a settlement whereby PPL Montana paid \$75 thousand to resolve the City of Tacoma's \$23 million claim. The settlement does not resolve the remaining claim outstanding at September 30, 2013 by the City of Seattle for approximately \$50 million. In April 2013, the FERC issued an order on reconsideration allowing the parties to seek refunds for the period January 2000 through December 2000. As a result, the City of Seattle may be able to seek refunds from PPL Montana for such period. Hearings before a FERC Administrative Law Judge regarding the City of Seattle's refund claims were completed in October 2013. A briefing schedule has been set and an initial decision is expected in mid-March 2014.

Although PPL and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

Electric - Reliability Standards (All Registrants)

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards. The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In October 2012, the FERC issued a Notice of Proposed Rulemaking (NOPR) concerning Reliability Standards for geomagnetic disturbances (GMDs). The FERC proposed to direct the NERC to submit for approval Reliability Standards that address the impact of GMDs on the reliable operation of the bulk-power system. In May 2013, the FERC issued its Final Rule, Order No. 779, which directs the NERC to submit GMD Reliability Standards to the FERC for approval in two stages. In the first stage, the NERC must submit one or more Reliability Standards by January 22, 2014 that require owners and operators of the bulk-power system to develop and implement operational procedures to mitigate the effects of GMDs on the bulk-power system. In the second stage, the NERC must submit one or more Reliability Standards by January 22, 2015 that require owners and operators of bulk-power system facilities to assess yet to be determined "benchmark GMD events" and develop and implement plans to protect the bulk-power system from such GMD events. The Registrants are unable to predict the specific requirements that will be contained in the Reliability Standards that the NERC has been directed to submit or the amount of any expenditures that may be required as a result of the approval of any such Reliability Standards.

Environmental Matters - Domestic

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act as amended and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants,

its exposure to related environmental compliance costs is reduced. As PPL Energy Supply is not a rate regulated entity, it cannot seek to recover environmental compliance costs through the mechanism of rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

(All Registrants except PPL Electric)

Air

CSAPR (formerly Clean Air Transport Rule) and CAIR

In July 2011, the EPA adopted the CSAPR. The CSAPR replaced the EPA's previous CAIR which was invalidated in July 2008 by the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court). CAIR subsequently was effectively reinstated by the D.C. Circuit Court in December 2008, pending finalization of the CSAPR. Like CAIR, CSAPR targeted sources in the eastern U.S. and required reductions in sulfur dioxide and nitrogen oxides in two phases (2012 and 2014).

In December 2011, the D.C. Circuit Court stayed implementation of the CSAPR and left CAIR in effect pending a final decision on the validity of the rule. In August 2012, the D.C. Circuit Court issued a ruling invalidating CSAPR, remanding the rule to the EPA for further action, and leaving CAIR in place during the interim. In June 2013, the U.S. Supreme Court granted the EPA's petition for review of the D.C. Circuit Court's August 2012 decision. Oral argument before the U.S. Supreme Court has been scheduled for December 2013. Prior to a revised rule from the EPA, coal-fired generating plants could face tighter nitrous oxide emission limitations through state action.

The Kentucky fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements by utilizing sulfur dioxide allowances (including banked allowances and optimizing existing controls). To meet nitrogen oxide standards under the CAIR, the Kentucky companies will need to buy allowances and/or make operational changes. LG&E and KU do not currently anticipate that the costs of meeting these reinstated CAIR requirements or standards will be significant.

PPL Energy Supply's Pennsylvania fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet the CAIR nitrogen oxide standards, PPL Energy Supply will need to buy allowances and/or make operational changes, the costs of which are not anticipated to be significant.

National Ambient Air Quality Standards

PPL fossil-fueled generating plants may face further reductions in emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates.

In 2010, the EPA finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Yellowstone County in Montana (Billings area), including the Corette plant and its immediate vicinity, and part of Jefferson County in Kentucky. Attainment must be achieved by 2018. States are working on designations for other areas.

In December 2012, the EPA issued final rules that strengthen the fine particulate standards. Under the final rules, states and the EPA have until 2015 to identify non-attainment areas, and states have until 2020 to achieve attainment status for those areas.

PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR, or the MATS, or the Regional Haze requirements (as discussed below), such as upgraded or new sulfur dioxide scrubbers at certain plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment as noted above is not expected to be significant, as PPL Energy Supply previously announced its intent to place the plant in long-term reserve status beginning in April 2015 (see "MATS" below). The longer-term impact will depend on the status of plant operations at that time and what the MDEQ requires in its State Implementation Plan for reestablishing attainment, due in January 2015.

Until particulate matter and sulfur dioxide maintenance and compliance plans are developed by the EPA and state or local agencies, including identification and finalization of attainment designations for particulate matter, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the impact of the new standards.

MATS

In May 2011, the EPA published a proposed regulation requiring stringent reductions of mercury and other hazardous air pollutants from power plants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 2012. The rule is being challenged by industry groups and states in the D.C. Circuit Court, where oral argument is scheduled for December 2013. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. PPL has received two extensions in Kentucky and has requested an extension for one plant in Pennsylvania. Other extension requests are under consideration.

At the time the MATS rule was proposed, LG&E and KU filed requests with the KPSC for environmental cost recovery based on their expected need to install environmental controls, including chemical additive and fabric-filter baghouses to remove certain air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. LG&E's and KU's anticipated retirement of certain coal-fired electricity generating units is in response to this and other environmental regulations. LG&E and KU are continuing to assess whether any revisions of their approved compliance plans will be necessary.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that installation of chemical additive systems may be necessary at certain coal-fired plants, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact of MATS on operating costs. With respect to PPL Energy Supply's Montana plants, modifications to the air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. For the Corette plant, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant asset group's carrying amount at September 30, 2013 was \$67 million. Although the Corette plant asset group was not determined to be impaired at September 30, 2013, it is reasonably possible that an impairment could occur in future periods, as the Company continues to assess its plans for Corette and as higher priced sales contracts settle, adversely impacting projected cash flows. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below.

Upon reconsideration of the MATS rule, in March 2013 the EPA revised certain emission limits and related requirements for new power plants. The revised limits are somewhat less onerous than the original proposal, and thereby pose less of an impediment to the construction of new coal-fired power plants.

Regional Haze and Visibility

The EPA's regional haze programs were developed under the Clean Air Act to eliminate man-made visibility degradation by 2064. Under the programs, states are required to take action via state plans to make reasonable progress every decade, including the application of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977.

The primary power plant emissions affecting visibility are sulfur dioxide, nitrogen oxide and particulates. To date, the focus of regional haze activity has been the western U.S. because, until recently, BART requirements for sulfur dioxide and nitrogen oxide reductions in the eastern U.S. were largely addressed through compliance with other regulatory programs, such as CSAPR or CAIR. More specifically, before CAIR was temporarily invalidated in 2008, the EPA had determined, and the D.C. Circuit Court had affirmed, that a state could accept region-wide reductions under the CAIR trading program to satisfy BART requirements. After CAIR was temporarily invalidated, the EPA adopted a final rule providing that states subject to CSAPR (which replaced CAIR) may rely on participation in the CSAPR trading program as an alternative to BART. However, the D.C. Circuit Court's August 2012 decision to vacate and remand CSAPR and to implement CAIR in its place on an interim basis leaves power plants located in the eastern U.S., including PPL's plants in Pennsylvania and Kentucky, exposed to reductions in sulfur dioxide and nitrogen oxides as required by BART, unless the D.C. Circuit Court's decision, now pending before the U.S. Supreme Court, is overturned.

In addition to this exposure stemming from the remand of CSAPR, LG&E's Mill Creek Units 3 and 4 are required to reduce sulfuric acid mist emissions because they were determined to have a significant regional haze impact. These reductions are in the Kentucky Division of Air Quality's regional haze state implementation plan that was submitted to the EPA. LG&E is

currently installing sorbent injection technology to comply with these reductions, the costs of which are not expected to be significant.

In Montana, the EPA Region 8 developed the regional haze plan as the MDEQ declined to develop a BART state implementation plan. In September 2012, the EPA issued its final Federal Implementation Plan (FIP) for the Montana regional haze rule. The final FIP assumed no additional controls for Corette or Colstrip Units 3 and 4, but proposed tighter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply expects to meet these tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" above). Under the final FIP, Colstrip Units 1 and 2 may require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxide and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. In November 2012, PPL filed a petition for review of the Montana Regional Haze FIP with the U.S. Court of Appeals for the Ninth Circuit. Environmental groups have also filed a petition for review. The two matters have been consolidated, and litigation is on-going.

New Source Review (NSR)

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL, PPL Energy Supply and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during a Spring 2012 maintenance outage at Colstrip Unit 1. In September 2012, PPL Montana received an information request from the Montana Department of Environmental Quality regarding Colstrip Unit 1 and other projects. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received an EPA notice alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent plant without assessing potential increased sulfuric acid mist emissions. KU contends that the projects in question were pollution control projects, and therefore exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request on this matter. In September 2012, the parties reached a tentative settlement addressing the Ghent NSR matter that seeks to resolve a September 2007 notice of violation alleging opacity violations at the plant. The parties subsequently entered into a consent decree which was approved by the court on September 11, 2013. The consent decree requires the incurrence of non-material costs that have already been accrued.

In August 2007, LG&E received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. See "Legal Matters" above for information on a lawsuit filed by environmental groups in March 2013 against PPL Montana and other owners of Colstrip.

If PPL subsidiaries are found to have violated NSR regulations, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

TC2 Air Permit (PPL and Kentucky Registrants)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which in January 2010 were incorporated into a final revised permit issued by the KDAQ. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the capital costs of this project, if any.

Cane Run Environmental Claims (PPL, LKE and LG&E)

On September 6, 2013, PPL, LKE and LG&E received a letter on behalf of two residents adjacent to the Cane Run plant notifying various federal, state, and local agencies of their intent to file a citizen suit for alleged violations of the Clean Air Act and Resource Conservation and Recovery Act. The claimants allege various environmental harms including an imminent and substantial endangerment to health or the environment and state that they will seek civil penalties, injunctive relief and attorneys' fees. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on operations of the Cane Run plant. In the 2011 to 2013 time period, the Louisville Metro Air Pollution Control District issued several notices of violation alleging violations of local air quality rules at the Cane Run plant. The agency is seeking civil penalties and remedial measures which are not expected to result in the incurrence of material costs. LG&E is currently in settlement negotiations with the agency. LG&E has previously announced that it anticipates retiring the coal-fired units at Cane Run before the end of 2015.

(All Registrants)

GHG Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that applied beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. As a result, any new sources or major modifications to existing GHG sources causing a net significant emissions increase now require adherence to the BACT permit limits for GHGs. The rules were challenged, and in June 2012 the D.C. Circuit Court upheld the EPA's regulations. In December 2012, the D.C. Circuit Court denied petitions for rehearing pertaining to its June 2012 opinion. On October 15, 2013, the U.S. Supreme Court granted certiorari for several petitions to decide whether the NSR provisions of the Clean Air Act require the EPA to regulate GHG emissions from stationary sources, such as power plants.

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum the EPA was directed to issue a new proposal for new power plants by September 20, 2013, with a final rule in a timely fashion thereafter, and to issue proposed standards for existing plants by June 1, 2014 with a final rule to be issued by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016. Regulation of existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and the state implementation plans. The Administration's recent increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may also lead to more costly regulatory requirements. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect PPL and others in the industry as transmission system modifications to improve the ability to withstand major storms may be needed in order to meet those requirements.

The EPA issued its revised proposal (re-proposal) for new sources on September 20, 2013 as directed by the White House. Unlike the EPA's April 2012 Carbon Dioxide (CO₂) New Source Performance Standards (NSPS) for new plants, the re-proposal established separate emission standards for coal and gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because there is no commercially viable CO₂ reduction technology available presently to allow new coal plants to meet the proposed standards, this proposal effectively precludes the construction of new coal plants. The EPA proposed the same standard for natural gas combined-cycle power plants as it had proposed in April 2012. A slightly less stringent standard, however, was offered in the re-proposal for smaller gas plants. Simple cycle natural gas plants are no longer explicitly exempt from the standard under the EPA's re-proposal.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction, by 2019, in carbon dioxide emissions from base levels.

Pennsylvania has not stated an intention to join the RGGI, but enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report and identified specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. To date, the state has not issued a final plan. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained claims brought on the basis of these theories of liability, the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the Second Circuit and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in *Comer v. Murphy Oil* (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal district court granted defendants' motions to dismiss the state common law claims. Plaintiffs appealed to the U.S. Court of Appeals for the Fifth Circuit and in May 2013 the Fifth Circuit affirmed the district court's dismissal of the case. Additional litigation in federal and state courts over such issues is continuing. PPL, LKE and KU cannot predict the outcome of these lawsuits or estimate a range of reasonably possible losses, if any.

Renewable Energy Legislation (All Registrants)

There has been interest in renewable energy legislation at both the state and federal levels. Federal legislation on renewable energy is not expected to be enacted this year. In Pennsylvania, bills were recently introduced calling for an increase in AEPS Tier 1 obligations and to create a \$25 million permanent funding program for solar generation. A bill adding new hydropower to Montana's renewable portfolio standard was enacted with an effective date of October 1, 2013. An interim legislative committee in Montana is reviewing the state's RPS. PPL and PPL Energy Supply cannot predict at this time whether the committee will recommend any changes to existing laws.

The Registrants believe there are financial, regulatory and logistical uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their competitive plants' future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (All Registrants except PPL Electric)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. Regulating CCRs as a hazardous waste under Subtitle C of the RCRA would materially increase costs and result in early retirements of many coal-fired plants, as it would require plants to retrofit their operations to comply

with full hazardous waste requirements for the generation of CCRs and associated waste waters through generation, transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The EPA's proposed approach to regulate CCRs as non-hazardous waste under Subtitle D of the RCRA would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the EPA's proposed non-hazardous waste regulations, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented or is implementing certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) requesting comments on selected documents it received during the comment period for the proposed regulations. On September 20, 2013, in response to the proposed Effluent Limitation Guidelines, PPL submitted comments on the proposed CCR regulations. Also, on September 3, 2013, PPL commented on a second CCR NODA seeking comment on additional information related to the EPA's proposal. In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from issuing final CCR regulations and would set non-hazardous CCR standards under RCRA and authorize state permit programs. It remains uncertain whether similar legislation will likely be passed by the U.S. Senate.

A coalition of environmental groups and two CCR recycling companies have filed lawsuits against the EPA for failure to perform nondiscretionary duties under RCRA, which could require a deadline for the EPA to issue strict CCR regulations. The two CCR recycling companies are asserting that the EPA should regulate CCRs as a non-hazardous waste that would allow for continued recycling.

As a result of litigation by environmental groups, final rulemaking could be issued as early as the end of 2014.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the financial and operational impact is expected to be material if CCRs are regulated as hazardous waste and significant if regulated as non-hazardous.

Trimble County Landfill Permit (PPL and Kentucky Registrants)

In May 2011, LG&E submitted an application for a special waste landfill permit to handle coal combustion residuals generated at the Trimble County plant. After extensive review of the permit application in May 2013, the Kentucky Division of Waste Management denied the permit application on the grounds that the proposed facility would violate the Kentucky Cave Protection Act because it would eliminate an on-site karst feature considered to be a cave. LG&E and KU are assessing additional options for managing coal combustion residuals including construction of a landfill at an alternate site adjacent to the plant. Submittal of a new permit application for an alternative site may result in additional environmental considerations in the course of the permitting process and substantial additional costs. PPL, LKE, LG&E and KU are unable to determine the precise impact of this matter until they select an alternate management option and complete a detailed engineering design.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(All Registrants except PPL Electric)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to implement assessment or abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage due to seepage from plant wastewater ponds. A settlement agreement was reached in July 2010 which would have resulted in a payment by PPL Montana, but certain of the plaintiffs later argued the settlement was not final. The Colstrip plant owners filed a motion to enforce the settlement and in October 2011 the court granted the motion and ordered the settlement to be completed in 60 days. The plaintiffs appealed the October 2011 order to the Montana Supreme Court, which affirmed the district court's order enforcing the settlement in December 2012 and denied plaintiff's motion for rehearing in February 2013. Final settlement documents were executed and the settlement was effective on October 28, 2013. PPL Montana's share of the settlement payment was not significant.

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years, PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER) on behalf of the Sierra Club, the MEIC, and the National Wildlife Federation (NWF). In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County.

In late October 2012, Earthjustice filed a second complaint against the MDEQ and PPL Montana in state district court in Lewis and Clark County on behalf of the Sierra Club, the MEIC and the NWF. This complaint alleges that the defendants have failed to take action under the MFSA and the Montana Water Quality Act to effectively monitor and correct issues of coal ash disposal and wastewater ponds at the Colstrip plant. The complaint seeks a declaration that the operations of the impoundments violate the statutes referred to above, requests a writ of mandamus directing the MDEQ to enforce the same and seeks recovery of attorneys' fees and costs. In May 2013, the court granted MDEQ's and PPL Montana's motion to dismiss. It is unknown at this time whether the complainants will appeal this decision.

(All Registrants except PPL Electric)

Clean Water Act 316(b)

The EPA published proposed rule 316(b) for existing facilities in April 2011. The EPA has been evaluating the comments it received to the proposed rule and meeting with industry groups to discuss options. The proposed rule contains two requirements to reduce impact to aquatic organisms at cooling water intake structures. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens (impingement) regardless of the levels of mortality actually occurring or the cost to achieve the standards. The second requirement is to determine and install the best technology available to reduce mortality of aquatic organisms pulled through a plant's cooling water system (entrainment). A form of cost-benefit analysis is allowed for this second requirement involving a site-specific evaluation based on nine factors, including impacts to energy delivery reliability and the remaining useful life of the plant. The final rule is expected to be issued in November 2013. Until the final rule is issued, PPL, PPL Energy Supply, LKE, LG&E and KU cannot reasonably estimate a range of reasonably possible costs, if any, that would be required to comply with such a regulation.

Effluent Limitations Guidelines (ELGs) and Standards

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations contain requirements that would affect the inspection and operation of CCR facilities, if finalized. The EPA has indicated that it will coordinate these regulations with the regulation of CCRs discussed above. The proposal contains alternative approaches, some of which could significantly impact PPL's coal-fired plants. PPL, PPL Energy Supply, LKE, LG&E and KU worked with industry groups to comment on the proposed regulation on September 20, 2013. The final regulation is expected to be issued in May 2014. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are currently unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant. Pending finalization of the ELGs, states, including Pennsylvania and Kentucky, are proposing more stringent

technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines.

Other Issues

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. The EPA is planning to propose the revised regulations in 2014. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

PPL Energy Supply has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant, but the subsidiary and the PADEP have concluded that a barrier method to exclude fish is not workable. In June 2012, a Consent Order and Agreement (COA) was signed that allows the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. Should this approach fail, the COA requires a retrofit of impingement control technology at the intakes to the cooling towers, the cost of which could be significant.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. In September 2013, the court reversed the Cabinet order upholding the permit and remanded the permit to the agency for further proceedings. In October 2013, LG&E filed a notice of appeal with the Kentucky Court of Appeals. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

The EPA and the Army Corps of Engineers are working on a guidance document that will expand the federal government's interpretation of what constitutes "waters of the U.S." subject to regulation under the Clean Water Act. This change has the potential to affect generation and delivery operations, with the most significant effect being the potential elimination of the existing regulatory exemption for plant waste water treatment systems. The costs that may be imposed on the Registrants as a result of any eventual expansion of this interpretation cannot reliably be estimated at this time but could be significant.

Superfund and Other Remediation (All Registrants)

PPL Electric is potentially responsible for costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase substantially more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL Energy Supply, PPL Electric, LG&E and KU undertake remedial action in response to spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on their operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for the Registrants.

Environmental Matters - WPD (PPL)

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

Other

Nuclear Insurance (PPL and PPL Energy Supply)

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Effective April 1, 2013, facilities at the Susquehanna plant are insured against property damage losses up to \$2.50 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. Effective April 1, 2013, this maximum assessment was \$46 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to \$12.6 billion under provisions of The Price-Anderson Act as amended. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act, as amended, PPL Susquehanna could be assessed up to \$235 million per incident, payable at \$35 million per year.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided at September 30, 2013. The total recorded liability at September 30, 2013 and December 31, 2012, was \$23 million and \$24 million for PPL and \$20 million for both periods for LKE. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at September 30, 2013 (a)	Expiration Date
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(b)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 11 (c)	2018
WPD guarantee of pension and other obligations of unconsolidated entities	125 (d)	2015
<u>PPL Energy Supply</u>		
Letters of credit issued on behalf of affiliates	23 (e)	2013 - 2014
Retrospective premiums under nuclear insurance programs	46 (f)	
Nuclear claims assessment under The Price-Anderson Act as amended	235 (g)	
Indemnifications for sales of assets	250 (h)	2025
Indemnification to operators of jointly owned facilities	6 (i)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (j)	2018
<u>PPL Electric</u>		
Guarantee of inventory value	32 (k)	2017
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301 (l)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(m)	

- (a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.
- (b) Prior to PPL's acquisition, WPD Midlands Holdings Limited had agreed to indemnify certain former directors of a Turkish entity, in which WPD Midlands Holdings Limited previously owned an interest, for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (c) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (d) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At September 30, 2013, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.
- (e) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.
- (f) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance" above for additional information.
- (g) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance" above for additional information.
- (h) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits. The indemnification provisions described below are in each case subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions for most representations and warranties expired in the third quarter of 2011.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification provisions for most representations and warranties expired in the fourth quarter of 2012.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions for most representations and warranties expired in the first quarter of 2012.

- (i) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating plants. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating plants, based upon their ownership percentages. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The exposure shown reflects the PPL Energy Supply subsidiary's share of the maximum obligation. The agreements do not have an expiration date.
- (j) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser, secured by a lien on the purchaser's stock of Safe Harbor, in the event PPL Energy Supply is required to make a payment under the guarantee. The exposure noted reflects principal only.
- (k) PPL Electric entered into contracts with a third party logistics firm that provides inventory procurement and fulfillment services. Under the contracts, the logistics firm has title to the inventory purchased for PPL Electric's use. Upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold by the logistics firm at the weighted-average cost at which the logistics firm purchased the inventory.
- (l) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing the December 2012 order of the Henderson Circuit Court, confirming the arbitration award. A decision in the appellate matter may occur during late 2013 or early 2014. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. In the second quarter of 2012, LKE adjusted its estimated liability for certain of these indemnifications by \$9 million (\$5 million after-tax), which is reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income. The adjustment was recorded in the Kentucky Regulated segment for PPL. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.
- (m) Pursuant to the OVEC power purchase contract, expiring in June 2040, LG&E and KU are obligated to pay a demand charge which includes, among other charges, debt service and amortization toward principal retirement, decommissioning costs, post-retirement and post-employment benefits costs (other than pensions), and reimbursement of plant operating, maintenance and other expenses. The demand charge is expected to cover LG&E's and KU's shares of the cost of the listed items over the term of the contract. However, in the event there is a shortfall in covering these costs, LG&E and KU are obligated to pay their share of the excess debt service, post-retirement and decommissioning costs. The maximum exposure and the expiration date of these potential obligations are not presently determinable.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable (*PPL Energy Supply and PPL Electric*)

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. The sales and purchases between PPL EnergyPlus and PPL Electric are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Default Service Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered; and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, PPL EnergyPlus' credit limit was \$35 million at September 30, 2013. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At September 30, 2013, PPL Energy Supply had a net credit exposure of \$25 million from PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Allocations of PPL Services Costs (PPL Energy Supply, PPL Electric and LKE)

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of such services when they can be specifically identified. The cost of the services that is not directly charged to PPL subsidiaries is allocated to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services charged the following amounts for the periods ended September 30, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense:

	Three Months		Nine Months	
	2013	2012	2013	2012
PPL Energy Supply	\$ 52	\$ 49	\$ 161	\$ 159
PPL Electric	37	35	109	116
LKE	3	3	11	11

Intercompany Billings by LKS (LG&E and KU)

LKS provides LG&E and KU with a variety of centralized administrative, management and support services. The cost of these services is directly charged to the company or, for general costs that cannot be directly attributed, charged based on predetermined allocation factors, including the following measures: number of customers, total assets, revenues, number of employees and/or other statistical information. LKS charged the amounts in the table below for the periods ended September 30, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense:

	Three Months		Nine Months	
	2013	2012	2013	2012
LG&E	\$ 53	\$ 51	\$ 159	\$ 132
KU	36	33	146	114

In addition, LG&E and KU provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and LKE and KU are reimbursed through LKS.

Intercompany Borrowings (LKE)

LKE maintains a \$300 million revolving demand note with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At September 30, 2013 and December 31, 2012, \$52 million and \$25 million were outstanding and were reflected in "Notes payable with affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at September 30, 2013 was 1.68%. Interest on the demand note was not significant for the three and nine months ended September 30, 2013 and 2012. In October 2013, the capacity of the revolving demand note was reduced by \$75 million.

Intercompany Derivatives (Kentucky Registrants)

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 14 for additional information on intercompany derivatives.

Intercompany Insurance (PPL Electric)

In May 2013, PPL Electric received \$18.25 million from the settlement of its 2012 storm insurance claims with PPL Power Insurance Ltd., a subsidiary of PPL that provides certain insurance coverage to PPL and its subsidiaries.

Effective January 1, 2013, PPL Electric no longer has storm insurance coverage with PPL Power Insurance Ltd. See Note 6 for discussion regarding the proposed Storm Damage Expense Rider filed with the PUC by PPL Electric.

Other (All Registrants except PPL)

See Note 7 for a discussion regarding capital transactions by PPL Energy Supply, PPL Electric, LKE, LG&E and KU. For PPL Energy Supply, PPL Electric, LG&E and KU, refer to Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

(All Registrants)

The breakdown of "Other Income (Expense) - net" for the periods ended September 30 was:

	Three Months		Nine Months	
	2013	2012	2013	2012
PPL				
Other Income				
Earnings on securities in NDT funds	\$ 4	\$ 5	\$ 14	\$ 17
Interest income	1	1	2	4
AFUDC - equity component	3	2	8	7
Earnings (losses) from equity method investments		(1)		(7)
Miscellaneous - Domestic		3	9	8
Miscellaneous - U.K.		(1)	1	1
Total Other Income	8	9	34	30
Other Expense				
Economic foreign currency exchange contracts (Note 14)	117	47	(6)	40
Charitable contributions	5	1	13	7
Miscellaneous - Domestic	2	4	7	12
Miscellaneous - U.K.		1	1	2
Total Other Expense	124	53	15	61
Other Income (Expense) - net	\$ (116)	\$ (44)	\$ 19	\$ (31)
PPL Energy Supply				
Other Income				
Earnings on securities in NDT funds	\$ 4	\$ 5	\$ 14	\$ 17
Interest income	1		3	1
Miscellaneous		2	7	5
Total Other Income	5	7	24	23
Other Expense				
Charitable contributions	1	1	3	2
Miscellaneous	2	1	3	5
Total Other Expense	3	2	6	7
Other Income (Expense) - net	\$ 2	\$ 5	\$ 18	\$ 16

"Other Income (Expense) - net" for the three and nine months ended September 30, 2013 and 2012 for PPL Electric is primarily the equity component of AFUDC. The components of "Other Income (Expense) - net" for the three and nine months ended September 30, 2013 for LKE, LG&E and KU are not significant. The components of "Other Income (Expense) - net" for the three months ended September 30, 2012 for LKE, LG&E and KU are not significant. "Other Income (Expense) - net" for the nine months ended September 30, 2012 for LKE and KU is primarily losses from an equity method investment. The components of "Other Income (Expense) - net" for the nine months ended September 30, 2012 for LG&E are not significant.

13. Fair Value Measurements and Credit Concentration

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and nine months ended September 30, 2013 and 2012, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2012 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	September 30, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 1,291	\$ 1,291			\$ 901	\$ 901		
Restricted cash and cash equivalents (a)	120	120			135	135		
Price risk management assets:								
Energy commodities	1,480	7	\$ 1,421	\$ 52	2,068	2	\$ 2,037	\$ 29
Interest rate swaps	86		86		15		15	
Foreign currency contracts	1		1					
Cross-currency swaps	28		28		14		13	1
Total price risk management assets	1,595	7	1,536	52	2,097	2	2,065	30
NDT funds:								
Cash and cash equivalents	14	14			11	11		
Equity securities								
U.S. large-cap	494	369	125		412	308	104	
U.S. mid/small-cap	74	30	44		60	25	35	
Debt securities								
U.S. Treasury	96	96			95	95		
U.S. government sponsored agency	6		6		9		9	
Municipality	75		75		82		82	
Investment-grade corporate	40		40		40		40	
Other	3		3		3		3	
Receivables (payables), net	2		2			(2)	2	
Total NDT funds	804	509	295		712	437	275	
Auction rate securities (b)	19			19	19		3	16
Total assets	\$ 3,829	\$ 1,927	\$ 1,831	\$ 71	\$ 3,864	\$ 1,475	\$ 2,343	\$ 46
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,235	\$ 4	\$ 1,226	\$ 5	\$ 1,566	\$ 2	\$ 1,557	\$ 7
Interest rate swaps	58		58		80		80	
Foreign currency contracts	67		67		44		44	
Cross-currency swaps	1		1		4		4	
Total price risk management liabilities	\$ 1,361	\$ 4	\$ 1,352	\$ 5	\$ 1,694	\$ 2	\$ 1,685	\$ 7

	September 30, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Energy Supply								
Assets								
Cash and cash equivalents	\$ 551	\$ 551			\$ 413	\$ 413		
Restricted cash and cash equivalents (a)	54	54			63	63		
Price risk management assets:								
Energy commodities	1,480	7	\$ 1,421	\$ 52	2,068	2	\$ 2,037	\$ 29
Total price risk management assets	1,480	7	1,421	52	2,068	2	2,037	29
NDT funds:								
Cash and cash equivalents	14	14			11	11		
Equity securities								
U.S. large-cap	494	369	125		412	308	104	
U.S. mid/small-cap	74	30	44		60	25	35	
Debt securities								
U.S. Treasury	96	96			95	95		
U.S. government sponsored agency	6		6		9		9	
Municipality	75		75		82		82	
Investment-grade corporate	40		40		40		40	
Other	3		3		3		3	
Receivables (payables), net	2		2			(2)	2	
Total NDT funds	804	509	295		712	437	275	
Auction rate securities (b)	16			16	16		3	13
Total assets	\$ 2,905	\$ 1,121	\$ 1,716	\$ 68	\$ 3,272	\$ 915	\$ 2,315	\$ 42

Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,235	\$ 4	\$ 1,226	\$ 5	\$ 1,566	\$ 2	\$ 1,557	\$ 7
Total price risk management liabilities	\$ 1,235	\$ 4	\$ 1,226	\$ 5	\$ 1,566	\$ 2	\$ 1,557	\$ 7

PPL Electric

Assets								
Cash and cash equivalents	\$ 225	\$ 225			\$ 140	\$ 140		
Restricted cash and cash equivalents (c)	12	12			13	13		
Total assets	\$ 237	\$ 237			\$ 153	\$ 153		

LKE

Assets								
Cash and cash equivalents	\$ 21	\$ 21			\$ 43	\$ 43		
Restricted cash and cash equivalents (d)	22	22			32	32		
Price risk management assets:								
Interest rate swaps					14		\$ 14	
Total price risk management assets					14		14	
Total assets	\$ 43	\$ 43			\$ 89	\$ 75	\$ 14	
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 55		\$ 55		\$ 58		\$ 58	
Total price risk management liabilities	\$ 55		\$ 55		\$ 58		\$ 58	

LG&E

Assets								
Cash and cash equivalents	\$ 12	\$ 12			\$ 22	\$ 22		
Restricted cash and cash equivalents (d)	22	22			32	32		
Price risk management assets:								
Interest rate swaps					7		\$ 7	
Total price risk management assets					7		7	
Total assets	\$ 34	\$ 34			\$ 61	\$ 54	\$ 7	
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 48		\$ 48		\$ 58		\$ 58	
Total price risk management liabilities	\$ 48		\$ 48		\$ 58		\$ 58	

	September 30, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
KU								
Assets								
Cash and cash equivalents	\$ 9	\$ 9			\$ 21	\$ 21		
Price risk management assets:								
Interest rate swaps					7		7	
Total price risk management assets					7		7	
Total assets	\$ 9	\$ 9			\$ 28	\$ 21	7	
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 7		\$ 7					
Total price risk management liabilities	\$ 7		\$ 7					

- (a) Current portion is included in "Restricted cash and cash equivalents" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Included in "Other noncurrent assets" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2013 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL								
Balance at beginning of period	\$ 40	\$ 19	\$ 3	\$ 62	\$ 22	\$ 16	\$ 1	\$ 39
Total realized/unrealized gains (losses)								
Included in earnings	18			18	23			23
Included in OCI (a)			(2)	(2)			1	1
Sales					(2)			(2)
Settlements	(2)			(2)	1			1
Transfers into Level 3	(7)			(7)	1	3	3	7
Transfers out of Level 3	(2)		(1)	(3)	2		(5)	(3)
Balance at end of period	\$ 47	\$ 19	\$	\$ 66	\$ 47	\$ 19	\$	\$ 66

PPL Energy Supply

Balance at beginning of period	\$ 40	\$ 16	\$ 56	\$ 22	\$ 13	\$	\$ 35
Total realized/unrealized gains (losses)							
Included in earnings	18			18	23		23
Sales					(2)		(2)
Settlements	(2)			(2)	1		1
Transfers into Level 3	(7)			(7)	1	3	4
Transfers out of Level 3	(2)			(2)	2		2
Balance at end of period	\$ 47	\$ 16	\$ 63	\$ 47	\$ 16	\$	\$ 63

- (a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2012 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL								
Balance at beginning of period	\$ 34	\$ 15	\$ 10	\$ 59	\$ 13	\$ 24	\$ 4	\$ 41
Total realized/unrealized gains (losses)								
Included in earnings	(17)			(17)	(1)		(1)	(2)
Included in OCI (a)		1	(8)	(7)	1		2	3
Sales						(5)		(5)
Settlements	2			2	(9)			(9)
Transfers into Level 3	(2)			(2)	12			12
Transfers out of Level 3	8			8	9	(3)	(3)	3
Balance at end of period	<u>\$ 25</u>	<u>\$ 16</u>	<u>\$ 2</u>	<u>\$ 43</u>	<u>\$ 25</u>	<u>\$ 16</u>	<u>\$ 2</u>	<u>\$ 43</u>

PPL Energy Supply

Balance at beginning of period	\$ 34	\$ 12	\$ 46	\$ 13	\$ 19	\$ 32
Total realized/unrealized gains (losses)						
Included in earnings	(17)		(17)	(1)		(1)
Included in OCI (a)		1	1	1		1
Sales					(3)	(3)
Settlements	2		2	(9)		(9)
Transfers into Level 3	(2)		(2)	12		12
Transfers out of Level 3	8		8	9	(3)	6
Balance at end of period	<u>\$ 25</u>	<u>\$ 13</u>	<u>\$ 38</u>	<u>\$ 25</u>	<u>\$ 13</u>	<u>\$ 38</u>

(a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in and quantitative information about the fair value measurement of assets and liabilities classified as Level 3 are as follows:

	September 30, 2013			
	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Retail natural gas sales contracts (b)	\$ 35	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	13% - 100% (80%)
Heat rate call options (d)	9	Discounted cash flow	Implied correlation, implied volatility, and market implied heat rate	33% - 60% (58%)
FTR purchase contracts (g)	3	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (e)	19	Discounted cash flow	Modeled from SIFMA Index	12% - 80% (64%)
PPL Energy Supply				
Energy commodities				
Retail natural gas sales contracts (b)	\$ 35	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	13% - 100% (80%)
Heat rate call options (d)	9	Discounted cash flow	Implied correlation, implied volatility, and market implied heat rate	33% - 60% (58%)
FTR purchase contracts (g)	3	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (e)	16	Discounted cash flow	Modeled from SIFMA Index	12% - 80% (63%)

December 31, 2012

	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Retail natural gas sales contracts (b)	\$ 24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)
FTR purchase contracts (g)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (e)	16	Discounted cash flow	Modeled from SIFMA Index	54% - 74% (64%)
Cross-currency swaps (f)	1	Discounted cash flow	Credit valuation adjustment	22% (22%)

PPL Energy Supply

Energy commodities

Retail natural gas sales contracts (b)	\$ 24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)
FTR purchase contracts (g)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (e)	13	Discounted cash flow	Modeled from SIFMA Index	57% - 74% (65%)

- (a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs. For cross-currency swaps, the range and weighted average represent the percentage decrease in fair value due to the unobservable inputs used in the model to calculate the credit valuation adjustment.
- (b) At September 30, 2013, retail natural gas sales contracts extend through 2019, and \$14 million of the fair value is scheduled to deliver within the next 12 months. As the forward price of natural gas increases/(decreases), the fair value of the contracts (decreases)/increases.
- (c) As the forward price of basis increases/(decreases), the fair value of the contracts (decreases)/increases.
- (d) At September 30, 2013, heat rate call options extend through 2020, and \$1 million of the fair value is scheduled to deliver within the next 12 months. As the implied correlation in heat rate call options increases/(decreases), the fair value of the heat rate call options (decreases)/increases, as all implied volatilities in heat rate call options increase/(decrease), the fair value of the heat rate call options increases/(decreases), and as the market implied heat rate increases/(decreases), the fair value of the heat rate call options increases/(decreases).
- (e) At September 30, 2013, auction rate securities have a weighted average contractual maturity of 22 years. The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).
- (f) The credit valuation adjustment incorporates projected probabilities of default and estimated recovery rates. As the credit valuation adjustment increases/(decreases), the fair value of the swaps (decreases)/increases.
- (g) At September 30, 2013, FTR purchase contracts extend through 2015, and \$1 million of the fair value is scheduled to deliver within the next 12 months. As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the periods ended September 30 are reported in the Statements of Income as follows:

	Three Months									
	Energy Commodities, net									
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Fuel		Energy Purchases	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
PPL and PPL Energy Supply										
Total gains (losses) included in earnings	\$ 3	\$ (3)	\$ (8)	\$ (4)	\$ 11	\$ (8)	\$ 3		\$ 9	\$ (2)
Change in unrealized gains (losses) relating to positions still held at the reporting date	3	(2)	(1)		17	2				

	Nine Months											
	Energy Commodities, net										Cross-Currency Swaps	
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Fuel		Energy Purchases		Interest Expense	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
PPL												
Total gains (losses) included in earnings	\$ 18	\$ 16	\$ (15)	\$ (7)	\$ 8	\$ (9)	\$ 3		\$ 9	\$ (1)		\$ (1)
Change in unrealized gains (losses) relating to positions still held at the reporting date	18	29	(1)		8	2			5	1		
PPL Energy Supply												
Total gains (losses) included in earnings	\$ 18	\$ 16	\$ (15)	\$ (7)	\$ 8	\$ (9)	\$ 3		\$ 9	\$ (1)		
Change in unrealized gains (losses) relating to positions still held at the reporting date	18	29	(1)		8	2			5	1		

Price Risk Management Assets/Liabilities - Energy Commodities (PPL and PPL Energy Supply)

Energy commodity contracts for electricity, gas, oil and/or emission allowances are generally valued using the income approach, except for exchange-traded derivative gas and oil contracts, which are valued using the market approach and are classified as Level 1. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. Energy commodity contracts include forwards, futures, swaps, options and structured transactions and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and standard industry models. For example, the fair value of a full-requirement sales contract that delivers power to an illiquid delivery point may be measured by valuing the nearest liquid trading point plus the value of the basis between the two points. The basis input may be from market quotes or historical prices.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Level 3 contracts are valued using PPL proprietary models which include significant unobservable inputs such as delivery at a location where pricing is unobservable, assumptions for customer migration, delivery dates that are beyond the dates for which independent quotes are available, implied volatilities, implied correlations, and market implied heat rates. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2013 and 2012 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL and Kentucky Registrants)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g.,

GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. For PPL, the primary reason for the transfers during 2013 and 2012 was the change in the significance of the credit valuation adjustment. Cross-currency swaps classified as Level 3 are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

(PPL and PPL Energy Supply)

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets and are comprised of securities that are representative of the Wilshire 5000 Total Market Index.
- Investments in commingled equity funds are classified as Level 2 and represent securities that track the S&P 500 Index, Dow Jones U.S. Total Stock Market Index and the Dow Jones U.S. Completion Total Stock Market Index. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data.

The debt securities held in the NDT funds at September 30, 2013 have a weighted-average coupon of 3.94% and a weighted-average maturity of 7.8 years.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The probability of realizing losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3. The primary reason for the transfers in and out of Level 3 in 2013 and 2012 was the change in discount rates and SIFMA Index.

Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

Financial Instruments Not Recorded at Fair Value *(All Registrants)*

The carrying amounts of contract adjustment payments related to the Purchase Contract component of the Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	\$ 32	\$ 32	\$ 105	\$ 106
Long-term debt	19,843	21,537	19,476	21,671
PPL Energy Supply				
Long-term debt	2,962	3,127	3,272	3,556
PPL Electric				
Long-term debt	2,315	2,505	1,967	2,333
LKE				
Long-term debt	4,076	4,222	4,075	4,423
LG&E				
Long-term debt	1,112	1,137	1,112	1,178
KU				
Long-term debt	1,843	1,940	1,842	2,056

(a) Reflected in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, approximates fair value due to the variable interest rates associated with the short-term debt and is classified as Level 2.

Credit Concentration Associated with Financial Instruments

(All Registrants)

Contracts are entered into with many entities for the purchase and sale of energy. Many of these contracts qualify for NPNS and, as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

(PPL)

At September 30, 2013, PPL had credit exposure of \$1.1 billion from energy trading partners, excluding the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, PPL's credit exposure was reduced to \$541 million. The top ten counterparties including their affiliates accounted for \$292 million, or 54%, of this exposure. Nine of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 95% of the top ten exposure. The remaining counterparty has not been rated by S&P or Moody's, but is current on its obligations.

(PPL Energy Supply)

At September 30, 2013, PPL Energy Supply had credit exposure of \$1.1 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, this credit exposure was reduced to \$540 million. The top ten counterparties including their affiliates accounted for \$292 million, or 54%, of this exposure. Nine of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 95% of the top ten exposure. The remaining counterparty has not been rated by S&P or Moody's, but is current on its obligations. See Note 11 for information regarding the related party credit exposure.

(PPL Electric)

PPL Electric is exposed to credit risk under energy supply contracts (including its supply contracts with PPL EnergyPlus); however, its PUC-approved cost recovery mechanism is anticipated to substantially eliminate this exposure.

(Kentucky Registrants)

At September 30, 2013, LKE's, LG&E's and KU's credit exposure was not significant.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses, and daily portfolio reporting, including open positions, determinations of fair value, and other risk management metrics.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions, such as tolling agreements, are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

The table below summarizes the market risks that affect PPL and its Subsidiary Registrants.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Commodity price risk (including basis and volumetric risk)	X	X	M	M	M	M
Interest rate risk:						
Debt issuances	X	X	M	M	M	M
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Equity securities price risk:						
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Future stock transactions	X					
Foreign currency risk - WPD investment and earnings	X					

X = PPL and PPL Energy Supply actively mitigate market risks through their risk management programs described above.

M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

Commodity price and volumetric risks

- PPL is exposed to market and commodity price, basis and volumetric risk through its domestic subsidiaries as described below. Volumetric risk is significantly mitigated at WPD as a result of the method of regulation in the U.K.
- PPL Energy Supply is exposed to commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities.
- PPL Electric is exposed to commodity price and volumetric risks from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to these risks. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. WPD holds over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt and LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with defined benefit plans. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL Energy Supply is exposed to equity securities price risk in the NDT funds.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in U.K. affiliates.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL Energy Supply is exposed to credit risk from "in-the-money" commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers and financial institutions.

LKE, LG&E and KU are exposed to credit risk from interest rate derivatives with PPL. LKE and LG&E are also exposed to credit risk from interest rate derivatives with third-party financial institutions.

The majority of PPL and PPL Energy Supply's credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with energy trading partners.

Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was \$14 million and \$112 million at September 30, 2013 and December 31, 2012.

PPL Electric, LKE and LG&E had no obligation to return cash collateral under master netting arrangements at September 30, 2013 and December 31, 2012.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of \$22 million and \$32 million at September 30, 2013 and December 31, 2012.

PPL Energy Supply, PPL Electric and KU had not posted any cash collateral under master netting arrangements at September 30, 2013 and December 31, 2012.

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

Commodity price risk, including basis and volumetric risk, is among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its wholesale and retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 7,298 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,316 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts qualify for NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their non-trading activities into two categories: cash flow hedges and economic activity, as discussed below.

Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. Certain cash flow hedge positions were dedesignated during the nine months ended September 30, 2013 and 2012 and the unamortized portion remained in AOCI because the original forecasted transaction is still expected to occur. There were no active cash flow hedges at September 30, 2013. At September 30, 2013, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$47 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For the three and nine months ended September 30, 2013 and 2012, such reclassifications were insignificant.

For the three and nine months ended September 30, 2013 and 2012, hedge ineffectiveness associated with energy derivatives was insignificant.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or because hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity would also include the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at September 30, 2013 range in maturity through 2019.

Examples of economic activity may include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally capped at the price at which the generating unit would be dispatched and therefore does not expose PPL Energy Supply to uncovered market price risk.

Commodity Price Risk (Trading)

PPL Energy Supply has a proprietary trading strategy which is utilized to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in losses if prices do not move in the manner or direction anticipated. The proprietary trading portfolio shown in "Net energy trading margins" on the Statements of Income is not a significant part of PPL Energy Supply's business.

Commodity Volumes

At September 30, 2013, the net volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

Commodity	Unit of Measure	Volume (a)			
		2013 (b)	2014	2015	Thereafter
Power	MWh	(9,950,950)	(28,280,182)	(4,110,530)	10,991,752
Capacity	MW-Month	(5,114)	(14,418)	(309)	1,990
Gas	MMBtu	12,653,279	18,794,545	(3,852,725)	5,320,453
Coal	Tons		(30,000)		
FTRs	MW-Month	5,056	8,724	1,465	
Oil	Barrels	(15,335)	300,000	384,334	371,466

(a) Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

(b) Represents balance of the current year.

Interest Rate Risk

(PPL and Kentucky Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates.

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At September 30, 2013, outstanding interest rate swap contracts range in maturity through 2024 for WPD and through 2044 for PPL's domestic interest rate swaps. These swaps had an aggregate notional value of \$2.3 billion at September 30, 2013 of which £300 million

(approximately \$464 million based on spot rates) was related to WPD. Also included in this total are forward-starting interest rate swaps entered into by PPL on behalf of LG&E and KU. Realized gains and losses from these swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives have been reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt when the hedged transaction occurs.

At September 30, 2013, PPL held a notional position in cross-currency interest rate swaps totaling \$1.3 billion that range in maturity through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three and nine months ended September 30, 2013 and 2012, hedge ineffectiveness associated with interest rate derivatives was insignificant.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL had no such reclassifications for the three and nine months ended September 30, 2013 and 2012.

At September 30, 2013, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were \$(11) million. Amounts are reclassified as the hedged interest payments are made.

(Kentucky Registrants)

In November 2012 and April 2013, LG&E and KU entered into forward-starting interest rate swaps with PPL that hedge the interest payments on new debt that is expected to be issued in 2013. In September 2013, these hedges were terminated and LG&E and KU entered into new forward-starting interest rate swaps with PPL, effectively extending the start date of the prior hedges from September 2013 to December 2013. Both the terminated swaps and the swaps entered into in September have terms identical to forward-starting swaps entered into by PPL with third parties. A cash settlement of \$98 million (LG&E and KU each received \$49 million) was received on the terminated swaps, which is included in "Cash Flows from Operating Activities" on the Statements of Cash Flows. Realized gains and losses on all of these swaps are probable of recovery through regulated rates; as such, the September settlements and the fair value of the new derivatives were reclassified from AOCI to regulatory assets or liabilities and are expected to be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt when the hedged transaction occurs. For the three and nine months ended September 30, 2013, there was no hedge ineffectiveness recorded for the interest rate derivatives. At September 30, 2013, the total notional amount outstanding was \$500 million (LG&E and KU each held contracts of \$250 million) that matures in 2043.

Economic Activity *(PPL, LKE and LG&E)*

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the hedged transaction occurs. At September 30, 2013, LG&E held contracts with a notional amount of \$179 million that range in maturity through 2033.

Foreign Currency Risk *(PPL)*

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at September 30, 2013 had a notional amount of £320 million (approximately \$505 million based on contracted rates). The settlement dates of these contracts range from November 2013 through June 2015.

Additionally, a PPL Global subsidiary that has a U.S. dollar functional currency entered into GBP intercompany loans payable with PPL WEM subsidiaries that have GBP functional currency. The loans qualify as a net investment hedge for the PPL Global subsidiary. As such, the foreign currency gains and losses on the intercompany loans for the PPL Global subsidiary are recorded to the foreign currency translation adjustment component of OCI. At September 30, 2013, the outstanding balances of the intercompany loans were £77 million (approximately \$119 million based on spot rates). For the three and nine months ended September 30, 2013, PPL recognized net investment hedge gains (losses) on the intercompany loans of \$(9) million and \$(3) million in the foreign currency translation adjustment component of OCI. Such amounts for the three and nine months ended September 30, 2012 were not significant.

At September 30, 2013, PPL had \$5 million of accumulated net investment hedge gains (losses), after-tax, in the foreign currency translation adjustment component of AOCI, compared to \$14 million of gains (losses), after-tax at December 31, 2012.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At September 30, 2013, the total exposure hedged by PPL was approximately £1.3 billion (approximately \$2.1 billion based on contracted rates). These contracts had termination dates ranging from October 2013 through October 2015.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless they qualify for NPNS. NPNS contracts for PPL and PPL Energy Supply include certain full-requirement sales contracts, other physical purchase and sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized currently in earnings unless specific hedge accounting criteria are met and designated as such, except for the change in fair value of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at September 30, 2013 and December 31, 2012.

See Notes 1 and 19 in each Registrant's 2012 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2013				December 31, 2012			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps (c)	\$ 83	\$ 16	\$ 4	\$ 4	\$ 14	\$ 22	\$ 5	\$ 5
Cross-currency swaps	1	1				3		
Foreign currency contracts		5	\$ 24	\$ 24		2		23
Commodity contracts			961	773	59		1,452	1,010
Total current	84	22	961	801	73	27	1,452	1,038
Noncurrent:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps (c)	3	1		37	1			53
Cross-currency swaps	27				14	1		
Foreign currency contracts		6	1	32				19
Commodity contracts			519	462	27		530	556
Total noncurrent	30	7	520	531	42	1	530	628
Total derivatives	\$ 114	\$ 29	\$ 1,481	\$ 1,332	\$ 115	\$ 28	\$ 1,982	\$ 1,666

(a) \$216 million and \$300 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at September 30, 2013 and December 31, 2012.

- (b) Represents the location on the Balance Sheets.
(c) Excludes accrued interest, if applicable.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$87 million and \$132 million at September 30, 2013 and December 31, 2012. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$231 million and \$527 million at September 30, 2012 and December 31, 2011.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended September 30, 2013.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ 25	\$ 102	Interest expense	\$ (5)		\$ (14)	
Cross-currency swaps	(36)	16	Interest expense	(1)			
			Other income (expense) - net	(25)		45	
Commodity contracts			Wholesale energy marketing	58		198	\$ 1
			Depreciation	1		2	
			Energy purchases	(11)		(41)	
Total	\$ (11)	\$ 118		\$ 17		\$ 190	\$ 1
Net Investment Hedges:							
Foreign currency contracts	\$ (22)	\$ (5)					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net	\$ (117)	\$ 6
Interest rate swaps	Interest expense	(2)	(6)
Commodity contracts	Unregulated retail electric and gas	3	18
	Wholesale energy marketing	104	144
	Net energy trading margins (a)	14	8
	Fuel	4	2
	Energy purchases	(86)	(99)
Total		\$ (80)	\$ 73

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 2	\$ 18

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 12	\$ 70

- (a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI, or regulatory assets and regulatory liabilities for the periods ended September 30, 2012.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Nine Months	Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense	\$ (1)		\$ 1	\$ 3

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative Excluded from Effectiveness Testing	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative Excluded from Effectiveness Testing
Cash Flow Hedges:							
Interest rate swaps	\$ (6)	\$ (28)	Interest expense	\$ (4)		\$ (13)	
			Other income (expense) - net	1		1	
Cross-currency swaps	(49)	(3)	Interest expense			(1)	
			Other income (expense) - net	(40)		(12)	
Commodity contracts		99	Wholesale energy marketing	174		673	\$ (1)
			Depreciation	1		2	
			Energy purchases	(20)	\$ 1	(105)	(2)
Total	\$ (55)	\$ 68		\$ 112	\$ 1	\$ 545	\$ (3)
Net Investment Hedges:							
Foreign currency contracts	\$ (4)	\$ (5)					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net	\$ (47)	\$ (40)
Interest rate swaps	Interest expense	(2)	(4)
Commodity contracts	Unregulated retail electric and gas	(3)	20
	Wholesale energy marketing	(476)	900
	Net energy trading margins (a)	(10)	12
	Fuel	6	
	Energy purchases	364	(717)
	Total	\$ (168)	\$ 171

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 1	\$ (2)

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

(PPL Energy Supply)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2013		December 31, 2012			
	Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:						
Price Risk Management						
Assets/Liabilities (b):						
Commodity contracts	\$ 961	\$ 773	\$ 59		\$ 1,452	\$ 1,010
Total current	961	773	59		1,452	1,010
Noncurrent:						
Price Risk Management						
Assets/Liabilities (b):						
Commodity contracts	519	462	27		530	556
Total noncurrent	519	462	27		530	556
Total derivatives	\$ 1,480	\$ 1,235	\$ 86		\$ 1,982	\$ 1,566

(a) \$216 million and \$300 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at September 30, 2013 and December 31, 2012.

(b) Represents the location on the Balance Sheets.

The after-tax balances of accumulated net gains (losses) in AOCI were \$115 million and \$211 million at September 30, 2013 and December 31, 2012. The after-tax balances of accumulated net gains (losses) in AOCI were \$312 million and \$605 million at September 30, 2012 and December 31, 2011.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended September 30, 2013.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts			Wholesale energy marketing	\$ 58		\$ 198	\$ 1
			Depreciation	1		2	
			Energy purchases	(11)		(41)	
Total				\$ 48		\$ 159	\$ 1

Derivatives Not Designated as Hedging Instrument	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Nine Months
Commodity contracts	Unregulated retail electric and gas	\$ 3	\$ 18
	Wholesale energy marketing	104	144
	Net energy trading margins (a)	14	8
	Fuel	4	2
	Energy purchases	(86)	(99)
Total		\$ 39	\$ 73

(a) Differs from the Statements of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended September 30, 2012.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts	\$ 99		Wholesale energy marketing	\$ 174		\$ 673	\$ (1)
			Depreciation			1	
			Energy purchases	(20)	\$ 1	(105)	(2)
Total	\$ 99			\$ 154	\$ 1	\$ 569	\$ (3)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Nine Months
Commodity contracts	Unregulated retail electric and gas	\$ (3)	\$ 20
	Wholesale energy marketing	(476)	900
	Net energy trading margins (a)	(10)	12
	Fuel	6	
	Energy purchases	364	(717)
Total		\$ (119)	\$ 215

(a) Differs from the Statements of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

(LKE)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	September 30, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		\$ 14	\$ 14	

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended September 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 12	\$ 70

(LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	September 30, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		\$ 7	\$ 7	

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended September 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 6	\$ 35

(KU)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	September 30, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		\$ 7	\$ 7	

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended September 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 6	\$ 35

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	September 30, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		\$ 4		\$ 5
Total current		4		5
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		37		53
Total noncurrent		37		53
Total derivatives		\$ 41		\$ 58

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivatives not designated as hedging instruments recognized in income or regulatory assets for the periods ended September 30, 2013.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Interest rate swaps	Interest expense	\$ (2)	\$ (6)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent (a)	\$ 2	\$ 18

(a) Includes both realized and unrealized gains (losses).

The following tables present the pre-tax effect of derivatives not designated as hedging instruments recognized in income or regulatory assets for the periods ended September 30, 2012.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Interest rate swaps	Interest expense	\$ (2)	\$ (6)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent (a)	\$ 1	\$ (2)

(a) Includes both realized and unrealized gains (losses).

(All Registrants except PPL Electric)

Offsetting Derivative Instruments

PPL, PPL Energy Supply, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements or similar agreements in place including derivative clearing agreements with futures commission merchants (FCMs) to permit the trading of cleared derivative products on one or more futures exchanges. The clearing arrangements permit an FCM to use and apply any property in its possession as a set off to pay amounts or discharge obligations owed by a customer upon default of the customer and typically do not place any restrictions on the FCM's use of collateral posted by the customer. PPL, PPL Energy Supply, LKE, LG&E and KU and their subsidiaries also enter into agreements pursuant to which they trade certain

energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to setoff amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, PPL Energy Supply, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
September 30, 2013								
PPL								
Energy Commodities	\$ 1,480	\$ 1,122	\$ 14	\$ 344	\$ 1,235	\$ 1,122		\$ 113
Treasury Derivatives	115	47		68	126	47	\$ 22	57
Total	\$ 1,595	\$ 1,169	\$ 14	\$ 412	\$ 1,361	\$ 1,169	\$ 22	\$ 170
PPL Energy Supply								
Energy Commodities	\$ 1,480	\$ 1,122	\$ 14	\$ 344	\$ 1,235	\$ 1,122		\$ 113
LKE								
Treasury Derivatives					\$ 55		\$ 22	\$ 33
LG&E								
Treasury Derivatives					\$ 48		\$ 22	\$ 26
KU								
Treasury Derivatives					\$ 7			\$ 7
December 31, 2012								
PPL								
Energy Commodities	\$ 2,068	\$ 1,413	\$ 111	\$ 544	\$ 1,566	\$ 1,413	\$ 9	\$ 144
Treasury Derivatives	29	19		10	128	19	30	79
Total	\$ 2,097	\$ 1,432	\$ 111	\$ 554	\$ 1,694	\$ 1,432	\$ 39	\$ 223
PPL Energy Supply								
Energy Commodities	\$ 2,068	\$ 1,413	\$ 111	\$ 544	\$ 1,566	\$ 1,413	\$ 9	\$ 144
LKE								
Treasury Derivatives	\$ 14			\$ 14	\$ 58		\$ 30	\$ 28
LG&E								
Treasury Derivatives	\$ 7			\$ 7	\$ 58		\$ 30	\$ 28
KU								
Treasury Derivatives	\$ 7			\$ 7				

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's obligation under the

contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

At September 30, 2013, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit risk-related contingent features and were in a net liability position is summarized as follows:

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 178	\$ 115	\$ 29	\$ 29
Aggregate fair value of collateral posted on these derivative instruments	39	17	22	22
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	167	127	7	7

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15. Goodwill

(PPL)

The change in the carrying amount of goodwill for the nine months ended September 30, 2013 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

16. Asset Retirement Obligations

(All Registrants except PPL Electric)

The changes in the carrying amounts of AROs were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Balance at December 31, 2012	\$ 552	\$ 375	\$ 131	\$ 62	\$ 69
Accretion expense	27	22	4	2	2
Obligations incurred	6	6			
Changes in estimated cash flow or settlement date	123	1	122	17	105
Effect of foreign currency exchange rates	(2)				
Obligations settled	(12)	(6)	(6)	(6)	
Balance at September 30, 2013	<u>\$ 694</u>	<u>\$ 398</u>	<u>\$ 251</u>	<u>\$ 75</u>	<u>\$ 176</u>

Substantially all of the ARO balances are classified as noncurrent at September 30, 2013 and December 31, 2012.

(PPL and PPL Energy Supply)

The most significant ARO recorded by PPL and PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was \$335 million and \$316 million at September 30, 2013 and December 31, 2012.

Assets in the NDT funds are legally restricted for purposes of settling PPL's and PPL Energy Supply's ARO related to the decommissioning of the PPL Susquehanna nuclear plant. The aggregate fair value of these assets was \$804 million and \$712 million at September 30, 2013 and December 31, 2012, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 13 and 17 for additional information on these assets.

(PPL and Kentucky Registrants)

Accretion and depreciation expense recorded by LG&E and KU is reversed on the income statement and recorded as a regulatory asset, such that there is no net earnings impact. AROs were revalued primarily due to updates in the estimated cash flows for ash ponds and CCR surface impoundments based on updated cost estimates.

17. Available-for-Sale Securities

(PPL and PPL Energy Supply)

Securities held by the NDT funds and auction rate securities are classified as available-for-sale. Available-for-sale securities are carried on the Balance Sheets at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI, and the fair value of available-for-sale securities.

	September 30, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL								
NDT funds:								
Cash and cash equivalents	\$ 14			\$ 14	\$ 11			\$ 11
Equity securities:								
U.S. large-cap	230	\$ 264		494	222	\$ 190		412
U.S. mid/small-cap	31	43		74	30	30		60
Debt securities:								
U.S. Treasury	90	6		96	86	9		95
U.S. government sponsored agency	5	1		6	8	1		9
Municipality	74	2	\$ 1	75	78	5	\$ 1	82
Investment-grade corporate	39	2	1	40	36	4		40
Other	3			3	3			3
Receivables/payables, net	2			2				
Total NDT funds	488	318	2	804	474	239	1	712
Auction rate securities	20		1	19	20		1	19
Total	\$ 508	\$ 318	\$ 3	\$ 823	\$ 494	\$ 239	\$ 2	\$ 731

PPL Energy Supply

NDT funds:								
Cash and cash equivalents	\$ 14			\$ 14	\$ 11			\$ 11
Equity securities:								
U.S. large-cap	230	\$ 264		494	222	\$ 190		412
U.S. mid/small-cap	31	43		74	30	30		60
Debt securities:								
U.S. Treasury	90	6		96	86	9		95
U.S. government sponsored agency	5	1		6	8	1		9
Municipality	74	2	\$ 1	75	78	5	\$ 1	82
Investment-grade corporate	39	2	1	40	36	4		40
Other	3			3	3			3
Receivables/payables, net	2			2				
Total NDT funds	488	318	2	804	474	239	1	712
Auction rate securities	17		1	16	17		1	16
Total	\$ 505	\$ 318	\$ 3	\$ 820	\$ 491	\$ 239	\$ 2	\$ 728

There were no securities with credit losses at September 30, 2013 and December 31, 2012.

The following table shows the scheduled maturity dates of debt securities held at September 30, 2013.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 6-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	\$ 6	\$ 92	\$ 56	\$ 77	\$ 231
Fair value	6	96	58	79	239
PPL Energy Supply					
Amortized cost	\$ 6	\$ 92	\$ 56	\$ 74	\$ 228
Fair value	6	96	58	76	236

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended September 30.

	Three Months		Nine Months	
	2013	2012	2013	2012
PPL				
Proceeds from sales of NDT securities (a)	\$ 33	\$ 23	\$ 92	\$ 102
Other proceeds from sales				5
Gross realized gains (b)	3	2	10	15
Gross realized losses (b)	2	2	6	8
PPL Energy Supply				
Proceeds from sales of NDT securities (a)	\$ 33	\$ 23	\$ 92	\$ 102
Other proceeds from sales				3
Gross realized gains (b)	3	2	10	15
Gross realized losses (b)	2	2	6	8

- (a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.
(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

18. Accumulated Other Comprehensive Income (Loss)

(PPL and PPL Energy Supply)

The after-tax changes in AOCI by component for the three and nine months ended September 30, 2013 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans			Total
		Available- for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	Transition asset (obligation)	
PPL								
June 30, 2013	\$ (401)	\$ 135	\$ 102	\$ 1	\$ (11)	\$ (1,955)	\$ 1	\$ (2,128)
Amounts arising during the period	87	15	(9)					93
Reclassifications from AOCI			(6)	(1)	2	33		28
Net OCI during the period	87	15	(15)	(1)	2	33		121
September 30, 2013	\$ (314)	\$ 150	\$ 87	\$	\$ (9)	\$ (1,922)	\$ 1	\$ (2,007)
December 31, 2012								
Amounts arising during the period	(149)	112	132	1	(14)	(2,023)	1	(1,940)
Reclassifications from AOCI	(165)	40	77					(48)
Net OCI during the period	(165)	38	(45)	(1)	5	101		(19)
September 30, 2013	\$ (314)	\$ 150	\$ 87	\$	\$ (9)	\$ (1,922)	\$ 1	\$ (2,007)
PPL Energy Supply								
June 30, 2013		\$ 135	\$ 144		\$ (8)	\$ (257)		\$ 14
Amounts arising during the period		15						15
Reclassifications from AOCI			(29)		1	3		(25)
Net OCI during the period		15	(29)		1	3		(10)
September 30, 2013		\$ 150	\$ 115		\$ (7)	\$ (254)		\$ 4
December 31, 2012								
Amounts arising during the period		112	211		(10)	(265)		48
Reclassifications from AOCI		40						40
Net OCI during the period		(2)	(96)		3	11		(84)
September 30, 2013		\$ 150	\$ 115		\$ (7)	\$ (254)		\$ 4

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended September 30, 2013. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 9 for additional information.

Three Months								
Affected Line Item on the Statements of Income								
Details about AOCI	Wholesale energy marketing	Energy purchases	Depreciation	Other Income (Expense), net	Interest Expense	Total Pre-tax	Income Taxes	Total After-tax
PPL								
Available-for-sale securities				\$ 1		\$ 1	\$ (1)	
Qualifying derivatives								
Interest rate swaps					\$ (5)	(5)	2	\$ (3)
Cross-currency swaps				(25)	(1)	(26)	7	(19)
Energy commodities	\$ 58	\$ (11)	\$ 1			48	(20)	28
Total	\$ 58	\$ (11)	\$ 1	\$ (25)	\$ (6)	17	(11)	6
Equity investees' AOCI				\$ 1		1		1
Defined benefit plans								
Prior service costs						(3)	1	(2)
Net actuarial loss						(45)	12	(33)
Total						\$ (48)	\$ 13	(35)
Total reclassifications during the period								\$ (28)
PPL Energy Supply								
Available-for-sale securities				\$ 1		\$ 1	\$ (1)	
Qualifying derivatives								
Energy commodities	\$ 58	\$ (11)	\$ 1			48	(19)	\$ 29
Defined benefit plans								
Prior service costs						(2)	1	(1)
Net actuarial loss						(5)	2	(3)
Total						\$ (7)	\$ 3	(4)
Total reclassifications during the period								\$ 25

Nine Months								
Affected Line Item on the Statements of Income								
Details about AOCI	Wholesale energy marketing	Energy purchases	Depreciation	Other Income (Expense), net	Interest Expense	Total Pre-tax	Income Taxes	Total After-tax
PPL								
Available-for-sale securities				\$ 4		\$ 4	\$ (2)	\$ 2
Qualifying derivatives								
Interest rate swaps					\$ (14)	(14)	6	(8)
Cross-currency swaps				45		45	(10)	35
Energy commodities	\$ 198	\$ (41)	\$ 2			159	(64)	95
Total	\$ 198	\$ (41)	\$ 2	\$ 45	\$ (14)	190	(68)	122
Equity investees' AOCI				\$ 1		1		1
Defined benefit plans								
Prior service costs						(8)	3	(5)
Net actuarial loss						(138)	37	(101)
Total						\$ (146)	\$ 40	(106)
Total reclassifications during the period								\$ 19
PPL Energy Supply								
Available-for-sale securities				\$ 4		\$ 4	\$ (2)	\$ 2
Qualifying derivatives								
Energy commodities	\$ 198	\$ (41)	\$ 2			159	(63)	96
Defined benefit plans								
Prior service costs						(5)	2	(3)
Net actuarial loss						(18)	7	(11)
Total						\$ (23)	\$ 9	(14)
Total reclassifications during the period								\$ 84

(LKE and KU)

For the three and nine months ended September 30, 2013, the changes in AOCI and the effect of reclassifications from AOCI on the statement of income for LKE and KU were insignificant.

19. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Registrants will retrospectively adopt accounting guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements when the amount of the obligation is fixed at the reporting date. If the obligation is determined to be in the scope of this guidance, it will be measured as the sum of the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires additional disclosures for these obligations.

The Registrants are assessing the potential impact of adoption, which is not expected to be material.

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Effective January 1, 2014, PPL will prospectively adopt accounting guidance that requires a cumulative translation adjustment to be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For the step acquisition of previously held equity method investments that are foreign entities, this guidance clarifies that the amount of accumulated other comprehensive income that is reclassified and included in the calculation of a gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

The initial adoption of this guidance is not expected to have a significant impact on PPL; however, the impact in future periods could be material.

Presentation of Unrecognized Tax Benefits When Net Operating Loss Carryforwards, Similar Tax Losses, or Tax Credit Carryforwards Exist

Effective January 1, 2014, the Registrants will prospectively adopt accounting guidance that requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

The adoption of this guidance is not expected to have a significant impact on the Registrants.

Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This combined Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL Corporation and its Subsidiary Registrants: PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The following should be read in conjunction with the Registrants' Condensed Financial Statements and the accompanying Notes and with the Registrants' 2012 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant and its business strategy, selected information on PPL's segment earnings, a description of key factors expected to impact future earnings and a discussion of important financial and operational developments.
- "Results of Operations" provides a summary of earnings and ends with "Statement of Income Analysis," which includes explanations of non-GAAP financial measures and significant changes in principal line items on the Statements of Income, comparing the three and nine months ended September 30, 2013 with the same periods in 2012.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity position and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

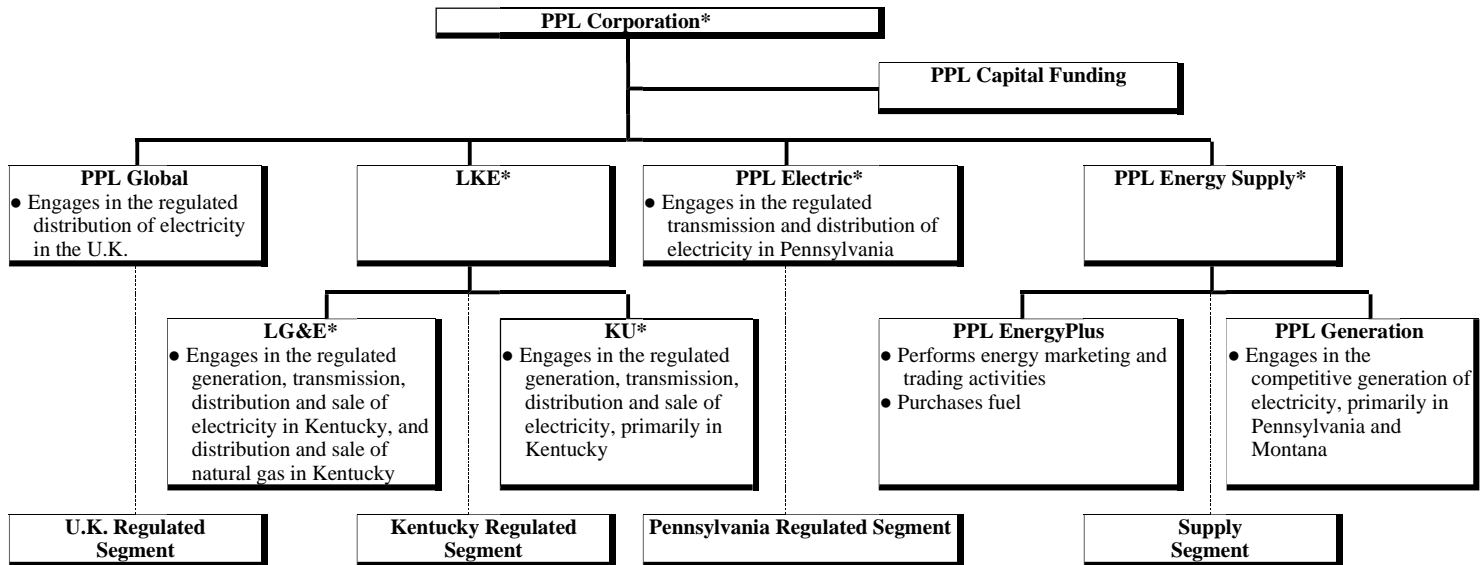
Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is an energy and utility holding company that through subsidiaries generates electricity from power plants in the northeastern, northwestern and southeastern U.S., markets wholesale and retail energy primarily in the northeastern and northwestern portions of the U.S., delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee and delivers natural gas to customers in Kentucky.

PPL's principal subsidiaries are shown below (* denotes an SEC registrant):



PPL's reportable segments' results primarily represent the results of its related Subsidiary Registrant(s), except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable Subsidiary Registrant. The U.K. Regulated segment does not have a related Subsidiary Registrant.

(PPL Energy Supply)

PPL Energy Supply, headquartered in Allentown, Pennsylvania is an energy company that through its principal subsidiaries is primarily engaged in the competitive generation and marketing of electricity in two key markets - the northeastern and northwestern U.S. PPL Energy Supply's principal subsidiaries are PPL EnergyPlus, its marketing and trading subsidiary, and PPL Generation, the owner of its generating facilities in Pennsylvania and Montana.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a holding company and a wholly owned subsidiary of PPL. LKE owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. LG&E is a wholly owned subsidiary of LKE.

(KU)

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as a public utility by the KPSC, the VSCC and the TRA, and certain of its transmission and wholesale power activities are subject to the jurisdiction of FERC under the Federal Power Act. KU is a wholly owned subsidiary of LKE.

(All Registrants except PPL Electric)

The capacity (summer rating) of regulated and competitive electricity generation facilities at September 30, 2013 was:

Primary Fuel	Ownership or Lease Interest in MW (a)				
	PPL	PPL Energy Supply	LKE	LG&E	KU
Regulated					
Coal (c)	5,940		5,940	2,656	3,284
Natural Gas/Oil (b)	2,098		2,098	644	1,454
Hydro	78		78	54	24
Total Regulated	8,116		8,116	3,354	4,762
Competitive					
Coal (b) (c)	4,146	4,146			
Natural Gas/Oil	3,316	3,316			
Nuclear (c)	2,275	2,275			
Hydro (d)	807	807			
Other (e)	70	70			
Total Competitive	10,614	10,614			
Total	18,730	10,614	8,116	3,354	4,762

- (a) The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units, and may be revised periodically to reflect changed circumstances. See "Item 2. Properties" in the 2012 Form 10-K for additional information on ownership percentages.
- (b) Includes leasehold interests. See Note 11 to the Financial Statements in the 2012 Form 10-K for additional information.
- (c) Includes units that are jointly owned or subject to a power purchase agreement. Each owner is entitled to its proportionate share of the unit's total output and funds its proportionate share of fuel and other operating costs. See Notes 14 and 15 to the Financial Statements in the 2012 Form 10-K for additional information.
- (d) In September 2013, PPL Montana executed a definitive agreement to sell its 11 hydroelectric facilities, which have a combined generating capacity of 633 MW, to NorthWestern for \$900 million in cash, subject to certain adjustments. The sale is not expected to close before the second half of 2014 and is subject to closing conditions, including receipt of regulatory approvals by the FERC and Montana Public Service Commission and certain third party consents. See Note 8 to the Financial Statements for additional information.
- (e) Includes facilities owned, controlled or for which PPL Energy Supply has the rights to the output.

Business Strategy

(PPL and PPL Energy Supply)

The strategy for PPL Energy Supply is to achieve disciplined optimization of energy supply margins while mitigating near-term volatility in both cash flows and earnings. More specifically, the strategy is to optimize the value from its competitive generation and marketing portfolios. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. PPL Energy Supply is focused on maintaining profitability during the current and projected period of low commodity prices. See "Financial and Operational Developments - Economic and Market Conditions" below for additional information.

(All Registrants except PPL Energy Supply)

The strategy for the regulated businesses of WPD, PPL Electric, LKE, LG&E and KU is to achieve stable, long-term growth in earnings and rate base, or RAV, as applicable. Both rate base and RAV are expected to grow as a result of significant capital expenditure programs to maintain existing assets and improving system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to electric generation facilities. These regulated businesses

focus on timely recovery of costs, efficient, reliable and safe operations, strong customer service and constructive regulatory relationships.

Recovery of capital project costs is attained through various rate-making mechanisms, including periodic base rate case proceedings, FERC formula rate mechanisms, and other regulatory agency-approved recovery mechanisms. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that reduce regulatory lag and provide for timely recovery of prudently incurred costs. In Pennsylvania, the recently approved DSIC mechanism will help PPL Electric reduce regulatory lag and provide for timely recovery of distribution reliability-related capital investment. See "Distribution System Improvement Charge" below for additional information on the implementation of the DSIC mechanism in 2013 and "RIIO-ED1" below for changes to the regulatory framework intended to encourage investment in regulated infrastructure applicable to WPD in 2015.

(All Registrants)

To manage financing costs and access to credit markets and to fund capital expenditure programs, a key objective for the Registrants is to maintain strong credit profiles and liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to, as applicable, changes in energy and fuel prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operating performance of their generating units.

Financial and Operational Developments

Earnings (PPL)

Earnings by component of PPL's reportable segments for the periods ended September 30 were as follows.

	Three Months			Nine Months		
	2013	2012	% Change	2013	2012	% Change
U.K. Regulated	\$ 183	\$ 202	(9)	\$ 741	\$ 563	32
Kentucky Regulated	93	72	29	227	148	53
Pennsylvania Regulated	51	33	55	160	95	68
Supply	91	48	90	122	361	(66)
Corporate and Other (a)	(8)		n/a	(22)		n/a
Net Income Attributable to PPL Shareowners	\$ 410	\$ 355	15	\$ 1,228	\$ 1,167	5
EPS - basic	\$ 0.65	\$ 0.61	7	\$ 2.03	\$ 2.00	2
EPS - diluted (b)	\$ 0.62	\$ 0.61	2	\$ 1.90	\$ 2.00	(5)

- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. For 2012, there were no significant amounts in this category.
- (b) See "Equity Units" below for information on the Equity Units' impact on the calculation of 2013 diluted EPS.

The following after-tax gains (losses), in total, which management considers special items, impacted PPL's reportable segments results during the periods ended September 30. See PPL's "Results of Operations - Segment Earnings" for details of these special items.

	Three Months			Nine Months		
	2013	2012	Change	2013	2012	Change
U.K. Regulated	\$ (16)	\$ 41	\$ (57)	\$ 78	\$ 39	\$ 39
Kentucky Regulated				2	(1)	3
Supply	(6)	(105)	99	(49)	3	(52)
Total PPL	\$ (22)	\$ (64)	\$ 42	\$ 31	\$ 41	\$ (10)

The changes in PPL's reportable segments results for the three and nine-month periods, excluding the impact of special items, were due to the following factors (on an after-tax basis):

- Increase at the U.K. Regulated segment for the three-month period primarily due to higher electricity delivery prices and lower U.K. income taxes, partially offset by an accrual for over-recovery of current-year revenues, lower sales volume due to weather and higher operation and maintenance expense. Increase at the U.K. Regulated segment for the nine-month period primarily due to higher electricity delivery prices, increased sales volume due to weather, and lower U.K.

income taxes, partially offset by an accrual for over-recovery of current-year revenues, higher operation and maintenance expense and higher depreciation.

- Increases at the Kentucky Regulated segment for both periods primarily due to higher base rates that became effective January 1, 2013 and returns from additional environmental capital investments. The three-month period was also partially offset by lower sales volume due to weather.
- Increases at the Pennsylvania Regulated segment for both periods primarily due to higher electricity base rates that became effective January 1, 2013 and higher transmission margins from additional capital investments. The increase for the nine-month period was also due to lower operation and maintenance expense, partially offset by higher depreciation.
- Decrease at the Supply segment for the three-month period primarily due to lower baseload energy prices, lower baseload generation, higher operation and maintenance expense and higher income taxes. The decline in segment earnings was partially offset by higher capacity prices. Decrease at the Supply segment for the nine-month period primarily due to lower baseload energy prices, higher fuel costs, higher income taxes and higher depreciation. The decline in segment earnings was partially offset by higher capacity prices, higher intermediate and peaking margins and higher baseload generation. The higher income taxes for both periods resulted primarily from a non-cash adjustment of deferred tax assets.

See "Results of Operations" below for further discussion of PPL's reportable segments and analysis of results of operations.

2013 Outlook

(PPL)

Excluding special items, higher earnings are expected in 2013 compared with 2012. However, 2013 earnings are expected to decline on a diluted EPS basis due to higher average shares treated as outstanding. The factors underlying these projections by segment and Subsidiary Registrant are reflected below (on an after-tax basis).

(PPL's U.K. Regulated Segment)

Excluding special items, higher earnings are projected in 2013 compared with 2012, primarily driven by higher electricity delivery prices and lower income taxes, partially offset by higher operation and maintenance expense, higher depreciation and higher interest expense.

(PPL's Kentucky Regulated Segment and Kentucky Registrants)

Excluding special items, higher earnings are projected in 2013 compared with 2012, primarily driven by base rate increases and returns on additional environmental capital investments.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Excluding special items, higher earnings are projected in 2013 compared with 2012, primarily driven by higher distribution revenues from the January 1, 2013 base rate increase and higher transmission margins due to additional capital investment, partially offset by higher depreciation and higher interest expense.

(PPL's Supply Segment and PPL Energy Supply)

Excluding special items, lower earnings are projected in 2013 compared with 2012, primarily driven by lower energy prices, higher fuel costs, higher depreciation, higher taxes and higher financing costs, partially offset by lower operation and maintenance expense, higher capacity prices and higher baseload generation output.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 6 and 10 to the Financial Statements in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2012 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Other Financial and Operational Developments

Economic and Market Conditions

(PPL and PPL Energy Supply)

Current depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development and additional renewable energy sources, primarily wind in the western U.S. Unregulated Gross Energy Margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in energy and capacity market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, transmission constraints that impact the locational pricing of electricity at PPL Energy Supply's power plants, fuel transportation costs and the level and price of hedging activities. As a result of these factors, lower future energy margins are expected when compared to the 2012 energy margins. See "Changes in Non-GAAP Financial Measures - Unregulated Gross Energy Margins in Statement of Income Analysis" below for additional information on energy margins. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, its hedging strategies and potential plant modifications to burn lower cost fuels.

(All Registrants except PPL Electric)

As previously disclosed, the businesses of PPL Energy Supply, LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to coal combustion residuals, GHG, effluent limitation guidelines and MATS. See "Financial Condition - Environmental Matters" below for additional information on these requirements. These and other stringent environmental requirements, combined with low energy margins for competitive generation, have led several energy companies, including PPL, PPL Energy Supply, LKE, LG&E and KU, to announce plans to either temporarily or permanently close, or place in long-term reserve status, certain of their coal-fired generating plants.

(PPL and PPL Energy Supply)

In 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with MATS. PPL Energy Supply continues to monitor its Corette plant for potential impairment. The Corette plant asset group's carrying value at September 30, 2013 was \$67 million. See "Environmental Matters - Domestic - Air - MATS" in Note 10 to the Financial Statements for additional information.

PPL Energy Supply believes its remaining competitive coal-fired generation assets are well positioned to meet the environmental requirements described above based on prior and planned investments. Management continues to monitor energy and PJM capacity prices. A further decline in energy and/or capacity prices could negatively impact PPL Energy Supply's operations and potentially result in future asset impairment charges for coal-fired plants or goodwill.

(PPL and Kentucky Registrants)

The environmental requirements discussed above have also resulted in LKE's projected \$2.2 billion (\$1.1 billion each at LG&E and KU) in capital investment over the next five years and the anticipated retirement by 2015 of five coal-fired units (three at LG&E and two at KU) with a combined summer capacity rating of 726 MW (563 MW at LG&E and 163 MW at KU). KU retired the 71 MW unit at the Tyrone plant in February 2013. The retirement of these coal-fired units is not expected to have a material impact on the financial condition or results of operations of PPL, LKE, LG&E and KU. See Note 8 to the Financial Statements in the 2012 Form 10-K for PPL, LKE, LG&E and KU for additional information regarding the anticipated retirement of these units as well as plans to build a combined-cycle natural gas facility in Kentucky.

The KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that provide for recovery of prudently incurred costs. The Kentucky utility businesses are impacted by changes in customer usage levels which can be driven by a number of factors including weather conditions and economic factors that impact the load utilized by industrial and commercial customers.

(All Registrants)

The Registrants cannot predict the future impact that economic and market conditions and changes in regulatory requirements may have on their financial condition or results of operations.

(PPL)

Ofgem Review of Line Loss Calculation

Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentive/penalty for the DPCR4. Based on information received from Ofgem in 2013, WPD currently estimates the potential loss exposure for this matter to be in the range of \$93 million to \$226 million as of September 30, 2013. During the three and nine months ended September 30, 2013, WPD recorded \$21 million and \$45 million of increases to the liability with reductions to "Utility" revenue on the Statement of Income. PPL cannot predict the outcome of this matter. See Note 6 to the Financial Statements for additional information.

RIIO-ED1

In October 2010, Ofgem announced changes to the regulatory framework that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. The next electricity distribution price control review is referred to as RIIO-ED1. Key components of the RIIO-ED1 are: an extension of the price review period to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, and continued use of a single weighted average cost of capital. Ofgem has also indicated that the depreciation of the RAV, for RAV additions after April 1, 2015, will change from 20 years to 45 years, but that it will consider transition arrangements.

As previously reported, on July 1, 2013, WPD filed its business plans with Ofgem for the RIIO-ED1 period and gave a webcast presentation to highlight the contents of the plans as well as provide potential earnings ranges of the U.K. Regulated segment for the first two years of the RIIO-ED1 period. The ranges provided are subject to certain assumptions including foreign currency exchange rates, interest rates, inflation rates and WPD being "fast-tracked" through the price control review process and therefore earning the fast-track bonus revenue. These assumptions and other future events affecting the potential earnings ranges are subject to significant uncertainties. Although management believes that the business plans submitted by WPD meet the criteria to be fast-tracked, management cannot predict the outcome of the price control review process or the future financial effect on WPD's businesses of the RIIO-ED1 regulatory framework. Ofgem has notified WPD that it intends to announce preliminary fast-track determinations on November 22, 2013 with a final determination to be announced in February 2014. See "Item 1. Business - Background - U.K. Regulated Segment - Revenue and Regulation" in the 2012 Form 10-K for additional information.

Equity Forward Agreements

In the second quarter of 2013, PPL settled forward sale agreements for 10.5 million shares of PPL common stock by issuing 8.4 million shares and cash settling the remaining 2.1 million shares. PPL received net cash proceeds of \$201 million, which was used to repay short-term debt obligations and for other general corporate purposes. See Note 7 to the Financial Statements for additional information. Prior to settlement, incremental shares were included within the calculation of diluted EPS using the treasury stock method. See Note 4 to the Financial Statements for the impact on the calculation of diluted EPS.

Equity Units

During 2013, several events occurred related to the components of the 2010 Equity Units. During the first quarter of 2013, financing plans were finalized to remarket the Junior Subordinated Notes component of the 2010 Equity Units and in the second quarter, PPL Capital Funding completed the remarketing of the Junior Subordinated Notes and simultaneously exchanged the remarketed notes for three tranches of Senior Notes. The transaction resulted in a \$10 million loss on extinguishment of the Junior Subordinated Notes. Additionally, in July 2013, PPL issued 40 million shares of common stock at \$28.73 per share to settle the 2010 Purchase Contracts. PPL received net cash proceeds of \$1.150 billion, which will be used to repay short-term and long-term debt obligations and for other general corporate purposes. See Note 7 to the Financial Statements for additional information.

The If-Converted Method of calculating diluted EPS was applied to the Equity Units prior to settlement beginning in the first quarter of 2013. This resulted in \$7 million and \$37 million of interest charges (after-tax) being added back to income

available to PPL common shareowners, and 32 million and 59 million weighted-average incremental shares of PPL common stock being treated as outstanding for purposes of the diluted EPS calculation for the three and nine months ended September 30, 2013. See Note 4 to the Financial Statements for the impact on the calculation of diluted EPS.

Tax Litigation

In May 2013, the U.S. Supreme Court reversed the December 2011 ruling of the U. S. Court of Appeals for the Third Circuit, on the creditability for U.S. income tax purposes of the U.K. Windfall Profits Tax paid by a U.K. subsidiary of PPL. As a result of this decision, PPL recorded an income tax benefit of \$44 million for the nine months ended September 30, 2013. See Note 5 to the Financial Statements for additional information.

U.K. Tax Rate Change

In July 2013, the U.K. Finance Act 2013 was enacted, which reduces the U.K.'s statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20%, effective April 1, 2015. As a result of these changes, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit of \$93 million in the third quarter of 2013.

Pennsylvania Net Operating Loss Valuation Allowance

PPL assesses the realizability of its deferred tax assets for Pennsylvania's net operating loss carryforwards based on, among other things, projections of future taxable income for the net operating loss carryforward periods. In the third quarter of 2013, PPL determined that its projected future taxable income would likely decrease, resulting in an increase to the valuation allowance related to Pennsylvania net operating loss carryforwards. As a result, PPL recorded a \$38 million increase in state deferred income tax expense.

FERC Audit Proceedings (All Registrants except PPL Energy Supply)

In November 2011, the FERC commenced an audit of PPL and its subsidiaries, including an audit of the FERC transmission formula rate mechanisms at PPL Electric, LG&E and KU beginning in April 2012. The audit identified several matters related to separate aspects of formula rate mechanics at PPL Electric, LG&E and KU. As previously reported, among the audit matters related to PPL Electric was the determination that PPL Electric had not obtained a waiver of the equity method accounting requirement with respect to its wholly owned subsidiary, PPL Receivables Corporation, which was formed in 2004 to purchase eligible accounts receivable and unbilled revenue from PPL Electric to collateralize commercial paper issuances and reduce borrowing costs. PPL, PPL Electric, LKE, LG&E and KU currently believe that the total amount of refunds, if any, that may be required with respect to the formula rate and all other issues identified during the course of the audit will not be material to any of these Registrants. PPL, PPL Electric, LKE, LG&E and KU, however, cannot predict the ultimate outcome of these matters.

(PPL and PPL Energy Supply)

Montana Transactions

In September 2013, PPL Montana executed a definitive agreement to sell 633MW of hydroelectric facilities to NorthWestern for \$900 million in cash, subject to certain adjustments. The sale is not expected to close before the second half of 2014. The sale is subject to closing conditions, including receipt of regulatory approvals by the FERC and Montana Public Service Commission and certain third-party consents. In a related transaction, in September 2013, PPL Montana negotiated and entered into an agreement to pay \$271 million to terminate a sale-leaseback arrangement and reacquire its interests in the Colstrip coal-fired facilities. This transaction is anticipated to occur by the end of the first quarter of 2014, subject to approval by the FERC. At lease termination, in addition to recording a charge for the cash payment, a non-cash charge is expected to be recorded related to the existing lease-related assets on PPL's and PPL Energy Supply's Balance Sheets. The book value of these assets was approximately \$450 million at September 30, 2013. These lease-related assets will be written-off and the reacquired Colstrip assets will be recorded at fair value as of the acquisition date. The total loss is currently estimated at between \$310 million and \$430 million, after-tax, which is dependent on the fair value assigned to the reacquired Colstrip assets. See Note 8 to the Financial Statements for additional information.

Susquehanna Turbine Blade Inspection

In the spring of 2013, PPL Susquehanna made modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant that was first identified in 2011. The modifications were made during the Unit 2 refueling outage and an additional planned outage for Unit 1. In September 2013, data from the extensive vibration monitoring equipment installed on the turbine blades identified cracks in a small number of the blades on both units. Unit 2 completed a blade

inspection and replacement outage on September 23, 2013. Based upon the evaluation of the conditions on Unit 1 and the latest inspection of previously removed blades, PPL Susquehanna will continue to operate Unit 1 and monitor the blades through the vibration monitoring equipment. The financial impact of the Unit 2 outage is not material. PPL Susquehanna continues to work with the turbine manufacturer to identify and resolve the issues causing the blade cracking.

Colstrip Unit 4 Outage (PPL Energy Supply)

On July 1, 2013, Colstrip Unit 4 automatically shut down as a result of damage that occurred in the unit's generator. The repair to Unit 4 is estimated to cost between \$30 million and \$40 million and is expected to take at least six months to complete. Property damage insurance for Unit 4 is subject to a \$2.5 million self-insured retention. PPL Montana operates Unit 4 pursuant to an agreement with the owners and, pursuant to a separate agreement with NorthWestern, is entitled to receive 15% of Unit 4's electricity output and is responsible for 15% of the capital, operating, maintenance and repair costs associated with Unit 4. PPL Montana's estimated pre-tax loss of earnings attributable to the Unit 4 outage is between \$5 million and \$10 million.

(PPL and PPL Electric)

Distribution System Improvement Charge

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery. In May 2013, the PUC approved PPL Electric's proposed DSIC, with an initial rate effective July 1, 2013, subject to refund after hearings. See Note 6 to the Financial Statements for additional information.

Rate Case Proceedings

(PPL and PPL Electric)

In December 2012, the PUC approved a total distribution revenue increase of about \$71 million for PPL Electric, using a 10.4% return on equity. The approved rates became effective January 1, 2013.

(PPL and Kentucky Registrants)

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million for LG&E and \$51 million for KU and an increase in annual base gas rates of \$15 million for LG&E using a 10.25% return on equity. The approved rates became effective January 1, 2013.

(KU)

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would recover costs based on forward-looking estimates with a subsequent true-up, replacing the current formula which uses prior-year cost amounts. KU's application proposed an authorized 10.7% return on equity. Subject to regulatory approval, the new formula rate may become effective during mid-2014.

In April 2013, KU filed an application with the VSCC to increase annual Virginia base electricity revenue by approximately \$7 million, representing an increase of 9.6%. KU proposed an authorized 10.8% return on equity. In October 2013, KU filed a stipulation reached with VSCC staff proposing a revenue increase of \$4.7 million, representing an increase of 6.9%. If approved by the VSCC, new base rates would go into effect on December 1, 2013.

Results of Operations

(PPL)

The discussion for PPL provides a review of results by reportable segment and concludes with a "Statement of Income Analysis," which includes explanations of Kentucky Gross Margins, Pennsylvania Gross Delivery Margins and Unregulated Gross Energy Margins. The "Statement of Income Analysis" also addresses significant changes in principal line items on PPL's Statements of Income, comparing the three and nine months ended September 30, 2013 with the same periods in 2012. "Segment Earnings and Statement of Income Analysis" is presented separately for PPL.

Tables analyzing changes in amounts between periods within "Segment Earnings" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average U.K. foreign currency exchange rate.

(Subsidiary Registrants)

The discussion for each of PPL Energy Supply, PPL Electric, LKE, LG&E and KU provides a summary of earnings and concludes with a "Statement of Income Analysis," which includes a reconciliation of a non-GAAP financial measure to "Operating Income" and significant changes in principal line items on the Statements of Income, comparing the three and nine months ended September 30, 2013 with the same periods in 2012. "Earnings and Statement of Income Analysis" is presented separately for PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL: Segment Earnings and Statement of Income Analysis

Segment Earnings

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global which primarily includes WPD's regulated electricity distribution operations and certain costs, such as U.S. income taxes, administrative costs and allocated financing costs. The U.K. Regulated segment represents 60% of Net Income Attributable to PPL Shareowners for nine months ended September 30, 2013 and 32% of PPL's assets at September 30, 2013.

Net Income Attributable to PPL Shareowners for the periods ended September 30 includes the following results:

	<u>Three Months</u>			<u>Nine Months</u>		
	<u>2013</u>	<u>2012</u>	<u>% Change</u>	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Utility revenues	\$ 534	\$ 518	3	\$ 1,731	\$ 1,613	7
Energy-related businesses	9	10	(10)	32	34	(6)
Total operating revenues	<u>543</u>	<u>528</u>	<u>3</u>	<u>1,763</u>	<u>1,647</u>	<u>7</u>
Other operation and maintenance	111	101	10	340	326	4
Depreciation	73	69	6	219	206	6
Taxes, other than income	36	36		109	108	1
Energy-related businesses	7	8	(13)	21	24	(13)
Total operating expenses	<u>227</u>	<u>214</u>	<u>6</u>	<u>689</u>	<u>664</u>	<u>4</u>
Other Income (Expense) - net	(117)	(50)	134	7	(39)	(118)
Interest Expense	102	106	(4)	313	314	
Income Taxes	(86)	(44)	95	27	67	(60)
Net Income Attributable to PPL Shareowners	<u>\$ 183</u>	<u>\$ 202</u>	<u>(9)</u>	<u>\$ 741</u>	<u>\$ 563</u>	<u>32</u>

The changes in the components of the U.K. Regulated segment's results between these periods were due to the factors set forth below, which reflect reclassifications for certain items that management considers special. See below for additional detail of these special items.

	<u>Three Months</u>	<u>Nine Months</u>
U.K.		
Utility revenues	\$ 44	\$ 187
Other operation and maintenance	(9)	(19)
Depreciation	(6)	(17)
Interest expense	3	(4)
Other	2	2
Income taxes	8	(13)
U.S.		
Interest expense and other		1
Income taxes	(5)	4

	<u>Three Months</u>	<u>Nine Months</u>
Foreign currency exchange rates, after-tax (a)	1	(2)
Special items, after-tax	(57)	39
Total	\$ (19)	\$ 178

(a) Includes the effect of realized gains (losses) on foreign currency economic hedges.

U.K.

- Higher utility revenues for the three-month period primarily due to \$74 million from the April 1, 2013 price increase, partially offset by a \$22 million accrual for over-recovered revenue and \$10 million of lower volume due primarily to weather.

Higher utility revenues for the nine-month period primarily due to \$187 million from the April 1, 2013 and 2012 price increases and \$18 million of higher volume due primarily to weather, partially offset by a \$22 million accrual for over-recovered revenue.

- Higher other operation and maintenance for the three- and nine-month periods primarily due to higher network maintenance expense.
- Higher depreciation for the three- and nine-month periods primarily due to PP&E additions.
- Lower income taxes for the three-month period due to \$16 million from U.K. tax rate changes, partially offset by higher pre-tax income, which increased income taxes by \$8 million.

Higher income taxes for the nine-month period primarily due to higher pre-tax income, which increased income taxes by \$38 million, and \$13 million from a benefit recorded in 2012 due to the tax deductibility of interest on the acquisition financing for WPD Midlands, partially offset by \$27 million from U.K. tax rate changes and \$6 million of prior year adjustments.

U.S.

- Higher income taxes for the three-month period due to an \$8 million increase to income tax expense attributable to a revision in the expected taxable amount of cash repatriation in 2013.

Lower income taxes for the nine-month period due to a \$19 million 2013 adjustment primarily related to an IRS ruling regarding 2010 U.K. earnings and profits calculations and \$11 million of lower income taxes on intercompany loans, partially offset by a \$23 million increase to income tax expense attributable to a revision in the expected taxable amount of cash repatriation in 2013.

The following after-tax gains (losses), which management considers special items, also impacted the U.K. Regulated segment's results during the periods ended September 30.

	Income Statement Line Item	<u>Three Months</u>		<u>Nine Months</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Foreign currency-related economic hedges, net of tax of \$44, \$18, \$5, \$17 (a)	Other Income (Expense)-net	\$ (82)	\$ (30)	\$ (8)	\$ (28)
WPD Midlands acquisition-related adjustments:					
Separation benefits, net of tax of \$1, \$1, \$1, \$3	Other Operation and Maintenance	(2)	(1)	(4)	(9)
Other acquisition-related adjustments, net of tax of \$0, \$0, \$0, (\$1)	Other Operation and Maintenance		(2)	(2)	2
Other:					
Windfall Profits Tax litigation (b)	Income Taxes			43	
Change in WPD line loss accrual, net of tax of \$5, \$0, \$10, \$0 (c)	Utility	(16)		(35)	
Change in U.K. tax rate (d)	Income Taxes	84	74	84	74
Total		\$ (16)	\$ 41	\$ 78	\$ 39

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated earnings denominated in GBP.

(b) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling, by the U.S. Court of Appeals for the Third Circuit, on the creditability for income tax purposes of the U.K. Windfall Profits Tax. As a result of the U.S. Supreme Court ruling, PPL recorded an income tax benefit during the nine-month 2013 period. See Note 5 to the Financial Statements for additional information.

- (c) WPD Midlands recorded adjustments to its line loss accrual based on information provided by Ofgem regarding the calculation of line loss incentive/penalty for all network operators related to DPCR4, a price control period that ended prior to PPL's acquisition of WPD Midlands. See Note 6 to the Financial Statements for additional information.
- (d) The U.K. Finance Act of 2013, enacted in July 2013, reduced the U.K.'s statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20%, effective April 1, 2015. The U.K. Finance Act of 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in the three and nine-month periods of 2013 and 2012.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations. This segment also includes LKE's regulated distribution and sale of natural gas. In addition, certain financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 19% of Net Income Attributable to PPL Shareowners for the nine months ended September 30, 2013 and 25% of PPL's assets at September 30, 2013.

Net Income Attributable to PPL Shareowners for the periods ended September 30 includes the following results:

	Three Months			Nine Months		
	2013	2012	% Change	2013	2012	% Change
Utility revenues	\$ 744	\$ 732	2	\$ 2,226	\$ 2,095	6
Fuel	237	249	(5)	684	677	1
Energy purchases	23	27	(15)	146	135	8
Other operation and maintenance	188	186	1	582	589	(1)
Depreciation	84	87	(3)	249	259	(4)
Taxes, other than income	12	11	9	36	34	6
Total operating expenses	544	560	(3)	1,697	1,694	
Other Income (Expense) - net	(4)	(4)		(6)	(14)	(57)
Interest Expense	49	54	(9)	165	163	1
Income Taxes	54	42	29	132	70	89
Income (Loss) from Discontinued Operations			n/a	1	(6)	(117)
Net Income Attributable to PPL Shareowners	\$ 93	\$ 72	29	\$ 227	\$ 148	53

The changes in the components of the Kentucky Regulated segment's results between these periods were due to the factors set forth below, which reflect reclassifications for items included in Kentucky Gross Margins and certain items that management considers special. See below for additional detail of these special items.

	Three Months	Nine Months
Kentucky Gross Margins	\$ 42	\$ 151
Other operation and maintenance	(4)	4
Depreciation	(9)	(26)
Taxes, other than income	(1)	(2)
Other Income (Expense) - net		7
Interest Expense	5	(2)
Income Taxes	(12)	(56)
Special items, after-tax		3
Total	\$ 21	\$ 79

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Kentucky Gross Margins.
- Lower other operation and maintenance for the nine-month period primarily due to \$18 million of lower costs due to the timing and scope of scheduled coal plant maintenance outages. This decrease was partially offset by \$8 million of higher administrative and general expenses and \$4 million of adjustments to regulatory assets and liabilities.
- Higher depreciation for the three and nine-month periods primarily due to environmental costs related to the 2005 and 2006 ECR plans now being included in base rates, which added \$13 million and \$39 million to depreciation that is excluded from Kentucky Gross Margins. This increase was partially offset by lower depreciation of \$5 and \$16 million due to revised rates that were effective January 1, 2013. Both events are the result of the 2012 rate case proceedings.
- Higher other income (expense) - net for the nine-month period primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.

- Higher income taxes for the three and nine-month periods primarily due to the change in pre-tax income at current period tax rates.

The following after-tax gains (losses), which management considers special items, also impacted the Kentucky Regulated segment's results during the periods ended September 30.

	Income Statement Line Item	Three Months		Nine Months	
		2013	2012	2013	2012
LKE acquisition-related adjustments:					
Net operating loss carryforward and other tax-related adjustments	Income Taxes and Other Operation and Maintenance				\$ 4
Other:					
LKE discontinued operations (a)	Discontinued Operations			\$ 1	(5)
EEl adjustments, net of tax of \$0, \$0, \$0, \$0 (b)	Other Income (Expense)-net			1	
Total				\$ 2	\$ (1)

- (a) 2012 period includes an adjustment to an indemnification liability.
(b) Impact recorded at KU.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes PPL Electric's regulated electricity transmission and distribution operations. In addition, certain financing costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 13% of Net Income Attributable to PPL Shareowners for the nine months ended September 30, 2013 and 15% of PPL's assets at September 30, 2013.

Net Income Attributable to PPL Shareowners for the periods ended September 30 includes the following results:

	Three Months			Nine Months		
	2013	2012	% Change	2013	2012	% Change
Utility revenues						
External	\$ 463	\$ 443	5	\$ 1,388	\$ 1,303	7
Intersegment	1	1		3	3	
Total utility revenues	464	444	5	1,391	1,306	7
Energy purchases						
External	144	137	5	436	410	6
Intersegment	11	23	(52)	37	61	(39)
Other operation and maintenance	134	148	(9)	391	431	(9)
Depreciation	45	41	10	132	119	11
Taxes, other than income	25	24	4	77	72	7
Total operating expenses	359	373	(4)	1,073	1,093	(2)
Other Income (Expense) - net	2	3	(33)	5	6	(17)
Interest Expense	30	25	20	80	73	10
Income Taxes	26	16	63	83	47	77
Net Income	51	33	55	160	99	62
Net Income Attributable to Noncontrolling Interests			n/a		4	(100)
Net Income Attributable to PPL Shareowners	<u>\$ 51</u>	<u>\$ 33</u>	<u>55</u>	<u>\$ 160</u>	<u>\$ 95</u>	<u>68</u>

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the factors set forth below, which reflect reclassifications for items included in Pennsylvania Gross Delivery Margins.

	Three Months	Nine Months
Pennsylvania Gross Delivery Margins	\$ 31	\$ 92
Other operation and maintenance	8	28
Depreciation	(4)	(13)
Interest Expense	(5)	(7)
Other	(2)	(3)
Income Taxes	(10)	(36)
Noncontrolling Interests		4
Total	\$ 18	\$ 65

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.

- Lower other operation and maintenance for the three-month period primarily due to lower storm costs of \$8 million, lower corporate service costs of \$3 million and lower rent expense of \$3 million, partially offset by higher vegetation management expense of \$6 million.

Lower other operation and maintenance for the nine-month period primarily due to lower storm costs of \$9 million, lower corporate service costs of \$13 million and lower rent expense of \$4 million.

- Higher depreciation for the three and nine-month periods primarily due to the impact of PP&E additions related to the ongoing efforts to ensure the reliability of the delivery system and replace aging infrastructure.
- Higher interest expense for the three and nine-month periods primarily due to the issuance of first mortgage bonds in August 2012 and July 2013.
- Higher income taxes for the three and nine-month periods primarily due to higher pre-tax income.

Supply Segment

The Supply segment primarily consists of PPL Energy Supply's energy marketing and trading activities, as well as its competitive generation operations. In addition, certain financing costs are allocated to the Supply segment. The Supply segment represents 10% of Net Income Attributable to PPL Shareowners for the nine months ended September 30, 2013 and 27% of PPL's assets at September 30, 2013.

Net Income Attributable to PPL Shareowners for the periods ended September 30 includes the following results:

	Three Months			Nine Months		
	2013	2012	% Change	2013	2012	% Change
Energy revenues						
External (a)	\$ 1,209	\$ 567	113	\$ 3,248	\$ 3,673	(12)
Intersegment	11	23	(52)	37	61	(39)
Energy-related businesses	143	133	8	378	346	9
Total operating revenues	1,363	723	89	3,663	4,080	(10)
Fuel (a)	258	321	(20)	780	728	7
Energy purchases						
External (a)	388	(150)	(359)	1,085	1,288	(16)
Intersegment	1	1		3	2	50
Other operation and maintenance	243	221	10	748	769	(3)
Depreciation	80	75	7	237	210	13
Taxes, other than income	18	19	(5)	51	54	(6)
Energy-related businesses	138	129	7	366	339	8
Total operating expenses	1,126	616	83	3,270	3,390	(4)
Other Income (Expense) - net	2	6	(67)	18	15	20
Other-Than-Temporary Impairments	1		n/a	1	1	
Interest Expense	54	62	(13)	174	163	7
Income Taxes	92	3	2,967	113	180	(37)
Net Income Attributable to Noncontrolling Interests	1		n/a	1		n/a
Net Income Attributable to PPL Shareowners	\$ 91	\$ 48	90	\$ 122	\$ 361	(66)

(a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.

The changes in the components of the Supply segment's results between these periods were due to the factors set forth below, which reflect reclassifications for items included in Unregulated Gross Energy Margins and certain items that management considers special. See below for additional detail of these special items.

	Three Months	Nine Months
Unregulated Gross Energy Margins	\$ (9)	\$ (204)
Other operation and maintenance	(18)	11
Depreciation	(5)	(27)
Taxes, other than income	(1)	3
Other Income (Expense) - net	(4)	6
Interest expense	8	(11)
Other	(4)	(2)
Income Taxes	(23)	37
Special items, after-tax	99	(52)
Total	\$ 43	\$ (239)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Higher other operation and maintenance for the three-month period primarily due to Montour outage costs in 2013 with no comparable outage in 2012.

Lower other operation and maintenance for the nine-month period primarily due to \$23 million of outage costs at Brunner Island mainly due to timing and \$9 million due to lower project costs at PPL Susquehanna, partially offset by \$13 million of Montour outage costs in 2013 with no comparable outage in 2012 and \$6 million of Ironwood outage costs in 2013 with no comparable outage in 2012.

- Higher depreciation for the three and nine-month periods primarily due to PP&E additions. The nine-month period also includes \$6 million attributable to the Ironwood Acquisition.
- Higher interest expense for the nine-month period primarily due to lower capitalized interest in 2013.
- Higher income taxes for the three-month period primarily due to \$26 million of higher adjustments to valuation allowances in 2013 on Pennsylvania net operating loss carryforwards and a \$6 million benefit from a state tax rate change recorded in 2012, partially offset by lower pre-tax income in 2013, which reduced income taxes by \$10 million.

Lower income taxes for the nine-month period primarily due to lower pre-tax income in 2013, which reduced income taxes by \$87 million, partially offset by \$26 million of higher adjustments to valuation allowances in 2013 on Pennsylvania net operating loss carryforwards and a \$17 million benefit from a state tax rate change recorded in 2012.

The following after-tax gains (losses), which management considers special items, also impacted the Supply segment's results during the periods ended September 30.

Income Statement Line Item	Three Months		Nine Months		
	2013	2012	2013	2012	
Adjusted energy-related economic activity - net, net of tax of \$4, \$63, \$32, (\$16)	(a)	\$ (6)	\$ (95)	\$ (47)	\$ 23
Impairments:					
Adjustments - nuclear decommissioning trust investments, net of tax of \$0, \$0, \$0, (\$2)	Other Income-net				1
Other:					
Change in tax accounting method related to repairs	Income Taxes			(3)	
Counterparty bankruptcy, net of tax of \$0, \$0, (\$1), \$5 (b)	Other Operation and Maintenance			1	(6)
Wholesale supply cost reimbursement, net of tax of \$0, \$0, \$0, \$0	(c)				1
Ash basin leak remediation adjustment, net of tax of \$0, \$0, \$0, (\$1)	Other Operation and Maintenance				1
Coal contract modification payments, net of tax of \$0, \$7, \$0, \$12 (d)	Fuel		(10)		(17)
Total		\$ (6)	\$ (105)	\$ (49)	\$ 3

(a) See "Reconciliation of Economic Activity" below.

(b) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012. In June 2013, PPL EnergyPlus received an approval for an administrative claim in the amount of \$2 million.

(c) Recorded in "Wholesale energy marketing - Realized" on the Statement of Income.

(d) As a result of lower electricity and natural gas prices, coal-fired generation output decreased during 2012. Contract modification payments were incurred to reduce 2012 and 2013 contracted coal deliveries.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) for the periods ended September 30, to the special item identified as "Adjusted energy-related economic activity - net."

	Three Months		Nine Months	
	2013	2012	2013	2012
Operating Revenues				
Unregulated retail electric and gas	\$ (2)	\$ (13)	\$ 10	\$ (15)
Wholesale energy marketing	(49)	(716)	(281)	(322)
Operating Expenses				
Fuel	3	3	(2)	(11)
Energy Purchases	37	569	192	420
Energy-related economic activity (a)	(11)	(157)	(81)	72

	Three Months		Nine Months	
	2013	2012	2013	2012
Option premiums	1		2	1
Adjusted energy-related economic activity	(10)	(157)	(79)	73
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010		1		34
Adjusted energy-related economic activity - net, pre-tax	\$ (10)	\$ (158)	\$ (79)	\$ 39
Adjusted energy-related economic activity - net, after-tax	\$ (6)	\$ (95)	\$ (47)	\$ 23

(a) See Note 14 to the Financial Statements for additional information.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measures

Management utilizes the following non-GAAP financial measures as indicators of performance for its businesses.

- "Kentucky Gross Margins" is a single financial performance measure of LKE's, LG&E's and KU's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, return on capital investments and performance incentives. Certain costs associated with these mechanisms, primarily ECR, DSM and GLT, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from the electric and gas operations.
- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Energy purchases from affiliate" in PPL Electric's reconciliation table). As a result, this measure represents the net revenues from PPL Electric's electric delivery operations.
- "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. Non-trading activities are managed on a geographic basis that is aligned with the generation fleet. In calculating this measure, energy revenues are offset by the cost of fuel, energy purchases and certain other operation and maintenance expenses, primarily ancillary charges and gross receipts tax, which is recorded in "Taxes, other than income." This performance measure is relevant to PPL due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Wholesale energy marketing to affiliate" in PPL Energy Supply's reconciliation table). "Unregulated Gross Energy Margins" excludes adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of the competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Adjusted energy-related economic activity also includes the premium amortization associated with options and for 2012 the ineffective portion of qualifying cash flow hedges and realized economic activity associated with the monetization of certain full-requirement sales contracts in 2010. This economic activity was deferred, with the exception of the full-requirement sales contracts that were monetized, and included in "Unregulated Gross Energy Margins" over the delivery period that was hedged or upon realization.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Management believes that these measures provide additional criteria to make investment decisions. These performance measures are used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage the operations, analyze actual results compared with budget and, in certain cases, to measure certain corporate financial goals used in determining variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended September 30.

	2013 Three Months				2012 Three Months					
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 744	\$ 463		\$ 532 (c)	\$ 1,739	\$ 732	\$ 443		\$ 518 (c)	\$ 1,693
PLR intersegment utility revenue (expense) (d)		(11)	\$ 11				(23)	\$ 23		
Unregulated retail electric and gas			267	(3)(f)	264			232	(14)(f)	218
Wholesale energy marketing										
Realized			981	(1)	980			1,074	2 (e)	1,076
Unrealized economic activity				(49)(f)	(49)				(716)(f)	(716)
Net energy trading margins			12		12			(11)		(11)
Energy-related businesses				159	159				143	143
Total Operating Revenues	<u>744</u>	<u>452</u>	<u>1,271</u>	<u>638</u>	<u>3,105</u>	<u>732</u>	<u>420</u>	<u>1,318</u>	<u>(67)</u>	<u>2,403</u>
Operating Expenses										
Fuel	237		256	1	494	249		310	11 (g)	570
Energy purchases										
Realized	23	144	427	(2)	592	27	137	418	1 (e)	583
Unrealized economic activity				(37)(f)	(37)				(569)(f)	(569)
Other operation and maintenance	26	19	5	619	669	28	25	1	596	650
Depreciation	1			288	289	13			265	278
Taxes, other than income		23	9	58	90		23	11	56	90
Energy-related businesses			5	146	151				137	137
Intercompany eliminations		(1)	1				(1)	1		
Total Operating Expenses	<u>287</u>	<u>185</u>	<u>703</u>	<u>1,073</u>	<u>2,248</u>	<u>317</u>	<u>184</u>	<u>741</u>	<u>497</u>	<u>1,739</u>
Total	<u>\$ 457</u>	<u>\$ 267</u>	<u>\$ 568</u>	<u>\$ (435)</u>	<u>\$ 857</u>	<u>\$ 415</u>	<u>\$ 236</u>	<u>\$ 577</u>	<u>\$ (564)</u>	<u>\$ 664</u>

	2013 Nine Months				2012 Nine Months					
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 2,226	\$ 1,388		\$ 1,730 (c)	\$ 5,344	\$ 2,095	\$ 1,303		\$ 1,614 (c)	\$ 5,012
PLR intersegment utility revenue (expense) (d)		(37)	\$ 37				(61)	\$ 61		
Unregulated retail electric and gas			750	8 (f)	758			638	(18)(f)	620
Wholesale energy marketing										
Realized			2,770	(3)	2,767			3,353	14 (e)	3,367
Unrealized economic activity				(281)(f)	(281)				(322)(f)	(322)
Net energy trading margins			1		1			7		7
Energy-related businesses				423	423				380	380
Total Operating Revenues	<u>2,226</u>	<u>1,351</u>	<u>3,558</u>	<u>1,877</u>	<u>9,012</u>	<u>2,095</u>	<u>1,242</u>	<u>4,059</u>	<u>1,668</u>	<u>9,064</u>

	2013 Nine Months				2012 Nine Months					
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Expenses										
Fuel	684		778	2	1,464	677		695	33 (g)	1,405
Energy purchases										
Realized	146	436	1,282	(9)	1,855	135	410	1,669	39 (e)	2,253
Unrealized economic activity				(192)(f)	(192)				(420)(f)	(420)
Other operation and maintenance	74	62	13	1,894	2,043	76	74	12	1,933	2,095
Depreciation	3			856	859	39			774	813
Taxes, other than income		70	27	175	272		67	27	174	268
Energy-related businesses			5	398	403				363	363
Intercompany eliminations		(3)	3				(3)	2	1	
Total Operating Expenses	907	565	2,108	3,124	6,704	927	548	2,405	2,897	6,777
Total	\$ 1,319	\$ 786	\$ 1,450	\$ (1,247)	\$ 2,308	\$ 1,168	\$ 694	\$ 1,654	\$ (1,229)	\$ 2,287

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) Primarily represents WPD's utility revenue.
(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
(e) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. For the three and nine months ended September 30, 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include net pre-tax losses of \$1 million and \$34 million related to the monetization of certain full-requirement sales contracts.
(f) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.
(g) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. The three and nine months ended September 30, 2012 include a pre-tax loss of \$17 million and \$29 million related to coal contract modification payments.

Changes in Non-GAAP Financial Measures

The following table shows the non-GAAP financial measures by PPL's reportable segment and by component, as applicable, for the periods ended September 30 as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Nine Months		
	2013	2012	Change	2013	2012	Change
Kentucky Regulated						
Kentucky Gross Margins						
LKE	\$ 457	\$ 415	\$ 42	\$ 1,319	\$ 1,168	\$ 151
LG&E	210	198	12	595	552	43
KU	247	216	31	724	616	108
Pennsylvania Regulated						
PA Gross Delivery Margins						
Distribution	\$ 201	\$ 185	\$ 16	\$ 607	\$ 544	\$ 63
Transmission	66	51	15	179	150	29
Total	\$ 267	\$ 236	\$ 31	\$ 786	\$ 694	\$ 92
Supply						
Unregulated Gross Energy Margins						
Non-trading						
Eastern U.S.	\$ 504	\$ 521	\$ (17)	\$ 1,283	\$ 1,417	\$ (134)
Western U.S.	52	67	(15)	166	230	(64)
Net energy trading	12	(11)	23	1	7	(6)
Total	\$ 568	\$ 577	\$ (9)	\$ 1,450	\$ 1,654	\$ (204)

Kentucky Gross Margins

Kentucky Gross Margins increased \$42 million for the three months ended September 30, 2013 compared with 2012, primarily due to higher base rates of \$23 million (\$10 million at LG&E and \$13 million at KU), environmental cost recoveries added to base rates of \$13 million (at KU), returns from additional environmental capital investments of \$8 million (\$3 million at LG&E and \$5 million at KU) and higher fuel recoveries of \$6 million (\$3 million at LG&E and \$3 million at KU), partially offset by lower volumes of \$13 million (\$7 million at LG&E and \$6 million at KU). The change in volumes was primarily attributable to weather, as cooling degree days decreased 16% compared to the same period in 2012.

Kentucky Gross Margins increased \$151 million for the nine months ended September 30, 2013 compared with 2012, primarily due to higher base rates of \$72 million (\$31 million at LG&E and \$41 million at KU), environmental cost recoveries added to base rates of \$45 million (\$3 million at LG&E and \$42 million at KU), returns from additional environmental capital investments of \$18 million (\$9 million at LG&E and \$9 million at KU) and higher fuel recoveries of \$11 million (\$3 million at LG&E and \$8 million at KU).

The increase in base rates was the result of new KPSC rates effective January 1, 2013 at LG&E and KU. The environmental cost recoveries added to base rates were due to the transfer of the 2005 and 2006 ECR plans into base rates as a result of the 2012 Kentucky rate cases for LG&E and KU. This transfer results in depreciation and other operation and maintenance expenses associated with the 2005 and 2006 ECR plans being excluded from Kentucky Gross Margins in 2013, while the recovery of such costs remain in Kentucky Gross Margins through base rates.

Pennsylvania Gross Delivery Margins

Distribution

Distribution margins increased for the three months ended September 30, 2013 compared with 2012, primarily due to an \$18 million favorable effect of price as a result of higher base rates, effective January 1, 2013, partially offset by unfavorable weather of \$4 million.

Distribution margins increased for the nine months ended September 30, 2013 compared with 2012 due to a \$50 million favorable effect of price, largely comprised of higher base rates, effective January 1, 2013, a favorable weather effect of \$9 million and higher volumes of \$4 million.

Transmission

Transmission margins increased for the three and nine months ended September 30, 2013 compared with 2012, primarily due to increased capital investments and the recovery of additional costs through the FERC formula-based rates.

Unregulated Gross Energy Margins

The increase (decrease) in unregulated gross energy margins for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
<u>Eastern U.S.</u>		
Baseload energy prices	\$ (64)	\$ (310)
Coal prices	(5)	(14)
Nuclear fuel prices	(4)	(14)
Retail electric	(10)	(10)
Nuclear generation volume	(12)	(3)
Full-requirement sales contracts	(6)	4
Gas optimization and storage	5	16
Ironwood acquisition which eliminated tolling expense		17
Intermediate and peaking Spark Spreads and availability	11	18
Net economic availability of coal and hydroelectric plants	(10)	29
Capacity prices	77	124
Other	1	9
Total	<u>\$ (17)</u>	<u>\$ (134)</u>
<u>Western U.S.</u>		
Wholesale energy prices	\$ (10)	\$ (67)
Net economic availability of coal and hydroelectric plants	(8)	(1)
Other	3	4
Total	<u>\$ (15)</u>	<u>\$ (64)</u>
<u>Net Energy Trading Margins</u>		
Gas positions	\$ (3)	\$ (17)
Power positions	15	5
FTRs	9	7
Other	2	(1)
Total	<u>\$ 23</u>	<u>\$ (6)</u>

Utility Revenues

The increase (decrease) in utility revenues for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Domestic:		
PPL Electric (a)	\$ 20	\$ 85
LKE (b)	12	131
Total Domestic	<u>32</u>	<u>216</u>
U.K.:		
Price (c)	74	187
Volume (d)	(10)	18
DPCR4 accrual adjustments (e)	(21)	(45)
Recovery of allowed revenues (f)	(22)	(22)
Foreign currency exchange rates	(9)	(25)
Other	2	3
Total U.K.	<u>14</u>	<u>116</u>
Total	<u>\$ 46</u>	<u>\$ 332</u>

(a) See "Pennsylvania Gross Delivery Margins" for further information.

(b) See "Kentucky Gross Margins" for further information.

(c) The three and nine-month periods were impacted by a price increase effective April 1, 2013. The nine-month period was also impacted by a price increase effective April 1, 2012.

(d) The increase for the nine-month period was primarily due to the favorable effect of weather.

(e) The decrease for the three and nine-month periods was due to a reduction in revenue based on information provided by Ofgem regarding the calculation of line loss incentive/penalty for all network operators related to DPCR4. See Note 6 to the Financial Statements for additional information.

(f) The decrease for the three and nine-month period was due to an accrual for over-recovered revenues as a result of price and weather related volume effects that is not expected to reverse within the regulatory year ending March 31, 2014. Therefore, a liability was recorded and utility revenue was reduced for the amount of the over-recovery in September 2013. These amounts are expected to be refunded within the regulatory year beginning April 1, 2014.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Domestic:		
Brunner Island outage timing	\$ (4)	\$ (23)
Uncollectible accounts (a)		(23)
LKE coal plant outages (b)	(1)	(18)
Montour outage in 2013	15	13
Act 129 costs (c)	(7)	(13)
PUC-reportable storm costs, net of insurance recovery	(8)	(9)
PPL Susquehanna projects		(9)
PPL Susquehanna outages	1	(6)
Ironwood outage in 2013	3	6
LKE adjustments to regulatory assets and liabilities		4
Other generation plants	4	4
Other	8	9
U.K.:		
Third-party engineering (d)	3	5
Network maintenance (e)	10	23
Insurance claim provision release		6
Severance compensation (f)		(8)
Employee related expenses	(1)	(6)
Foreign currency exchange rates	(2)	(4)
Other	(2)	(3)
Total	<u>\$ 19</u>	<u>\$ (52)</u>

(a) The decrease for the nine-month period is primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code in 2011. \$11 million of damages billed to SMGT were fully reserved in 2012.

(b) The decrease for the three and nine month periods is due to the timing and scope of scheduled outages.

(c) The decrease for the three and nine month periods is due to a reduction in Act 129 energy efficiency and conservation plan costs for Phase 1 programs. Phase 1 ended May 31, 2013.

(d) These costs are offset by revenues reflected in "Utility" on the Statement of Income.

(e) The increase for the three and nine month periods is primarily due to higher vegetation management costs.

(f) The decrease for the nine month period is primarily due to costs incurred in 2012 related to the WPD Midlands reorganization.

Depreciation

The increase (decrease) in depreciation for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Additions to PP&E	\$ 20	\$ 64
LKE lower depreciation rates effective January 1, 2013	(5)	(16)
Ironwood Acquisition		6
Other	(4)	(8)
Total	<u>\$ 11</u>	<u>\$ 46</u>

Other Income (Expense) - net

The \$72 million decrease in other income (expense) - net for the three months ended September 30, 2013 compared with 2012 was primarily due to a decrease of \$70 million from realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

The \$50 million increase in other income (expense) - net for the nine months ended September 30, 2013 compared with 2012 was primarily due to an increase of \$46 million from realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

See Note 12 to the Financial Statements for additional information on other income (expense) - net.

Interest Expense

The increase (decrease) in interest expense for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Long-term debt interest expense (a)	\$ 5	\$ 32
Loss on extinguishment of debt (b)		10
Net amortization of debt discounts, premiums and issuance costs	(4)	(4)
Other	(3)	3
Total	<u>\$ (2)</u>	<u>\$ 41</u>

(a) The increase for the three and nine-month periods was due to debt issuances by PPL Capital Funding in March 2013 and October 2012, and by PPL Electric in July 2013 and August 2012, partially offset by the impact of lower interest rates resulting from the remarketing of the 2010 Equity Units.

The nine-month period also increased due to debt issuances by PPL Capital Funding in June 2012 and by WPD (East Midlands) in April 2012, as well as higher accretion expense on WPD index linked notes and three additional months of interest on debt assumed as part of the Ironwood Acquisition. Partially offsetting these increases was PPL Energy Supply's debt maturity in July 2013.

(b) In May 2013, PPL Capital Funding remarketed and exchanged junior subordinate notes that were originally issued in June 2010 as a component of PPL's 2010 Equity Units.

See Note 7 to the Financial Statements in this Form 10-Q for information on 2013 long-term debt activity and PPL's 2012 Form 10-K for information on 2012 activity.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Change in pre-tax income at current period tax rates	\$ 36	\$ (31)
State valuation allowance adjustments (a)	36	36
Federal and state tax reserve adjustments (b)	1	(34)
Federal and state tax return adjustments	(4)	(4)
U.S. income tax on foreign earnings net of foreign tax credit (c)	9	3
U.K. Finance Act adjustments (d)	(19)	(19)
Foreign tax reserve adjustments	(2)	3
Net operating loss carryforward adjustments (e)		9
Intercompany Interest on WPD Financing Entities	2	2
State deferred tax rate change (f)	6	17
Other	2	(2)
Total	<u>\$ 67</u>	<u>\$ (20)</u>

- (a) During the three and nine months ended September 30, 2013, PPL recorded a \$38 million increase in state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income over the remaining carryforward period of Pennsylvania net operating losses.
- (b) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling of the U.S. Court of Appeals for the Third Circuit on the creditability of U.K. Windfall Profits Tax for tax purposes. As a result of this decision, PPL recorded a tax benefit of \$44 million during the nine months ended September 30, 2013. See Note 5 to the Financial Statements for additional information.
- (c) During the three and nine months ended September 30, 2013, PPL recorded a \$10 million and \$24 million increase to income tax expense primarily attributable to a revision in the expected taxable amount of cash repatriation in 2013.

During the nine months ended September 30, 2013, PPL recorded a tax benefit of \$19 million associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that will be reflected on an amended 2010 U.S. tax return.

- (d) The U.K.'s Finance Act 2013, enacted in July 2013, reduced the U.K. statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20% effective April 1, 2015. As a result, PPL reduced its net deferred tax liabilities and recognized a \$93 million deferred tax benefit in the third quarter of 2013 related to both rate decreases.

The U.K.'s Finance Act 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liabilities and recognized a \$74 million deferred tax benefit in the third quarter of 2012 related to both rate decreases.

- (e) During the nine months ended September 30, 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
- (f) During the three and nine months ended September 30, 2012, PPL recorded adjustments related to state deferred tax liabilities.

See Note 5 to the Financial Statements for additional information on income taxes.

PPL Energy Supply: Earnings and Statement of Income Analysis

Earnings

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Income Attributable to PPL Energy Supply Member	\$ 124	\$ 54	\$ 172	\$ 382
Special items, after-tax	(6)	(105)	(49)	3

Excluding special items, the decrease in earnings for the three-month period was primarily due to lower baseload energy prices, lower baseload generation and higher operation and maintenance expense, partially offset by higher capacity prices. The decrease for the nine-month period was primarily due to lower baseload energy prices, higher fuel costs and higher depreciation, partially offset by higher capacity prices, higher intermediate and peaking margins, higher baseload generation and lower income taxes.

The table below quantifies the changes in the components of Net Income Attributable to PPL Energy Supply Member between these periods, which reflect reclassifications for items included in Unregulated Gross Energy Margins and certain items that management considers special. See PPL's "Results of Operations - Segment Earnings - Supply Segment" for the details of special items.

	Three Months	Nine Months
Unregulated Gross Energy Margins	\$ (9)	\$ (204)
Other operation and maintenance	(19)	11
Depreciation	(7)	(31)
Taxes, other than income	(2)	2
Other Income (Expense) - net	(3)	5
Interest Expense	4	(8)
Other	(1)	1
Income Taxes	8	66
Special items, after-tax	99	(52)
Total	<u>\$ 70</u>	<u>\$ (210)</u>

Statement of Income Analysis --

Unregulated Gross Energy Margins

"Unregulated Gross Energy Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Income Statement Analysis - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2013 Three Months			2012 Three Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	\$ 981	\$ (1)	\$ 980	\$ 1,074	\$ 2 (c)	\$ 1,076
Unrealized economic activity		(49) (d)	(49)		(716) (d)	(716)
Wholesale energy marketing to affiliate	11		11	23		23
Unregulated retail electric and gas	267	(1) (d)	266	232	(13) (d)	219
Net energy trading margins	12		12	(11)		(11)
Energy-related businesses		143	143		128	128
Total Operating Revenues	1,271	92	1,363	1,318	(599)	719
Operating Expenses						
Fuel	256	2	258	310	11 (e)	321
Energy purchases						
Realized	427	(2)	425	418	3 (c)	421
Unrealized economic activity		(37) (d)	(37)		(569) (d)	(569)
Energy purchases from affiliate	1		1	1		1
Other operation and maintenance	5	238	243	1	219	220
Depreciation		80	80		73	73
Taxes, other than income	9	9	18	11	7	18
Energy-related businesses	5	133	138		125	125
Total Operating Expenses	703	423	1,126	741	(131)	610
Total	\$ 568	\$ (331)	\$ 237	\$ 577	\$ (468)	\$ 109

	2013 Nine Months			2012 Nine Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	\$ 2,770	\$ (3)	\$ 2,767	\$ 3,353	\$ 14 (c)	\$ 3,367
Unrealized economic activity		(281) (d)	(281)		(322) (d)	(322)
Wholesale energy marketing to affiliate	37		37	61		61
Unregulated retail electric and gas	750	11 (d)	761	638	(15) (d)	623
Net energy trading margins	1		1	7		7
Energy-related businesses		378	378		336	336
Total Operating Revenues	3,558	105	3,663	4,059	13	4,072
Operating Expenses						
Fuel	778	2	780	695	33 (e)	728
Energy purchases						
Realized	1,282	(5)	1,277	1,669	46 (c)	1,715
Unrealized economic activity		(192) (d)	(192)		(420) (d)	(420)
Energy purchases from affiliate	3		3	2		2
Other operation and maintenance	13	735	748	12	757	769
Depreciation		237	237		206	206
Taxes, other than income	27	24	51	27	26	53
Energy-related businesses	5	361	366		326	326
Total Operating Expenses	2,108	1,162	3,270	2,405	974	3,379
Total	\$ 1,450	\$ (1,057)	\$ 393	\$ 1,654	\$ (961)	\$ 693

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. For the three and nine months ended September 30, 2012 "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include net pre-tax losses of \$1 million and \$34 million related to the monetization of certain full-requirement sales contracts.

(d) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.

(e) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. The three and nine months ended September 30, 2012 include pre-tax losses of \$17 million and \$29 million related to coal contract modification payments.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Brunner Island outage timing	\$ (4)	\$ (23)
Uncollectible accounts (a)		(15)
PPL Susquehanna projects		(9)
PPL Susquehanna outages	1	(6)
Ironwood outage in 2013	3	6
Montour outage in 2013	15	13
Other generation plants	4	4
Other	4	9
Total	\$ 23	\$ (21)

- (a) The decrease for the nine-month period is primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code in 2011. \$11 million of damages billed to SMGT were fully reserved in 2012.

Depreciation

Depreciation increased by \$7 million and \$31 million for the three and nine months ended September 30, 2013 compared with 2012, primarily due to \$8 million and \$28 million related to PP&E additions, and \$6 million attributable to the Ironwood Acquisition for the nine-month period.

Interest Expense

For the nine months ended September 30, 2013 compared with 2012, interest expense increased by \$8 million, primarily due to \$6 million of lower capitalized interest related to the Rainbow hydroelectric redevelopment project.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Change in pre-tax income at current period tax rates	\$ 50	\$ (122)
State valuation allowance adjustments	2	2
Federal and state tax reserve adjustments (a)		6
Federal and state tax return adjustments	(1)	(1)
State deferred tax rate change (b)	6	17
Other	1	2
Total	\$ 58	\$ (96)

- (a) During the nine months ended September 30, 2013, PPL Energy Supply reversed \$3 million in tax benefits related to a 2008 change in method of accounting for certain expenditures for tax purposes and recorded \$4 million in federal tax reserves related to differences in over (under) payment interest rates applied to audit claims as a result of the U.S. Supreme Court decision related to the Windfall Profits tax.
- (b) During the three and nine months ended September 30, 2012, PPL Energy Supply recorded adjustments related to state deferred tax liabilities.

See Note 5 to the Financial Statements for additional information on income taxes.

PPL Electric: Earnings and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net Income Available to PPL	\$ 51	\$ 33	\$ 160	\$ 95

The increase in earnings for both periods was primarily due to higher electricity base rates that became effective January 1, 2013 and higher transmission margins from additional capital investments, partially offset by higher income taxes. The increase for the nine-month period was also due to lower operation and maintenance expense, partially offset by higher depreciation.

The table below quantifies the changes in the components of Net Income Available to PPL between these periods, which reflect reclassifications for items included in Pennsylvania Gross Delivery Margins.

	<u>Three Months</u>	<u>Nine Months</u>
Pennsylvania Gross Delivery Margins	\$ 31	\$ 92
Other operation and maintenance	8	28
Depreciation	(4)	(13)
Interest Expense	(5)	(7)
Other	(2)	(3)
Income Taxes	(10)	(36)
Distributions on preference stock		4
Total	<u>\$ 18</u>	<u>\$ 65</u>

Statement of Income Analysis --

Pennsylvania Gross Delivery Margins

"Pennsylvania Gross Delivery Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Income Statement Analysis - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	<u>2013 Three Months</u>			<u>2012 Three Months</u>		
	<u>PA Gross Delivery Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>	<u>PA Gross Delivery Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>
Operating Revenues						
Retail electric	\$ 463		\$ 463	\$ 443		\$ 443
Electric revenue from affiliate	1		1	1		1
Total Operating Revenues	<u>464</u>		<u>464</u>	<u>444</u>		<u>444</u>
Operating Expenses						
Energy purchases	144		144	137		137
Energy purchases from affiliate	11		11	23		23
Other operation and maintenance	19	\$ 115	134	25	\$ 123	148
Depreciation		45	45		41	41
Taxes, other than income	23	2	25	23	1	24
Total Operating Expenses	<u>197</u>	<u>162</u>	<u>359</u>	<u>208</u>	<u>165</u>	<u>373</u>
Total	<u>\$ 267</u>	<u>\$ (162)</u>	<u>\$ 105</u>	<u>\$ 236</u>	<u>\$ (165)</u>	<u>\$ 71</u>

	<u>2013 Nine Months</u>			<u>2012 Nine Months</u>		
	<u>PA Gross Delivery Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>	<u>PA Gross Delivery Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>
Operating Revenues						
Retail electric	\$ 1,388		\$ 1,388	\$ 1,303		\$ 1,303
Electric revenue from affiliate	3		3	3		3
Total Operating Revenues	<u>1,391</u>		<u>1,391</u>	<u>1,306</u>		<u>1,306</u>
Operating Expenses						
Energy purchases	436		436	410		410
Energy purchases from affiliate	37		37	61		61
Other operation and maintenance	62	\$ 329	391	74	\$ 357	431
Depreciation		132	132		119	119
Taxes, other than income	70	7	77	67	5	72
Total Operating Expenses	<u>605</u>	<u>468</u>	<u>1,073</u>	<u>612</u>	<u>481</u>	<u>1,093</u>
Total	<u>\$ 786</u>	<u>\$ (468)</u>	<u>\$ 318</u>	<u>\$ 694</u>	<u>\$ (481)</u>	<u>\$ 213</u>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Vegetation management	\$ 6	\$ 3
PUC-reportable storm costs, net of insurance recovery	(8)	(9)
Act 129 costs (a)	(7)	(13)
Uncollectible accounts		(3)
Corporate service (b)	(2)	(13)
Rent	(3)	(4)
Other		(1)
Total	\$ (14)	\$ (40)

(a) The decrease was due to a reduction in Act 129 energy efficiency and conservation plan costs for Phase 1 programs. Phase 1 ended May 31, 2013.

(b) The decrease was partially due to storm insurance policy premiums for coverage that was in place in 2012 but was not renewed in 2013.

Depreciation

Depreciation increased by \$4 million and \$13 million for the three and nine months ended September 30, 2013 compared with 2012, primarily due to PP&E additions as part of ongoing investments to enhance system reliability.

Taxes, Other Than Income

Taxes, other than income increased by \$5 million for the nine months ended September 30, 2013 compared with 2012, primarily due to higher Pennsylvania gross receipts tax expense due to higher retail electricity revenue. This tax is included in "Pennsylvania Gross Delivery Margins."

Financing Costs

The increase (decrease) in financing costs for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Long-term debt interest expense (a)	\$ 5	\$ 8
Distributions on Preference Stock (b)		(4)
Other		(1)
Total	\$ 5	\$ 3

(a) The increase was due to debt issuances in August 2012 and July 2013.

(b) The decrease was due to the June 2012 redemption of all 2.5 million shares of preference stock.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Change in pre-tax income at current period tax rates	\$ 12	\$ 39
Other	(2)	(3)
Total	\$ 10	\$ 36

See Note 5 to the Financial Statements for additional information on income taxes.

LKE: Earnings and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net Income	\$ 100	\$ 83	\$ 260	\$ 180
Special items, after-tax			2	(1)

Excluding special items, the increases in earnings for both periods were primarily due to higher electricity and gas base rates that went into effect January 1, 2013, returns from additional environmental capital investments and higher fuel recovery, partially offset by higher depreciation (due to environmental costs related to the 2005 and 2006 ECR plans now being included in base rates and excluded from Margins) and higher income taxes. The increase for the three-month period was partially offset by lower sales volumes.

The table below quantifies the components of Net Income between these periods, which reflect reclassifications for items included in Margins and certain items that management considers special. See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of special items.

	<u>Three Months</u>	<u>Nine Months</u>
Margins	\$ 42	\$ 151
Other operation and maintenance	(4)	4
Depreciation	(9)	(26)
Taxes, other than income	(1)	(2)
Other Income (Expense) - net		7
Interest Expense		1
Income Taxes	(11)	(58)
Special items, after-tax		3
Total	\$ 17	\$ 80

Statement of Income Analysis --

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Income Statement Analysis - Margins" for information on why management believes this measure is useful and explanations of the underlying drivers of the changes between periods. Within PPL's discussion, LKE's Margins are referred to as "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	<u>2013 Three Months</u>			<u>2012 Three Months</u>		
	<u>Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>	<u>Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>
Operating Revenues	\$ 744		\$ 744	\$ 732		\$ 732
Operating Expenses						
Fuel	237		237	249		249
Energy purchases	23		23	27		27
Other operation and maintenance	26	\$ 162	188	28	\$ 158	186
Depreciation	1	83	84	13	74	87
Taxes, other than income		12	12		11	11
Total Operating Expenses	287	257	544	317	243	560
Total	\$ 457	\$ (257)	\$ 200	\$ 415	\$ (243)	\$ 172

	<u>2013 Nine Months</u>			<u>2012 Nine Months</u>		
	<u>Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>	<u>Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>
Operating Revenues	\$ 2,226		\$ 2,226	\$ 2,095		\$ 2,095
Operating Expenses						
Fuel	684		684	677		677
Energy purchases	146		146	135		135
Other operation and maintenance	74	\$ 508	582	76	\$ 513	589
Depreciation	3	246	249	39	220	259
Taxes, other than income		36	36		34	34
Total Operating Expenses	907	790	1,697	927	767	1,694
Total	\$ 1,319	\$ (790)	\$ 529	\$ 1,168	\$ (767)	\$ 401

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Coal plant outages (a)	\$ (1)	\$ (18)
Administrative and general (b)	3	8
Adjustments to regulatory assets and liabilities		4
Coal plant operations		3
Other		(4)
Total	<u>\$ 2</u>	<u>\$ (7)</u>

(a) Decrease is due to the timing and scope of scheduled outages.

(b) Increase for the nine-month period is primarily due to an increase in outside services of \$8 million.

Depreciation

The increase (decrease) in depreciation for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Lower depreciation rates effective January 1, 2013	\$ (5)	\$ (16)
Additions to PP&E	2	6
Total	<u>\$ (3)</u>	<u>\$ (10)</u>

Other Income (Expense) - net

Other income (expense) - net increased by \$8 million for the nine months ended September 30, 2013 compared with 2012 primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.

Income Taxes

Income taxes increased by \$11 million and \$64 million for the three and nine months ended September 30, 2013 compared with 2012 primarily due to the change in pre-tax income at current period tax rates.

See Note 5 to the Financial Statements for additional information on income taxes.

Income (Loss) from Discontinued Operations (net of income taxes)

Income (loss) from discontinued operations increased by \$7 million for the nine months ended September 30, 2013 compared with 2012. The increase was primarily related to an adjustment to the estimated liability for indemnifications related to the 2009 termination of the WKE lease recorded in 2012.

LG&E: Earnings and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net Income	\$ 49	\$ 43	\$ 122	\$ 94

The increases in earnings for both periods were primarily due to higher electricity and gas base rates that went into effect January 1, 2013, returns from additional environmental capital investments and higher fuel recovery. The increase for the three-month period was partially offset by lower sales volumes. The increase for the nine-month period was partially offset by higher income taxes.

The table below quantifies the changes in the components of Net Income between these periods, which reflect reclassifications for items included in Margins.

	<u>Three Months</u>	<u>Nine Months</u>
Margins	\$ 12	\$ 43
Other operation and maintenance	(6)	(3)
Depreciation		3
Taxes, other than income		(1)
Other Income (Expense) - net	2	
Interest Expense		1
Income Taxes	(2)	(15)
Total	<u>\$ 6</u>	<u>\$ 28</u>

Statement of Income Analysis --

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Income Statement Analysis - Margins" for information on why management believes this measure is useful and explanations of the underlying drivers of the changes between periods. Within PPL's discussion, LG&E's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	<u>2013 Three Months</u>			<u>2012 Three Months</u>		
	<u>Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>	<u>Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>
Operating Revenues	\$ 343		\$ 343	\$ 333		\$ 333
Operating Expenses						
Fuel	100		100	100		100
Energy purchases	20		20	21		21
Other operation and maintenance	13	\$ 80	93	13	\$ 74	87
Depreciation		37	37	1	37	38
Taxes, other than income		6	6		6	6
Total Operating Expenses	<u>133</u>	<u>123</u>	<u>256</u>	<u>135</u>	<u>117</u>	<u>252</u>
Total	<u>\$ 210</u>	<u>\$ (123)</u>	<u>\$ 87</u>	<u>\$ 198</u>	<u>\$ (117)</u>	<u>\$ 81</u>

	<u>2013 Nine Months</u>			<u>2012 Nine Months</u>		
	<u>Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>	<u>Margins</u>	<u>Other (a)</u>	<u>Operating Income (b)</u>
Operating Revenues	\$ 1,049		\$ 1,049	\$ 990		\$ 990
Operating Expenses						
Fuel	284		284	281		281
Energy purchases	135		135	119		119
Other operation and maintenance	34	\$ 244	278	36	\$ 241	277
Depreciation	1	109	110	2	112	114
Taxes, other than income		18	18		17	17
Total Operating Expenses	<u>454</u>	<u>371</u>	<u>825</u>	<u>438</u>	<u>370</u>	<u>808</u>
Total	<u>\$ 595</u>	<u>\$ (371)</u>	<u>\$ 224</u>	<u>\$ 552</u>	<u>\$ (370)</u>	<u>\$ 182</u>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Coal plant outages (a)	\$ 1	\$ (6)
Administrative and general (b)	1	6
Distribution maintenance	2	2
Other	2	(1)
Total	<u>\$ 6</u>	<u>\$ 1</u>

(a) Increase (decrease) is due to the timing and scope of scheduled outages.

(b) Increase for the nine-month period is primarily due to an increase in outside services of \$5 million.

Depreciation

The increase (decrease) in depreciation for the periods ended September 30, 2013 compared with 2012 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Lower depreciation rates effective January 1, 2013	\$ (2)	\$ (6)
Additions to PP&E	1	2
Total	<u>\$ (1)</u>	<u>\$ (4)</u>

Income Taxes

Income taxes increased by \$15 million for the nine months ended September 30, 2013 compared with 2012 primarily due to the change in pre-tax income at current period tax rates.

See Note 5 to the Financial Statements for additional information on income taxes.

KU: Earnings and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net Income	\$ 63	\$ 50	\$ 171	\$ 118

Excluding special items, the increases in earnings for both periods were primarily due to higher electricity base rates that went into effect January 1, 2013, returns from additional environmental capital investments and higher fuel recovery, partially offset by higher depreciation (due to environmental costs related to the 2005 and 2006 ECR plans now being included in base rates and excluded from Margins) and higher income taxes. The increase for the three-month period was partially offset by lower sales volumes.

The table below quantifies the changes in the components of Net Income between these periods, which reflect reclassifications for items included in Margins and an item that management considers special.

	<u>Three Months</u>	<u>Nine Months</u>
Margins	\$ 31	\$ 108
Other operation and maintenance	(1)	(1)
Depreciation	(8)	(27)
Taxes, other than income	(1)	(1)
Other Income (Expense) - net	(3)	3
Interest Expense	1	1
Income Taxes	(6)	(31)
Special item - EEI adjustments, after-tax		1
Total	<u>\$ 13</u>	<u>\$ 53</u>

Statement of Income Analysis --

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Income Statement Analysis - Margins" for information on why management believes this measure is useful and explanations of the underlying drivers of the changes between periods. Within PPL's discussion, KU's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2013 Three Months			2012 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 414		\$ 414	\$ 411		\$ 411
Operating Expenses						
Fuel	137		137	149		149
Energy purchases	16		16	18		18
Other operation and maintenance	13	\$ 78	91	16	\$ 77	93
Depreciation	1	45	46	12	37	49
Taxes, other than income		6	6		5	5
Total Operating Expenses	167	129	296	195	119	314
Total	\$ 247	\$ (129)	\$ 118	\$ 216	\$ (119)	\$ 97

	2013 Nine Months			2012 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,229		\$ 1,229	\$ 1,165		\$ 1,165
Operating Expenses						
Fuel	400		400	396		396
Energy purchases	63		63	76		76
Other operation and maintenance	40	\$ 246	286	41	\$ 245	286
Depreciation	2	136	138	36	109	145
Taxes, other than income		18	18		17	17
Total Operating Expenses	505	400	905	549	371	920
Total	\$ 724	\$ (400)	\$ 324	\$ 616	\$ (371)	\$ 245

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended September 30, 2013 compared with 2012 was due to:

	Three Months	Nine Months
Coal plant outages (a)	\$ (2)	\$ (12)
Administrative and general (b)	2	6
Coal plant operations		4
Adjustments to regulatory assets and liabilities		4
Other	(2)	(2)
Total	\$ (2)	\$ (7)

(a) Decrease is due to the timing and scope of scheduled outages.

(b) Increase for the nine-month period is primarily due to an increase in outside services of \$5 million.

Depreciation

The increase (decrease) in depreciation for the periods ended September 30, 2013 compared with 2012 was due to:

	Three Months	Nine Months
Lower depreciation rates effective January 1, 2013	\$ (4)	\$ (10)
Additions to PP&E	1	4
Other		(1)
Total	\$ (3)	\$ (7)

Other Income (Expense) - net

Other income (expense) - net increased by \$4 million for the nine months ended September 30, 2013 compared with 2012 primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.

Income Taxes

Income taxes increased by \$6 million and \$31 million for the three and nine months ended September 30, 2013 compared with 2012 primarily due to the change in pre-tax income at current period tax rates.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Financial Condition and the remainder of this Item 2 are presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
<u>September 30, 2013</u>						
Cash and cash equivalents	\$ 1,291	\$ 551	\$ 225	\$ 21	\$ 12	\$ 9
Short-term debt	499			212	72	140
Notes payable with affiliates				52		
<u>December 31, 2012</u>						
Cash and cash equivalents	\$ 901	\$ 413	\$ 140	\$ 43	\$ 22	\$ 21
Short-term debt	652	356		125	55	70
Notes payable with affiliates				25		

At September 30, 2013, PPL's cash and cash equivalents included \$231 million denominated in GBP. If these amounts would be remitted as dividends, PPL may be subject to additional U.S. income taxes, net of allowable foreign income tax credits. Historically, dividends paid by foreign subsidiaries have been distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2012 Form 10-K for additional information on undistributed earnings of WPD.

Net cash provided by (used in) operating, investing and financing activities for the nine-month periods ended September 30, and the changes between periods were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2013						
Operating activities	\$ 2,223	\$ 583	\$ 327	\$ 713	\$ 352	\$ 419
Investing activities	(2,788)	(351)	(697)	(879)	(366)	(510)
Financing activities	966	(94)	455	144	4	79
2012						
Operating activities	\$ 2,094	\$ 674	\$ 261	\$ 646	\$ 267	\$ 410
Investing activities	(2,116)	(308)	(614)	(519)	(196)	(331)
Financing activities	(240)	(313)	64	(96)	(48)	(68)
Change - Cash Provided (Used)						
Operating activities	\$ 129	\$ (91)	\$ 66	\$ 67	\$ 85	\$ 9
Investing activities	(672)	(43)	(83)	(360)	(170)	(179)
Financing activities	1,206	219	391	240	52	147

Operating Activities

The components of the change in cash provided by (used in) operating activities for the nine months ended September 30, 2013 compared with 2012 were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)						
Net income	\$ 58	\$ (210)	\$ 61	\$ 80	\$ 28	\$ 53
Non-cash components	244	169	42	15	(1)	(9)
Net income, adjusted for non-cash components	302	(41)	103	95	27	44
Working capital	(284)	42	(45)	(21)	24	(26)
Defined benefit funding	21	(37)	(34)	(93)	(19)	(42)
Other operating activities	90	(55)	42	86	53	33
Total	<u>\$ 129</u>	<u>\$ (91)</u>	<u>\$ 66</u>	<u>\$ 67</u>	<u>\$ 85</u>	<u>\$ 9</u>

For PPL, non-cash components of net income primarily consisted of \$105 million related to non-cash hedging activities, \$46 million related to increased depreciation and \$45 million related to 2013 charges to adjust WPD's line loss accrual. The decrease in cash from changes in components of working capital was primarily due to increases in accounts receivable (primarily due to extended payment terms at LG&E and KU and base rate increases effective in 2013 at PPL Electric, LG&E and KU), returns of counterparty collateral and changes to certain tax-related accounts. The increase in cash from other operating activities was primarily due to \$98 million in proceeds from the settlement of forward-starting interest rate swaps.

For PPL Energy Supply, non-cash components of net income primarily consisted of \$135 million related to non-cash hedging activities and \$31 million related to increased depreciation. The increase in cash from changes in components of working capital was primarily due to decreases in accounts receivable (primarily affiliate receivables), and lower unbilled revenue (primarily due to decreases in power swap sales), partially offset by returns of counterparty collateral. The decrease in cash from other operating activities was partially due to changes to certain tax-related accounts.

For PPL Electric, non-cash components of net income primarily consisted of \$31 million related to an increase in deferred tax expense and \$13 million related to increased depreciation. The decrease in cash from changes in components of working capital was primarily due to increases in accounts receivable (primarily due to the base rate increase effective January 1, 2013, partially offset by a decrease in affiliate receivables). The increase in cash from other operating activities was partially due to changes to certain tax-related accounts.

LKE's decrease in working capital was driven primarily by increases in accounts receivable and unbilled revenues due to extended payment terms and higher rates, offset by an increase in accounts payable due to timing of fuel purchase commitments and payments. The increase in cash from LKE's other operating activities was driven primarily by \$98 million in proceeds from the settlement of interest rate swaps.

LG&E's increase in working capital was driven primarily by lower fuel inventory purchases in 2013 and an increase in accounts payable due to timing of fuel purchase commitments and payments, offset by increases in accounts receivable and unbilled revenues due to extended payment terms and higher rates. The increase in cash from LG&E's other operating activities was driven primarily by \$49 million in proceeds from the settlement of interest rate swaps.

KU's decrease in working capital was driven primarily by higher fuel inventory purchases in 2013 and increases in accounts receivable and unbilled revenues due to extended payment terms and higher rates, offset by an increase in accounts payable due to timing of fuel purchase commitments and payments. The increase in cash from KU's other operating activities was driven primarily by \$49 million in proceeds from the settlement of interest rate swaps.

Investing Activities

The primary use of cash within investing activities is expenditures for PP&E. The change in these expenditures for the nine months ended September 30, 2013 compared with 2012 was as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
(Increase) Decrease	\$ (690)	\$ 119	\$ (281)	\$ (366)	\$ (183)	\$ (181)

The increase in expenditures for PP&E was primarily due to projects to enhance system reliability at WPD and PPL Electric, the Susquehanna-Roseland transmission project at PPL Electric, environmental projects at LG&E's Mill Creek and KU's Ghent plants and construction of Cane Run Unit 7 for LG&E and KU.

Expenditures for PP&E decreased at PPL Energy Supply primarily related to the Rainbow hydroelectric redevelopment and Holtwood expansion projects and timing of nuclear fuel purchases.

For PPL Energy Supply and PPL Electric, the change in cash provided by (used in) investing activities was also impacted primarily by the change in notes receivable from affiliates of (\$198) million and \$210 million.

Financing Activities

The components of the change in cash provided by (used in) financing activities for the nine months ended September 30, 2013 compared with 2012 was as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)						
Debt issuances/retirements, net	\$ (166)	\$ (303)	\$ 99			
Stock issuances/redemptions, net	1,531		250			
Dividends	(22)		(19)		\$ (20)	\$ (15)
Capital contributions/distributions, net		833	55	\$ 125	54	92
Change in short-term debt, net	(97)	(311)		87	17	70
Other financing activities	(40)		6	28	1	
Total	\$ 1,206	\$ 219	\$ 391	\$ 240	\$ 52	\$ 147

See Note 7 to the Financial Statements in this Form 10-Q for information on 2013 short and long-term debt activity, equity transactions and dividends. See the Registrant's 2012 Form 10-K for information on 2012 activity.

Credit Facilities

The Registrants maintain credit facilities to provide liquidity and to backstop commercial paper issuances. The total committed borrowing capacity and the use of the borrowings under these facilities at September 30, 2013 was as follows.

External (All Registrants)

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
PPL Energy Supply Credit Facilities (a)	\$ 3,150		\$ 170	\$ 2,980
PPL Electric Credit Facilities (a)	300		1	299
LG&E Syndicated Credit Facility (a)	500		72	428
KU Credit Facilities (a)	598		338	260
Total LKE (a) (b)	1,098		410	688
Total PPL Domestic Credit Facilities (a)	<u>\$ 4,548</u>		<u>\$ 581</u>	<u>\$ 3,967</u>
Total WPD Credit Facilities (c)	£ 1,055	£ 184		£ 871

(a) The commitments under credit facilities are provided by a diverse bank group with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: 8% for PPL's domestic credit facilities, 9% for PPL Energy Supply, 5% for PPL Electric, 13% for LKE, 6% for LG&E and 22% for KU.

(b) In October 2013, LKE entered into a \$75 million syndicated credit facility that expires in October 2018.

(c) At September 30, 2013, the USD equivalent of unused capacity under WPD's committed credit facilities was \$1.3 billion. The commitments under WPD's credit facilities are provided by a diverse bank group with no one bank providing more than 13% of the total committed capacity.

In September 2013, PPL Electric terminated its asset-backed commercial paper program sponsored by a financial institution. See Note 7 in PPL's and PPL Electric's 2012 Form 10-K for more information regarding the asset-backed commercial paper program.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (All Registrants except PPL)

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Unused Capacity</u>
PPL Energy Supply Credit Facility	\$ 200		\$ 200
PPL Electric Credit Facility	100		100
LKE Credit Facility (a)	300	\$ 52	248
LG&E Money Pool (b)	500		500
KU Money Pool (b)	500		500

(a) In October 2013, LKE reduced the size of the intercompany credit facility by \$75 million.

(b) LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues.

See Note 11 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

PPL Energy Supply, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund their short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by the respective Registrant's Syndicated Credit Facility.

When outstanding, the amounts are reflected in "Short-term debt" on the Balance Sheets. The following amounts were outstanding at:

	<u>September 30, 2013</u>			<u>December 31, 2012</u>	
	<u>Capacity</u>	<u>Commercial Paper Issuances</u>	<u>Unused Capacity</u>	<u>Commercial Paper Issuances</u>	
PPL Energy Supply	\$ 750		\$ 750	\$	356
PPL Electric	300		300		
LG&E (a)	350	\$ 72	278		55
KU (a)	350	140	210		70
Total LKE	<u>700</u>	<u>212</u>	<u>488</u>		<u>125</u>
Total PPL	<u>\$ 1,750</u>	<u>\$ 212</u>	<u>\$ 1,538</u>	<u>\$</u>	<u>481</u>

(a) In April 2013, the capacity was increased from \$250 million.

Long-term Debt and Equity Securities

(PPL and Kentucky Registrants)

During 2012, LG&E and KU received KPSC and other state approvals to issue up to \$350 million for LG&E and \$300 million for KU of first mortgage bond indebtedness in 2013. The proceeds will be used to fund capital expenditures and for other general corporate purposes.

(PPL, PPL Energy Supply and PPL Electric)

The long-term debt and equity securities activity through September 30, 2013 was:

	<u>Debt</u>		<u>Net Stock</u>
	<u>Issuances (a)</u>	<u>Retirements</u>	<u>Issuances (b)</u>
Cash Flow Impact:			
PPL	\$ 862	\$ (309)	\$ 1,335
PPL Energy Supply		(309)	
PPL Electric	348		
Non-cash Transactions:			
PPL (c)	\$ 1,317		

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.

(b) Net stock issuances include activity related to various stock and incentive compensation plans and other equity transactions. See Overview - "Financial and Operational Developments" for information regarding equity forward agreements and the 2010 Equity Units. PPL has no plans to issue new shares of common stock for the remainder of 2013. The activity is net of the 2013 repurchase of PPL common stock.

- (c) The debt issuances primarily include \$1.150 billion relating to the remarketing of Junior Subordinated Notes that were issued as a component of PPL's 2010 Equity Units and simultaneously exchanged into Senior Notes.

See Note 7 to the Financial Statements for further discussion of Long-term Debt and Equity Securities.

Common Stock Dividends (PPL)

In August 2013, PPL declared its quarterly common stock dividend, payable October 1, 2013, at 36.75 cents per share (equivalent to \$1.47 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

(All Registrants)

Fitch, Moody's and S&P periodically review the credit ratings on the debt securities of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Fitch, Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies took the following actions related to the Registrants and their subsidiaries during 2013:

(PPL)

In March 2013, Fitch, Moody's and S&P assigned ratings of BB+, Ba1 and BB+ to PPL Capital Funding's \$450 million 5.90% Junior Subordinated Notes due 2073. Fitch also assigned a stable outlook to these notes.

In May 2013, Fitch, Moody's and S&P assigned ratings of BBB, Baa3 and BBB- to PPL Capital Funding's \$250 million 1.90% Senior Notes due 2018, \$600 million 3.40% Senior Notes due 2023 and \$300 million 4.70% Senior Notes due 2043. Fitch also assigned a stable outlook to these notes.

In September 2013, Fitch affirmed the BBB-, issuer default rating, BBB, senior unsecured rating and stable outlook at PPL WW.

In September 2013, Fitch affirmed the BBB+, issuer default rating, A-, senior unsecured rating, F2 short-term issuer default rating and stable outlook at WPD (South Wales) WPD (South West).

In September 2013, Moody's and S&P assigned ratings of Baa1 and BBB to WPD (East Midlands') £65 million 1.676% Index-Linked Senior Notes due 2052.

In October 2013, Moody's and S&P assigned ratings of Baa1 and BBB to WPD (West Midlands') £400 million 3.875% Senior Notes due 2024.

(PPL and PPL Energy Supply)

In February 2013, Moody's upgraded its rating, from B2 to Ba1, and revised the outlook from under review to stable for PPL Ironwood.

In April 2013, Fitch affirmed the BBB- rating and stable outlook on PPL Montana's pass-through trust certificates due 2020.

In July 2013, Moody's withdrew its rating and outlook for PPL Ironwood.

In July 2013, S&P lowered its rating, from BBB- to BB+ and retained the negative outlook for PPL Montana's pass-through trust certificates due 2020.

In August 2013, Moody's affirmed the Baa3 rating and revised the outlook from stable to negative for PPL Montana's pass through trust certificates due 2020.

In September 2013, S&P affirmed the BB+ rating and revised the outlook from negative to stable for PPL Montana's pass through trust certificates due 2020.

(PPL and PPL Electric)

In July 2013, Fitch, Moody's and S&P assigned ratings of A-, A3 and A- to PPL Electric's \$350 million 4.75% First Mortgage Bonds due 2043. Fitch also assigned a stable outlook to these notes and S&P assigned a recovery rating of 1+.

(PPL, LKE and KU)

In July 2013, S&P confirmed the AA+ ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds and KU's 2004 Series A, 2006 Series B and 2008 Series A Environmental Facilities Revenue Bonds. S&P also confirmed the A-1+ short term rating on these Bonds.

Ratings Triggers

(All Registrants except PPL Electric)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements (for PPL and PPL Energy Supply) and interest rate and foreign currency (for PPL) instruments, contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, PPL Energy Supply's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2013.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2012 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 13 and 14 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

(PPL and PPL Energy Supply)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power).

Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2013	2012	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 285	\$ 961	\$ 473	\$ 1,082
Contracts realized or otherwise settled during the period	(95)	(224)	(332)	(764)
Fair value of new contracts entered into during the period (a)	2	(11)	48	1
Other changes in fair value	25	(101)	28	306
Fair value of contracts outstanding at the end of the period	<u>\$ 217</u>	<u>\$ 625</u>	<u>\$ 217</u>	<u>\$ 625</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at September 30, 2013, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 166	\$ 11	\$ (2)	\$ 5	\$ 180
Prices based on significant unobservable inputs (Level 3)	12	21	4		37
Fair value of contracts outstanding at the end of the period	<u>\$ 178</u>	<u>\$ 32</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 217</u>

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

(PPL and Kentucky Registrants)

LG&E's and KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LG&E and KU sell excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional disclosures.

(PPL and PPL Energy Supply)

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2020. The following table sets forth changes in the net fair value of trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2013	2012	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 18	\$ 17	\$ 29	\$ (4)
Contracts realized or otherwise settled during the period	(3)	17	(5)	16
Fair value of new contracts entered into during the period (a)	12	13	(4)	18
Other changes in fair value	1	(15)	8	2
Fair value of contracts outstanding at the end of the period	<u>\$ 28</u>	<u>\$ 32</u>	<u>\$ 28</u>	<u>\$ 32</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at September 30, 2013, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices quoted in active markets for identical instruments (Level 1)	\$ 3				\$ 3
Prices based on significant observable inputs (Level 2)	5	\$ 8	\$ 2		15
Prices based on significant unobservable inputs (Level 3)	2	4	1	\$ 3	10
Fair value of contracts outstanding at the end of the period	<u>\$ 10</u>	<u>\$ 12</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 28</u>

VaR Models

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the nine months ended September 30, 2013 was as follows.

	Trading VaR	Non-Trading VaR
95% Confidence Level, Five-Day Holding Period		
Period End	\$ 6	\$ 6
Average for the Period	4	8
High	7	10
Low	2	5

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at September 30, 2013.

Interest Rate Risk (All Registrants)

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in the absolute level of interest rates.

The following interest rate hedges were outstanding at September 30, 2013.

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability) (a)</u>	<u>Effect of a 10% Adverse Movement in Rates (b)</u>	<u>Maturities Ranging Through</u>
PPL				
Cash flow hedges				
Interest rate swaps (c)	\$ 2,264	\$ 68	\$ (92)	2044
Cross-currency swaps (d)	1,262	26	(171)	2028
Economic activity				
Interest rate swaps (e)	179	(41)	(3)	2033
LKE				
Cash flow hedges				
Interest rate swaps (c)	500	(14)	(36)	2043
Economic activity				
Interest rate swaps (e)	179	(41)	(3)	2033
LG&E				
Cash flow hedges				
Interest rate swaps (c)	250	(7)	(18)	2043
Economic activity				
Interest rate swaps (e)	179	(41)	(3)	2033
KU				
Cash flow hedges				
Interest rate swaps (c)	250	(7)	(18)	2043

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes foreign currency exchange rates.

(c) Changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or liabilities, if recoverable through rates. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Cross-currency swaps are utilized to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes. Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(e) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates at September 30, 2013 is shown below.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Increase to interest expense of 10% increase in interest rates	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
Increase in fair value of 10% decrease in interest rates	\$ 682	\$ 50	\$ 120	\$ 111	\$ 26	\$ 67

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

The following foreign currency hedges were outstanding at September 30, 2013.

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability)</u>	<u>Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)</u>	<u>Maturities Ranging Through</u>
Net investment hedges (b)	£ 320	\$ (11)	\$ (51)	2015
Economic activity (c)	1,350	(55)	(208)	2015

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

- (b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP. The positions outstanding exclude the amount of intercompany loans classified as net investment hedges. See Note 14 to the Financial Statements for additional information.
- (c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP.

NDT Funds - Securities Price Risk (PPL and PPL Energy Supply)

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At September 30, 2013, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At September 30, 2013, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$60 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk *(All Registrants)*

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's 2012 Form 10-K and "Risk Management" in PPL Electric's 2012 Form 10-K for additional information.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation loss of \$159 million for the nine months ended September 30, 2013, which primarily reflected a \$454 million reduction to PP&E and goodwill offset by a reduction of \$295 million to net liabilities. Changes in this exchange rate resulted in a foreign currency translation gain of \$53 million for the nine months ended September 30, 2012, which primarily reflected a \$123 million increase to PP&E and goodwill offset by an increase of \$70 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management of the Registrants in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with the Registrants.

See Note 11 to the Financial Statements for additional information on related party transactions for PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures *(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities.

Environmental Matters

(All Registrants)

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the costs for their products or their demand for the Registrants' services.

The following is a discussion of the more significant environmental matters. See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in the Registrants' 2012 Form 10-K for additional information on environmental matters.

GHG Regulations

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum the EPA was directed to issue a new proposal for new power plants by September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016.

The EPA's re-proposal for new power plants was released on September 20, 2013. The EPA's dependence on carbon capture and sequestration, a technology which is not presently commercially viable, effectively precludes the construction of new coal plants. The proposal is further problematic as the proposed standards for new gas plants may not be achievable at all times. PPL will comment on the rule to this effect. Regulation of existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

Additionally, the Administration's recent increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may lead to more costly regulatory requirements. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect PPL, PPL Electric, LKE, LG&E and KU and others in the industry as transmission system modifications to improve the ability to withstand major storms may be needed in order to meet those requirements.

Climate Change

Physical effects associated with possible climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage, as applicable, to the Registrants' generation assets, electricity transmission and distribution systems, as well as impacts on the Registrants' customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL, PPL Energy Supply, LKE, LG&E and KU have hydroelectric generating facilities or where river water is used to cool their fossil and nuclear (as applicable) powered generators. The Registrants cannot currently predict whether their businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

(All Registrants except PPL Electric)

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous waste) under existing solid waste regulations. A final rulemaking is currently expected by the end of 2014, as a result of litigation by environmental groups. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial and operational impact is expected to be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from issuing final CCR regulations and would set non-hazardous CCR standards under RCRA and authorize state permit programs. It remains uncertain whether similar legislation will likely be passed by the U.S. Senate.

Effluent Limitation Guidelines (ELGs)

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized. The proposal contains several alternative approaches, some of which could significantly impact PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's coal-fired plants. PPL, PPL Energy Supply, LKE, LG&E and KU worked with industry groups to comment on the proposed regulation on September 20, 2013. The final regulation is expected in May 2014. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: requiring installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment), and imposing standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected to be issued in November 2013. The proposed regulation would apply to nearly all PPL-owned steam electric generation plants in Pennsylvania, Kentucky, and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. PPL, PPL Energy Supply, LKE, LG&E and KU are generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls at PPL Energy Supply and approved ECR plans to install additional controls at some of LG&E's and KU's Kentucky plants. Additionally, PPL Energy Supply is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL Energy Supply announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS. Also, PPL has received approval for two compliance extensions in Kentucky, and has requested an extension for one of its plants in Pennsylvania. Other extension requests are under consideration.

In connection with a unanimous settlement agreement filed with the KPSC in November 2011, KU agreed to defer the requested approval for certain environmental upgrades to Units 1 and 2 at its E.W. Brown generating plant which represented approximately \$200 million in capital costs. LG&E and KU are evaluating, among other measures, chemical additive systems for mercury control at Trimble County and Brown plants. These measures, combined with the completion of recent feasibility studies conducted based on current market conditions, provide alternative compliance options for KU on Units 1 and 2 at the E.W. Brown station.

The anticipated retirements of certain coal-fired electricity generating units are in response to this and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrogen oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern U.S. In December 2011, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the D.C. Circuit Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place in the interim, and in June 2013 the U.S. Supreme Court granted the EPA's petition for review of the D.C. Circuit Court's decision. Oral argument before the U.S. Supreme Court has been scheduled for December 2013. Prior to a revised rule from the EPA, coal-fired generating plants could face tighter nitrous oxide emission limitations through state action.

The PPL, PPL Energy Supply, LKE, LG&E and KU plants in Pennsylvania and Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The D.C. Circuit Court's August 2012 decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

Regional Haze

Under the EPA's regional haze programs (developed to eliminate man-made visibility degradation by 2064), states are required to make reasonable progress every decade, including the application of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977. For the eastern U.S., the EPA had determined that region-wide reductions under the CAIR or CSAPR trading program could be utilized by state programs to satisfy BART requirements. However, the August 2012 decision by the D.C. Circuit Court to vacate and remand CSAPR exposes power plants located in the eastern U.S., including PPL Energy Supply's plants in Pennsylvania and PPL's plants in Kentucky, to reductions in sulfur dioxide and nitrogen oxides as required by BART.

The EPA signed its final Federal Implementation Plan of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for PPL Energy Supply's Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for PPL Energy Supply's Corette plant (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL Energy Supply expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above). PPL is participating in litigation regarding this matter before the U.S. Court of Appeals for the Ninth Circuit.

National Ambient Air Quality Standards *(Kentucky Registrants)*

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2013 and 2014, respectively. Existing environmental plans for LG&E's and KU's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. However, depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant.

New Accounting Guidance *(All Registrants)*

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies *(All Registrants)*

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in each Registrant's 2012 Form 10-K for a discussion of each critical accounting policy.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Defined Benefits	X	X	X	X	X	X
Loss Accruals	X	X	X	X	X	X
Income Taxes	X	X	X	X	X	X
Asset Impairments (Excluding Investments)	X	X		X	X	X
AROs	X	X		X	X	X
Price Risk Management	X	X				
Regulatory Assets and Liabilities	X		X	X	X	X
Revenue Recognition - unbilled revenue			X	X	X	X

**PPL Corporation
PPL Energy Supply, LLC
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of September 30, 2013, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

- (b) Change in internal controls over financial reporting.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

As reported in the June 30, 2013 Form 10-Q, the principal executive officers and principal financial officers of the Registrants concluded that the implementation of a financial consolidation and reporting system for PPL and its primary U.S. subsidiaries resulted in a material change to the Registrants' internal control over financial reporting. The new system enhances the consolidation of subsidiary accounts, provides reporting tools for analysis and automates certain aspects of financial statement preparation for each of the Registrants. Processes and controls over the consolidation and reporting processes that were previously considered to be effective were replaced with new or modified controls that were also determined to be effective.

The new consolidation and reporting system was subject to extensive testing and data reconciliation during implementation. Post-implementation reviews have been and will continue to be conducted to enable us to determine the effectiveness of the internal controls relating to the system implementation processes and to key business processes.

The Registrants' principal executive officers and principal financial officers have concluded that there were no other changes in the Registrants' internal control over financial reporting during the Registrants' third fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PPL Corporation

As reported in the June 30, 2013 Form 10-Q, PPL's principal executive officer and principal financial officer concluded that the implementation of a new general ledger system and a financial reporting system at WPD resulted in a material change to its internal control over financial reporting. The general ledger system that was implemented at WPD replaced the existing mainframe system and resulted in more automation and enhanced controls over

general ledger processing and consolidation. The reporting system that was implemented at WPD improves and automates controls over data transfer included in PPL's consolidation process and improves controls over GAAP and foreign currency adjustments. In each of the WPD system implementations, controls that were previously determined to be effective were replaced with new or modified controls that were also determined to be effective.

The general ledger and reporting systems were subject to extensive testing and data reconciliation during their implementation. Post-implementation reviews have been and will continue to be conducted to enable us to determine the effectiveness of the internal controls relating to the system implementation processes and to key business processes remain effective. Risks related to the system implementations at WPD were also partially mitigated by PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provided management additional time for review and analysis of WPD results and their incorporation into PPL's consolidated financial statements.

The Registrant's principal executive officer and principal financial officer have concluded that there were no other changes in the Registrant's internal control over financial reporting during the Registrant's third fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2012 Form 10-K; and
- Notes 5, 6 and 10 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the 2012 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchase of Equity Securities during the Third Quarter of 2013:

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans of Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 to July 31, 2013				
August 1 to August 31, 2013	750,000	\$30.81		
September 1 to September 30, 2013	750,000	\$31.00		
Total	1,500,000	\$30.91		

(1) Represents shares of common stock repurchased in the open market to offset a portion of shares issued under stock based compensation plans.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

PPL Electric Utilities Corporation

Effective October 31, 2013, PPL Electric amended and restated its Articles of Incorporation and Bylaws, copies of which are filed as exhibits 3 (a) and 3(b), respectively, to this report.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

- 1(a) - Final Terms of the WPD West Midlands £400 million 3.875% Senior Unsecured Notes due October 17, 2024 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- 1(b) - Final Terms of WPD East Midlands £40 million 1.676% Notes due 2052 (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- 1(c) - Final Terms of WPD East Midlands £25 million 1.676% Notes due 2052 (Exhibit 1.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- 2(a) - Purchase and Sale Agreement by and between PPL Montana, LLC and NorthWestern Corporation, dated as of September 26, 2013 (Exhibit 2.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 27, 2013)
- 2(b) - Lease Termination Agreement by and between PPL Montana, LLC, Montana OL3 LLC and Montana OP3 LLC, dated as of September 26, 2013 (Exhibit 2.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 27, 2013)
- 2(c) - Lease Termination Agreement by and between PPL Montana, LLC, Montana OL4 LLC and Montana OP4 LLC, dated as of September 26, 2013 (Exhibit 2.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 27, 2013)
- 2(d) - Lease Termination Agreement by and between PPL Montana, LLC, Montana OL1 LLC and Montana OP1 LLC, dated as of September 26, 2013 (Exhibit 2.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 27, 2013)
- 2(e) - Lease Termination Agreement by and between PPL Montana, LLC, Montana OL1 LLC and Montana OP1 LLC, dated as of September 26, 2013 (Exhibit 2.5 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 27, 2013)
- *3(a) - Amended and Restated Articles of Incorporation of PPL Electric Utilities Corporation, effective as of October 31, 2013
- *3(b) - Amended and Restated Bylaws of PPL Electric Utilities Corporation, effective as of October 31, 2013
- *4(a) - Amendment No. 10 to Employee Stock Ownership Plan, dated September 16, 2013
- 4(b) - Amended and Restated Trust Deed, dated September 10, 2013, by and among Western Power Distribution (East Midlands) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- *12(a) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(b) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *12(c) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(d) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *12(e) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- *12(f) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2013, filed by the following officers for the following companies:

- *31(a) - PPL Corporation's principal executive officer
- *31(b) - PPL Corporation's principal financial officer
- *31(c) - PPL Energy Supply, LLC's principal executive officer

- *31(d) - PPL Energy Supply, LLC's principal financial officer
- *31(e) - PPL Electric Utilities Corporation's principal executive officer
- *31(f) - PPL Electric Utilities Corporation's principal financial officer
- *31(g) - LG&E and KU Energy LLC's principal executive officer
- *31(h) - LG&E and KU Energy LLC's principal financial officer
- *31(i) - Louisville Gas and Electric Company's principal executive officer
- *31(j) - Louisville Gas and Electric Company's principal financial officer
- *31(k) - Kentucky Utilities Company's principal executive officer
- *31(l) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2013, furnished by the following officers for the following companies:

- *32(a) - PPL Corporation's principal executive officer and principal financial officer
 - *32(b) - PPL Energy Supply, LLC's principal executive officer and principal financial officer
 - *32(c) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
 - *32(d) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
 - *32(e) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
 - *32(f) - Kentucky Utilities Company's principal executive officer and principal financial officer
- 101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation
(Registrant)

PPL Energy Supply, LLC
(Registrant)

Date: November 1, 2013

/s/ Vincent Sorgi

Vincent Sorgi
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation
(Registrant)

Date: November 1, 2013

/s/ Dennis A. Urban, Jr.

Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal
Accounting Officer)

LG&E and KU Energy LLC
(Registrant)

Louisville Gas and Electric Company
(Registrant)

Kentucky Utilities Company
(Registrant)

Date: November 1, 2013

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
PPL ELECTRIC UTILITIES CORPORATION

ARTICLE I.

The name of the Corporation is

PPL ELECTRIC UTILITIES CORPORATION

ARTICLE II.

The location and post office address of the registered office of the Corporation in this Commonwealth is

Two North Ninth Street
Allentown, Pennsylvania 18101

ARTICLE III.

The purpose or purposes for which the Corporation is incorporated under the Business Corporation Law of the Commonwealth of Pennsylvania are to engage in, and do any lawful act concerning, any or all lawful business for which a corporation may be incorporated under said Business Corporation Law, including but not limited to:

1. The supply of light, heat or power to the public by means of electricity or by any other means.
2. The production, generation, manufacture, transmission, storage, distribution or furnishing of artificial or natural gas, electricity or steam or air conditioning or refrigerating services, or any combination thereof to or for the public.
3. The diverting, pumping or impounding of water for the development or furnishing of hydroelectric power to or for the public.
4. The transportation of artificial or natural gas, electricity, petroleum or petroleum products or water or any combination of such substances for the public.
5. The diverting, developing, pumping, impounding, distributing or furnishing of water from either surface or subsurface sources to or for the public.
6. Manufacturing, processing, owning, using and dealing in personal property of every class and description, engaging in research and development, the furnishing of services, and acquiring, owning, using and disposing of real property of every nature whatsoever.

ARTICLE IV.

The term for which the Corporation is to exist is perpetual.

ARTICLE V.

The aggregate number of shares which the Corporation shall have authority to issue is 190,629,936 shares, of which 170,000,000 are shares of Common Stock, without nominal or par value.

ARTICLE VI.

The designations, preferences, qualifications, limitations, restrictions, and the special or relative rights in respect of the shares of each class shall be as follows:

Division A - PREFERRED STOCK

The Board of Directors shall have the full authority permitted by law to divide the authorized and unissued shares into classes or series, or both, and to determine for any such class or series its designation and the number of shares of the class or series and the voting rights, preferences, limitations and special rights, if any, of the shares of the class or series.

Division B - COMMON STOCK

SECTION 1. Dividends and Shares in Distribution on Common Stock.

(A) Subject to the rights of the holders of any Preferred Stock, the Common Stock alone shall receive all further dividends and shares upon liquidation, dissolution, winding up or distribution.

(B) A consolidation or merger of the Corporation with or into any other corporation or corporations shall not be deemed a distribution of assets of the Corporation within the meaning of any provision of this Article VI.

SECTION 2. Voting Rights. Except as otherwise provided in these Amended and Restated Articles of Incorporation, each share of the Preferred Stock and the Common Stock shall be equal in voting power and shall entitle the holder thereof to one vote upon any question presented to any shareholders' meeting, it being hereby agreed and declared that a majority in number of shares, regardless of the class to which such shares may belong, is a majority in value or in interest within the meaning of any statute or law requiring the consent of shareholders holding a majority in interest or a greater amount in value of stock of the Corporation.

Division C - GENERAL

SECTION 1. Pre-emptive Rights. The Corporation may issue or sell shares, option rights, or securities having conversion or option rights for money or otherwise without first offering them to shareholders of any class or classes.

SECTION 2. Redemption. Any shares of Preferred Stock and the Common Stock which are redeemed, repurchased or otherwise reacquired by the Corporation shall, until further action by the Board of Directors or the Executive Committee of the Board of Directors, have the status of authorized and unissued shares, without designation as to series.

SECTION 3. Convertibility. Unless otherwise provided in the terms of a series of Series Preferred Stock or Preference Stock or otherwise in these Amended and Restated Articles of Incorporation, the shares of each of Preferred Stock and the Common Stock, respectively, shall not be convertible into shares of any other class or classes or into any other securities of the Corporation.

ARTICLE VII.

A majority of the directors may amend, alter or repeal the Bylaws, subject to the power of the shareholders to change such action; *provided, however*, that any amendment, alteration or repeal of, or the adoption of any provision inconsistent with, Sections 3.01, 3.01.1, 3.04, 3.05, or 3.13 of the Bylaws, if by action of the shareholders, shall be only upon the affirmative vote of the shareholders entitled to cast at least two-thirds of the votes which all shareholders are entitled to cast, and if by action of the directors, shall be only upon the approval of two-thirds of the directors.

ARTICLE VIII.

These Amended and Restated Articles of Incorporation may be amended in the manner from time to time prescribed by statute and all rights conferred upon shareholders herein are granted subject to this reservation; *provided, however*, that, notwithstanding the foregoing (and in addition to any vote that may be required by law, these Amended and Restated Articles of Incorporation or the Bylaws), the affirmative vote of the shareholders entitled to cast at least two-thirds of the votes which all shareholders are entitled to cast shall be required to amend, alter or repeal, or to adopt any provision inconsistent with, Articles VII or VIII of these Amended and Restated Articles of Incorporation.

ARTICLE IX.

The following provisions of the Business Corporation Law of 1988 shall not be applicable to the Corporation: 15 Pa.C.S. § 2538 (relating to approval of transactions with interested shareholders) and 15 Pa.C.S. Subchapter E (relating to control transactions).

ARTICLE X.

[Reserved]

ARTICLE XI.

Uncertificated Shares . Any or all classes and series of shares of the Corporation, or any part thereof, may be represented by uncertificated shares to the extent determined by the Board of Directors, except as required by applicable law, including that shares represented by a certificate that is issued and outstanding shall continue to be represented thereby until the certificate is surrendered to the Corporation. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner thereof a written notice containing the information required by applicable law to be set forth or stated on certificates. Except as otherwise expressly

provided by law, the rights and obligations of the holders of shares represented by certificates and the rights and obligations of the holders of uncertificated shares of the same class and series shall be identical.

ARTICLE XII.

No shareholder of the Corporation and no creditor of any shareholder of the Corporation shall have any claim on the assets of the Corporation except to the extent of any dividends or other distributions declared by the Board of Directors or otherwise expressly provided for by these Articles of Incorporation or the Business Corporation Law of the Commonwealth of Pennsylvania.

Bylaws of
PPL Electric Utilities Corporation

10/31/13

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**BYLAWS
OF
PPL ELECTRIC UTILITIES CORPORATION
(a Pennsylvania Corporation)**

**ARTICLE I
Offices and Fiscal Year**

Section 1.01. Registered Office. The registered office of the corporation in the Commonwealth of Pennsylvania shall be at Two North Ninth Street, Allentown, Pennsylvania 18101.

Section 1.02. Fiscal Year. The fiscal year of the corporation shall begin on the first day of January in each year.

Section 1.03. Corporate Seal. The corporation shall have a corporate seal in the form of a circle containing the name of the corporation, the year of incorporation and such other details, if any, as approved by the board of directors.

**ARTICLE II
Meetings of Shareholders**

Section 2.01. Place of Meeting. All meetings of the shareholders of the corporation shall be held at the registered office of the corporation unless another place is designated by the board of directors in the notice of such meeting.

Section 2.02. Annual Meeting. The board of directors may fix the date and time of the annual meeting of the shareholders, but if no such date and time is fixed by the board the meeting for any calendar year shall be held on the third Thursday in May in such year, at 2 o'clock P.M., and at said meeting the shareholders then entitled to vote shall elect directors and shall transact such other business as may properly be brought before the meeting.

Section 2.03. Special Meetings. Special meetings of the shareholders of the corporation for any purpose or purposes may be called at any time by the Chairman of the Board, if there be one, or, in the case of a vacancy in the office, the President; or by the board of directors.

Section 2.04. Notice of Meetings. Written notice of every meeting of the shareholders, whether annual or special, shall be given to each shareholder of record entitled to vote at the meeting, at least five days prior to the day named for the meeting; provided, however, that at least ten days written notice prior to the day of the meeting shall be given in the case of any annual or special meeting at which there is to be considered any amendment to the Articles of Incorporation of the corporation, the sale of all or substantially all of its assets, or its merger with or consolidation into any other corporation. Such notice shall specify the place, day and hour of the meeting and, in the case of a special meeting of shareholders, the general nature of the business to be transacted.

Section 2.05. Quorum, Manner of Acting, and Adjournment.

(a) Quorum. The presence in person or by proxy of shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast on the particular matter shall constitute a quorum for the purposes of consideration and action on the matter. Shares of the corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the board of directors, as such, shall not be counted in determining the total number of outstanding shares for quorum purposes at any given time. The shareholders present at a duly organized meeting can continue to do business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

(b) Adjournments. Any regular or special meeting of the shareholders, including one at which directors are to be elected and one which cannot be organized because a quorum has not attended, may be adjourned for such period and to such place as the shareholders present and entitled to vote shall direct.

Except as otherwise provided in the Articles of Incorporation, those shareholders entitled to vote who attend a meeting called for the election of directors that has been previously adjourned for lack of a quorum, although less than a quorum as fixed in this section, shall nevertheless constitute a quorum for the purpose of electing directors. Also, except as otherwise provided in the Articles of Incorporation, those shareholders entitled to vote who attend a meeting of shareholders that has been previously adjourned for one or more periods aggregating at least 15 days because of an absence of a quorum, although less than a quorum, shall nevertheless constitute a quorum for the purpose of acting upon any matter set forth in the notice of the meeting if the notice states that those shareholders who attend the adjourned meeting shall nevertheless constitute a quorum for the purpose of acting upon the matter.

(c) Action by Shareholders. Except as otherwise provided in the Articles of Incorporation, a section of these bylaws adopted by the shareholders or the Business Corporation Law, whenever any corporate action is to be taken by vote of the shareholders, it shall be authorized upon receiving the affirmative vote of a majority of the votes cast by all shareholders entitled to vote thereon and, if any shareholders are entitled to vote thereon as a class, upon receiving the affirmative vote of a majority of the votes cast by the shareholders entitled to vote as a class.

Section 2.06. Organization. At every meeting of the shareholders, the Chairman of the Board, or, in the case of vacancy in the office or absence of the Chairman of the Board, one of the following directors or officers: a director designated by the Chairman, the president, an executive vice president, a senior vice president, any vice president, or a Chairman chosen by the shareholders entitled to cast a majority of the votes which all shareholders present in person or by proxy are entitled to cast, shall act as Chairman; and the secretary or a person appointed by

the Chairman shall act as secretary.

Section 2.07 Voting and Proxies. Except as otherwise provided by statute or in the Articles of Incorporation, every shareholder of record shall have the right to one vote for every share standing in his name on the books of the corporation.

In all elections for directors, every shareholder entitled to vote shall have the right to multiply the number of votes to which he may be entitled by the total number of directors to be elected in the same election by the holders of the class of shares of which his shares are a part, and he may cast the whole number of such votes for one candidate or he may distribute them among any two or more candidates. The candidates receiving the highest number of votes from each class or group of classes entitled to elect directors separately up to the number of directors to be elected in the same election by such class or group of classes shall be elected.

Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy. Every proxy shall be executed in writing by the shareholder or by his duly authorized attorney in fact and filed with the secretary of the corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until notice thereof has been given to the secretary of the corporation. No unrevoked proxy shall be valid after eleven months from the date of its execution, unless a longer time is expressly provided therein, but in no event shall any proxy, unless coupled with an interest, be voted on after three years from the date of its execution. A proxy shall not be revoked by the death or incapacity of the maker unless, before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the secretary of the corporation. A proxy coupled with an interest shall include an unrevoked proxy in favor of a creditor of a shareholder and such a proxy shall be valid as long as the debt owed by him to the creditor remains unpaid.

Section 2.08. Voting Lists. The officer or agent of the corporation having charge of the transfer books for shares of the corporation shall make a complete list of the shareholders entitled to vote at any meeting of shareholders, arranged in alphabetical order, with the address of and the number of shares held by each. The list shall be produced and kept open at the time and place of the meeting, and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof. In lieu of the making of such list, the corporation may make the information therein available at the meeting by any other means. The original share register or transfer book or a duplicate thereof, kept in Pennsylvania, shall be prima facie evidence as to who are the shareholders entitled to examine such list or share register or transfer book, or to vote, in person or by proxy, at any meeting of shareholders.

Section 2.09. Judges of Election. In advance of any meeting of shareholders, the board of directors may appoint one or three judges of election, who need not be shareholders. If judges of election be not so appointed, the chairman of the meeting may, and on the request of any shareholder or his proxy shall, appoint judges of election at the meeting. The judges of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum and the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with nominations by shareholders or the right to vote, count and tabulate all votes, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. If there are three judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

On request of the chairman of the meeting or of any shareholder, the judges shall make a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated therein.

Section 2.10. Determination of Shareholders of Record. The board of directors may fix a date as a record date for the determination of the shareholders entitled to notice of, or to vote at, any meeting of shareholders, which date, except in the case of an adjourned meeting, shall be not more than 90 days prior to the date of the meeting. Only shareholders of record on the date so fixed, and no others, shall be entitled to notice of, or to vote at, such meeting, notwithstanding any transfer of any shares on the books of the corporation after any such record date so fixed. When a determination of shareholders of record has been made for purposes of a meeting, the determination shall apply to any adjournment thereof unless the board of directors fixes a new record date for the adjourned meeting. The board of directors may similarly fix a record date for the determination of shareholders of record for any other purpose. If a record date is not fixed by the board of directors, the record date shall be as determined in the Business Corporation Law.

ARTICLE III Board of Directors

Section 3.01. Authority, Number and Qualifications. The business and affairs of the corporation shall be managed under the direction of a board of directors. The board of directors shall consist of not less than six and not more than twenty directors, as shall be fixed from time to time by resolution of the board of directors. In addition, the board of directors may designate from among its number a Chairman of the Board. All directors of the corporation shall be natural persons of full age, but need not be residents of Pennsylvania. A director may also be an officer or employee of the corporation.

Section 3.01.1 Term of Office. Each director shall hold office until the expiration of the term for which he or she was selected and until a successor shall have been elected and qualified or until his or her earlier death, resignation or removal.

Section 3.02. Organization. At every meeting of the Board of Directors, the Chairman of the Board, if there be one, or, in the case of a vacancy in the office or absence of the Chairman of the Board, the Vice Chairman, or a Chairman chosen by a majority of the directors present, shall preside, and the secretary, or any person appointed by the Chairman of the meeting, shall act as secretary.

Section 3.03. Resignations. Any director of the corporation may resign at any time by giving written notice to the Chairman of the Board, if there be one, or the President, or the secretary of the corporation. Such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.04. Vacancies. The board of directors may declare vacant the office of a director if he be declared of unsound mind by an order of court, or convicted of felony, or for any other proper cause.

Except as otherwise provided in the Articles of Incorporation, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the board of directors resulting from death, resignation, retirement, disqualification, removal from office or other cause shall be filled solely by the majority vote of the directors then in office, although less than a quorum. Each director so chosen shall hold office until the next election of the class for which such director has been chosen, and until his or her successor has been selected and qualified or until his or her earlier death, resignation or removal.

If one or more directors shall resign from the board effective as of a future date, the directors then in office, including those who have so resigned, shall have power by the applicable vote to fill the vacancies, the vote thereon to take effect when the resignations become effective.

Section 3.05. Removal by Shareholders. Any director may be removed from office by vote of shareholders only upon the affirmative vote of the shareholders entitled to cast at least two-thirds of the votes which all shareholders would be entitled to cast at any annual election of directors and upon any additional vote of shareholders that may be required by law.

Section 3.06. Place of Meeting. The board of directors may hold its meetings at such place or places within Pennsylvania, or elsewhere, as the board of directors may from time to time appoint, or as may be designated in the notice calling the meeting.

Section 3.07. Organization Meeting. Immediately after each annual election of directors or other meeting at which the entire board of directors is elected, the newly elected board of directors shall meet for the purpose of organization, election of officers, and the transaction of other business, at the place where said election of directors was held. Notice of such meeting need not be given. Such organization meeting may be held at any other time or place which shall be specified in a notice given as hereinafter provided for special meetings of the board of directors.

Section 3.08. Regular Meetings. Regular meetings of the board of directors shall be held at such time as shall be designated from time to time by the board of directors. At such meetings, the directors shall transact such business as may properly be brought before the meeting. Notice need not be given of regular meetings held at the registered office of the corporation. If held elsewhere, the notice requirements of Section 3.06 shall apply.

Section 3.09. Special Meetings. Special meetings of the board of directors shall be held whenever called by two or more of the directors or by the Chairman of the Board, if there be one, or, in the case of vacancy in the office or absence of the Chairman of the Board, the president. Notice of every special meeting of the board of directors shall be given to each director by telephone or in writing at least 24 hours (in the case of notice by telephone, telex, TWX or facsimile transmission) or 48 hours (in the case of notice by telegraph, courier service or express mail) or five days (in the case of notice by United States mail) before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting. Neither the business to be transacted at nor the purpose of any special meeting need be specified in a notice of the meeting.

Section 3.10. Quorum, Manner of Acting, and Adjournment. A majority of the directors in office shall be present at each meeting in order to constitute a quorum for the transaction of business. Except as otherwise provided in the Articles of Incorporation or by statute, the acts of a majority of the directors present at a meeting at which a quorum is present shall be the acts of the board of directors. In the absence of a quorum, a majority of the directors present may adjourn the meeting from time to time until a quorum be present, provided that the notice, if any, required by Sections 3.08 or 3.09 of this Article has been given. The directors shall act only as a board and the individual directors shall have no power as such, *provided, however,* that any action which may be taken at a meeting of the board may be taken without a meeting if a consent or consents in writing setting forth the action so taken shall be signed by all of the directors and shall be filed with the secretary of the corporation.

Section 3.11. Executive and Other Committees. The board of directors may, by resolution adopted by a majority of the directors in office, establish an Executive Committee and one or more other committees. Any committee, to the extent provided in such resolution, shall have and may exercise all of the powers and authority of the board of directors, except that no committee shall have any power or authority as to the following:

- (1) The submission to shareholders of any action requiring approval of shareholders under the Business Corporation Law.
- (2) The creation or filling of vacancies in the board of directors.
- (3) The adoption, amendment or repeal of these bylaws.
- (4) The amendment or repeal of any resolution of the board of directors that by its terms is amendable or repealable only by the board.
- (5) Action on matters committed by a resolution of the board of directors exclusively to another committee of the board.

A majority of the directors in office designated to a committee shall be present at each meeting in order to constitute a quorum for the transaction of business. The acts of a majority of the committee members present at a meeting at which a quorum is present shall be the acts of

the committee. Any action which may be taken at a meeting of a committee may be taken without a meeting if a consent or consents in writing setting forth the action so taken shall be signed by all of the committee members and shall be filed with the secretary of the corporation.

Each committee shall keep records of its proceedings.

Section 3.12. Compensation. The board of directors shall have the authority to fix the compensation of directors for their services as directors. A director may be a salaried officer of the corporation, but no employee shall receive a salary for serving as a director.

Section 3.13. Nominations for Election of Directors and Proposed Business to be Transacted.

(a) *Director Nominations*. Except as otherwise provided in or fixed by or pursuant to the provisions of Article VI of the Articles of Incorporation, nominations for the election of directors may be made by the board of directors or a committee appointed by the board of directors or by any shareholder entitled to vote in the election of directors generally. However, any shareholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at a meeting only if written notice (meeting the requirements hereinafter set forth) of such shareholder's intent to make such nomination or nominations has been given by the shareholder and received by the secretary of the corporation in the manner and within the time specified by this Subsection. The notice shall be delivered to the secretary of the corporation not later than (i) with respect to an election to be held at an annual meeting of shareholders, 75 days in advance of the date of such meeting; *provided, however,* that in the event that less than 85 days' notice or prior public disclosure of the date of the annual meeting is given, notice from the shareholders to be timely must be received not later than the tenth day following the date on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs, and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the earlier of (A) the seventh day following the date on which notice of such meeting is first given to shareholders or (B) the fourth day prior to the meeting. In lieu of delivery to the secretary, the notice may be mailed to the secretary by certified mail, return receipt requested, but shall be deemed to have been given only upon actual receipt by the secretary. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had proxies been solicited with respect to such nominee by the management or board of directors of the corporation; and (e) the consent of each nominee to serve as a director of the corporation if so elected. If a judge or judges of election shall not have been appointed pursuant to these bylaws, the presiding officer of the meeting may, if the facts warrant, determine and declare to the meeting that any nomination made at the meeting was not made in accordance with the procedures of this Subsection and, in such event, the nomination shall be disregarded. Any decision by the presiding officer of the meeting made in good faith shall be conclusive and binding upon all shareholders of the corporation for any purpose.

(b) *Proposed Business to be Transacted*. Except as otherwise provided in Section 3.13(a) of these bylaws, at any annual meeting or special meeting of shareholders, only such business as is properly brought before the meeting in accordance with this Subsection may be transacted. To be properly brought before any meeting, any proposed business that is to be brought pursuant to this Subsection must be either (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the board of directors, (ii) otherwise properly brought before the meeting by or at the direction of the board of directors, or (iii) in the case of an annual meeting of shareholders, otherwise properly brought before the meeting by a shareholder (x) who is a shareholder of record on the date of giving notice provided for in these bylaws and on the record date for the determination of shareholders entitled to vote at such annual meeting, and (y) who complies with the notice provisions set forth in this Subsection. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a shareholder's notice must be delivered to the secretary of the corporation not later than 75 days in advance of the date of such meeting; *provided, however,* that in the event that less than 85 days' notice or prior public disclosure of the date of the annual meeting is given, notice from the shareholders to be timely must be received not later than the tenth day following the date on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. In lieu of delivery to the secretary, the notice may be mailed to the secretary by certified mail, return receipt requested, but shall be deemed to have been given only upon actual receipt by the secretary. A shareholder's notice to the secretary of the corporation, as required by this Subsection, shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the shareholder proposing such business, (iii) the class, series and number of shares of the corporation's stock which are beneficially owned by the shareholder, (iv) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder in such business, (v) all other information which would be required to be included in a proxy statement or other filing required to be filed with the Securities and Exchange Commission if, with respect to any such item of business, such shareholder were a participant in a solicitation subject to Regulation 14A under the Securities Exchange Act of 1934, as amended, and (vi) a representation that such shareholder intends to appear in person or by proxy at the annual meeting of shareholders to bring such business before the meeting. Except as provided in Section 3.13(a) of these bylaws, notwithstanding anything in the bylaws to the contrary, no business shall be conducted at any meeting of shareholders except in accordance with the procedures set forth in this Subsection, *provided, however,* that nothing in this Subsection shall be deemed to preclude discussion by any shareholders of any business properly brought before any such meeting. The presiding officer of a meeting may, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Subsection, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Any decision by the presiding officer of the meeting made in good faith shall be conclusive and binding upon all shareholders of the corporation for any purpose.

ARTICLE IV
Notice—Waivers—Meetings

Section 4.01 Manner of Giving Notice.

(a) General Rule. Whenever written notice is required to be given to any person under the provisions of the Articles of Incorporation, these bylaws, or the Business Corporation Law, it may be given to the person, either personally or by sending a copy thereof by first-class or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges prepaid, or by facsimile transmission, to the address (or to the telex, TWX or facsimile transmission telephone number) of the person appearing on the books of the corporation or, in the case of directors, supplied by the director to the corporation for the purpose of notice. Notice of any regular or special meeting of the shareholders (or any other notice required by the Articles of Incorporation, these bylaws, or the Business Corporation Law to be given to all shareholders or to all holders of a class or series of shares) may be given by any class of mail, postage prepaid, if the notice is deposited in the United States mail at least 20 days prior to the day named for the meeting or any corporate or shareholder action specified in the notice.

If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched or, in the case of facsimile transmission, when received. A notice of meeting shall specify the place, day and hour of the meeting and any other information required by any other provision of the Articles of Incorporation, these bylaws, or the Business Corporation Law.

(b) Adjourned Shareholder Meetings. When a meeting of shareholders is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which the adjournment is taken, unless the board fixes a new record date for the adjourned meeting or the Business Corporation Law requires notice of the business to be transacted and such notice has not previously been given.

Section 4.02. Waivers of Notice. Whenever any written notice is required to be given under the provisions of the Articles of Incorporation, these bylaws, or the Business Corporation Law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Except in the case of a special meeting of shareholders, neither the business to be transacted at, nor the purpose of, the meeting need be specified in the waiver of notice of such meeting.

Attendance of a person, either in person or by proxy, at any meeting, shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

Section 4.03. Conference Telephone Meetings. One or more directors may participate in a meeting of the board, or of a committee of the board, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

ARTICLE V
Officers

Section 5.01. Number, Qualifications and Designation. The officers of the corporation shall be a president, a secretary, a treasurer, one or more vice presidents (including executive vice presidents and senior vice presidents) and such other officers as the business of the corporation may require, including one or more assistant officers. One person may hold more than one office. Officers may but need not be directors or shareholders of the corporation.

Section 5.02. Election and Term of Office. The officers of the corporation shall be elected by the board of directors, and each such officer shall hold his office until the next annual organization meeting of the directors (which is held immediately following the annual meeting of shareholders), or until his death, resignation, or removal.

Section 5.03. Resignations. Any officer may resign at any time by giving written notice to the board of directors, or to the Chairman of the Board, if there be one, or the President, or the secretary of the corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5.04. Removal. Any officer may be removed, either for or without cause, by the board of directors whenever in the judgment of the board of directors the best interests of the corporation will be served thereby.

Section 5.05. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, may be filled by the board of directors.

Section 5.06. General Powers. All officers of the corporation as between themselves and the corporation, shall, respectively have such authority and perform such duties in the management of the property and affairs of the corporation as may be determined by resolution of the board of directors.

Section 5.07. Compensation. The salaries or other compensation of the officers elected by the board of directors shall be fixed from time to time by the board of directors or in such manner as the board of directors shall from time to time provide.

Section 5.08. Standard of Care. In lieu of the standards of conduct otherwise provided by law, officers of the corporation shall be subject to the same standards of conduct, including standards of care and loyalty and rights of justifiable reliance, as shall at the time be applicable to directors of the corporation.

ARTICLE VI Capital Stock

Section 6.01. Share Certificates.

(a) Form of Certificates. To the extent that certificates for shares of the corporation are issued, such certificates shall be in such form as approved by the board of directors, and shall state that the corporation is incorporated under the laws of the Commonwealth of Pennsylvania, the name of the person to whom issued, and the number and class of shares and the designation of the series (if any) that the certificate represents. If the corporation is authorized to issue shares of more than one class or series, certificates for shares of the corporation shall set forth upon the face or back of the certificate (or shall state on the face or back of the certificate that the corporation will furnish to any shareholder upon request and without charge), a full or summary statement of the designations, voting rights, preferences, limitations and special rights of the shares of each class or series authorized to be issued so far as they have been fixed and determined and the authority of the board of directors to fix and determine the designations, voting rights, preferences, limitations and special rights of the classes and series of shares of the corporation.

(b) Share Register. The share register or transfer books and blank share certificates shall be kept by the secretary or by any transfer agent or registrar designated by the board of directors for that purpose.

(c) Issuance. The share certificates of the corporation shall be numbered and registered in the share register or transfer books of the corporation as they are issued. They shall be executed in such manner as the board of directors shall determine.

Section 6.02. Transfer. Transfers of shares shall be made on the share register or transfer books of the corporation only by the record holder of such shares, or by attorney lawfully constituted in writing, and, in the case of shares represented by a certificate, upon surrender of the certificate therefor, endorsed by the person named in the certificate or by an attorney lawfully constituted in writing.

Section 6.03. Record Holder of Shares. The corporation shall be entitled to treat the person in whose name any share or shares of the corporation stand on the books of the corporation as the absolute owner thereof, and shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person.

Section 6.04. Lost, Destroyed or Mutilated Certificates. The holder of any shares of the corporation shall immediately notify the corporation of any loss, destruction or mutilation of the certificate therefor, and the board of directors may, in its discretion, cause a new certificate or certificates to be issued to such holder, in case of mutilation of the certificate, upon the surrender of the mutilated certificate or, in case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction and, if the board of directors shall so determine, the deposit of a bond in such form and in such sum, and with such surety or sureties, as it may direct.

ARTICLE VII Indemnification of Directors, Officers, Etc.

Section 7.01. Personal Liability of Directors.

(a) To the fullest extent that the laws of the Commonwealth of Pennsylvania, as now in effect or as hereafter amended, permit elimination or limitation of the liability of directors, no director of the corporation shall be personally liable for monetary damages as such for any action taken, or any failure to take any action, as a director.

(b) Any amendment or repeal of this Section 7.01 which has the effect of increasing directors' liability shall operate prospectively only, and shall not affect any action taken, or any failure to act, prior to its adoption.

Section 7.02. Indemnification of Directors and Officers.

(a) Right to Indemnification. Except as prohibited by law, every director and officer of the corporation shall be entitled as of right to be indemnified by the corporation against reasonable expense and any liability paid or incurred by such person in connection with any actual or threatened claim, action, suit or proceeding, civil, criminal, administrative, investigative or other, whether brought by or in the right of the corporation or otherwise, in which he or she may be involved, as a party or otherwise, by reason of such person being or having been a director or officer of the corporation or by reason of the fact that such person is or was serving at the request of the corporation as a director, officer, employee, fiduciary or other representative of another corporation, partnership, joint venture, trust, employee benefit plan or other entity (such claim, action, suit or proceeding hereinafter being referred to as "action"). Such indemnification shall include the right to have expenses incurred by such person in connection with an action paid in advance by the corporation prior to final disposition of such action, subject to such conditions as may be prescribed by law. Persons who are not directors or officers of the corporation may be similarly indemnified in respect of service to the corporation or to another such entity at the request of the corporation to the extent the Board of Directors at any time denominates

such person as entitled to the benefits of this Section 7.02. As used herein, “expense” shall include fees and expenses of counsel selected by such person; and “liability” shall include amounts of judgments, excise taxes, fines and penalties, and amounts paid in settlement.

(b) Right of Claimant to Bring Suit. If a claim under paragraph (a) of this Section 7.02 is not paid in full by the corporation within thirty days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim, and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. It shall be a defense to any such action that the conduct of the claimant was such that under Pennsylvania law the corporation would be prohibited from indemnifying the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, independent legal counsel and its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because the conduct of the claimant was not such that indemnification would be prohibited by law, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel or its shareholders) that the conduct of the claimant was such that indemnification would be prohibited by law, shall be a defense to the action or create a presumption that the conduct of the claimant was such that indemnification would be prohibited by law.

(c) Insurance and Funding. The corporation may purchase and maintain insurance to protect itself and any person eligible to be indemnified hereunder against any liability or expense asserted or incurred by such person in connection with any action, whether or not the corporation would have the power to indemnify such person against such liability or expense by law or under the provisions of this Section 7.02. The corporation may create a trust fund, grant a security interest, cause a letter of credit to be issued or use other means (whether or not similar to the foregoing) to ensure the payment of such sums as may become necessary to effect indemnification as provided herein.

(d) Non-Exclusivity; Nature and Extent of Rights. The right of indemnification provided for herein (1) shall not be deemed exclusive of any other rights, whether now existing or hereafter created, to which those seeking indemnification hereunder may be entitled under any agreement, bylaw or charter provision, vote of shareholders or directors or otherwise, (2) shall be deemed to create contractual rights in favor of persons entitled to indemnification hereunder, (3) shall continue as to persons who have ceased to have the status pursuant to which they were entitled or were denominated as entitled to indemnification hereunder and shall inure to the benefit of the heirs and legal representatives of persons entitled to indemnification hereunder and (4) shall be applicable to actions, suits or proceedings commenced after the adoption hereof, whether arising from acts or omissions occurring before or after the adoption hereof. The right of indemnification provided for herein may not be amended, modified or repealed so as to limit in any way the indemnification provided for herein with respect to any acts or omissions occurring prior to the effective date of any such amendment, modification or repeal.

Section 7.03. Indemnification of Persons Not Indemnified under Section 7.02.

(a) Scope. The provisions of this Section 7.03 are applicable only to employees and other authorized representatives of the corporation who are not entitled to the benefits of Section 7.02 pursuant to either the terms of Section 7.02 or a resolution of the Board of Directors of this corporation.

(b) Employees; Third Party Actions. The corporation shall indemnify any employee of the corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that such person is or was an authorized representative of the corporation (which, for the purposes of this Section 7.03, shall mean an employee or agent of the corporation, or a person who is or was serving at the request of the corporation as a director, officer, employee, fiduciary or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise) against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which that person reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

(c) Employees; Derivative Actions. The corporation shall indemnify any employee of the corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was an authorized representative of the corporation, against expenses (including attorneys’ fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the corporation unless and only to the extent that the court of common pleas of the county in which the registered office of the corporation is located or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court of common pleas or such other court shall deem proper.

(d) Other Authorized Representatives. To the extent that an authorized representative of the corporation who is not an employee of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (b) and (c) of this Section 7.03 or in defense of any claim, issue or matter therein, such person shall be indemnified by the corporation against expenses (including attorneys’ fees) actually and reasonably incurred by such person in connection therewith. Such an authorized representative may, at the discretion of the corporation, be indemnified by the corporation in any other circumstances and to any extent if the corporation would be required by subsections (b) and (c) of this Section 7.03 to indemnify such person in such circumstances and to such extent if such person were or

had been an employee of the corporation.

(e) Procedure for Effecting Indemnification. Indemnification under subsections (b), (c) or (d) of this Section 7.03 shall be made when ordered by a court (in which case the expenses, including attorneys' fees, of the authorized representative in enforcing such right of indemnification shall be added to and be included in the final judgment against the corporation) or shall be made upon a determination that indemnification of the authorized representative is required or proper in the circumstances because such person has met the applicable standard of conduct set forth in subsections (b) and (c) of this Section 7.03. Such determination shall be made:

(1) By the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or

(2) If such a quorum is not obtainable, or, even if obtainable, a majority vote of a quorum of disinterested directors so direct, by independent legal counsel in a written opinion, or

(3) By the shareholders.

(f) Advancing Expenses. Expenses (including attorneys' fees) incurred in defending a civil or criminal action, suit or proceeding shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding, upon receipt of an undertaking by or on behalf of an employee to repay such amount unless it shall ultimately be determined that such person is entitled to be indemnified by the corporation as required in this Section 7.03 or as authorized by law and may be paid by the corporation in advance on behalf of any other authorized representative when authorized by the board of directors upon receipt of a similar undertaking.

(g) Non-Exclusivity; Nature and Extent of Rights. Each person who shall act as an authorized representative of the corporation and who is not entitled to the benefits of Section 7.02, shall be deemed to be doing so in reliance upon such rights of indemnification as are provided in this Section 7.03.

The indemnification provided by this Section 7.03 shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any agreement, vote of shareholders or disinterested directors, statute or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office or position, and shall continue as to a person who has ceased to be an authorized representative of the corporation and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE VIII Amendments

Section 8.01. Amendment of Bylaws. The directors may make, amend, alter or repeal these bylaws by a vote of the majority of the members of the board of directors at any regular or special meeting duly convened after notice of that purpose; subject, however, to the power of the shareholders to make, amend, and repeal these bylaws at any annual or special meeting duly convened after notice of that purpose.

ARTICLE IX [RESERVED]

AMENDMENT NO. 10
TO
PPL EMPLOYEE STOCK OWNERSHIP PLAN

WHEREAS, PPL Services Corporation (“PPL”) has adopted the PPL Employee Stock Ownership Plan (“Plan”) effective January 1, 2000; and

WHEREAS, the Plan was amended and restated effective January 1, 2002, and subsequently amended by Amendment No. 1, 2, 3, 4, 5, 6, 7, 8 and 9; and

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective January 1, 2012, Article V Allocation is amended to read as follows:

Article V
Allocation

5.6 **Supplemental 2012 Allocation.** There shall be a supplemental contribution for the 2012 Plan Year that shall be allocated according to the following formula, notwithstanding any other provision in this Plan:

(a) For all Participants that are not covered by a collective bargaining agreement, are not a Highly Compensated Eligible Employee, and have compensation less than \$70,000, there shall be an allocation of Stock with a value of \$800.

(b) For all Participants that are not covered by a collective bargaining agreement, are not a Highly Compensated Eligible Employee, and have compensation of \$70,000 or more, there shall be an allocation of Stock with a value of \$250.

(c) This supplement allocation shall be in addition to any other allocation for the 2012 Plan Year under this Article V.

II. Except as provided in this Amendment No. 10, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 10 is executed this _____ day of _____, 2013.

Employee Benefit Plan Board

By: _____

Karla A. Durn

Chair, Employee Benefit Plan Board

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	9 Months Ended Sept 30, 2013	Years Ended December 31,				
		2012	2011	2010	2009	2008
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 1,571	\$ 2,082	\$ 2,201	\$ 1,239	\$ 538	\$ 1,273
Adjustment to reflect earnings from equity method investments on a cash basis (a)		34	1	7	1	
	<u>1,571</u>	<u>2,116</u>	<u>2,202</u>	<u>1,246</u>	<u>539</u>	<u>1,273</u>
Total fixed charges as below	816	1,065	1,022	698	513	568
Less:						
Capitalized interest	36	53	51	30	43	57
Preferred security distributions of subsidiaries on a pre-tax basis		5	23	21	24	27
Interest expense and fixed charges related to discontinued operations			3	12	15	16
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>780</u>	<u>1,007</u>	<u>945</u>	<u>635</u>	<u>431</u>	<u>468</u>
Total earnings	<u>\$ 2,351</u>	<u>\$ 3,123</u>	<u>\$ 3,147</u>	<u>\$ 1,881</u>	<u>\$ 970</u>	<u>\$ 1,741</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 795	\$ 1,019	\$ 955	\$ 637	\$ 446	\$ 518
Estimated interest component of operating rentals	21	41	44	39	42	22
Preferred security distributions of subsidiaries on a pre-tax basis		5	23	21	24	27
Fixed charges of majority-owned share of 50% or less-owned persons				1	1	1
Total fixed charges (c)	<u>\$ 816</u>	<u>\$ 1,065</u>	<u>\$ 1,022</u>	<u>\$ 698</u>	<u>\$ 513</u>	<u>\$ 568</u>
Ratio of earnings to fixed charges	<u>2.9</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (d)	<u>2.9</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(c) Interest on unrecognized tax benefits is not included in fixed charges.

(d) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	9 Months Ended Sept 30, 2013	Years Ended December 31,				
		2012	2011	2010	2009	2008
Earnings, as defined:						
Income (Loss) from Continuing Operations Before Income Taxes	\$ 279	\$ 738	\$ 1,212	\$ 881	\$ (13)	\$ 671
Adjustments to reflect earnings from equity method investments on a cash basis			1	7	1	
	<u>279</u>	<u>738</u>	<u>1,213</u>	<u>888</u>	<u>(12)</u>	<u>671</u>
Total fixed charges as below	172	238	259	426	364	390
Less:						
Capitalized interest	28	47	47	33	44	57
Interest expense and fixed charges related to discontinued operations			3	147	102	157
Total fixed charges included in Income (Loss) from Continuing Operations Before Income Taxes	<u>144</u>	<u>191</u>	<u>209</u>	<u>246</u>	<u>218</u>	<u>176</u>
Total earnings	<u>\$ 423</u>	<u>\$ 929</u>	<u>\$ 1,422</u>	<u>\$ 1,134</u>	<u>\$ 206</u>	<u>\$ 847</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 159	\$ 214	\$ 223	\$ 387	\$ 321	\$ 374
Estimated interest component of operating rentals	13	24	36	38	42	15
Fixed charges of majority-owned share of 50% or less-owned persons				1	1	1
Total fixed charges (b)	<u>\$ 172</u>	<u>\$ 238</u>	<u>\$ 259</u>	<u>\$ 426</u>	<u>\$ 364</u>	<u>\$ 390</u>
Ratio of earnings to fixed charges (c)	<u>2.5</u>	<u>3.9</u>	<u>5.5</u>	<u>2.7</u>	<u>0.6</u>	<u>2.2</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Global's operating results were reclassified as Discontinued Operations. Upon reflecting this reclassification, earnings were less than fixed charges for 2009. See Note 9 in PPL Energy Supply's 2011 Form 10-K for additional information. The total amount of fixed charges for this period was approximately \$364 million and the total amount of earnings was approximately \$206 million. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was approximately \$158 million.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	9 Months Ended Sep. 30, 2013	Years Ended December 31,				
		2012	2011	2010	2009	2008
Earnings, as defined:						
Income Before Income Taxes	\$ 243	\$ 204	\$ 257	\$ 192	\$ 221	\$ 278
Total fixed charges as below	<u>87</u>	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>	<u>114</u>
Total earnings	<u>\$ 330</u>	<u>\$ 311</u>	<u>\$ 362</u>	<u>\$ 294</u>	<u>\$ 342</u>	<u>\$ 392</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 84	\$ 104	\$ 102	\$ 101	\$ 120	\$ 113
Estimated interest component of operating rentals	<u>3</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total fixed charges (b)	<u>\$ 87</u>	<u>\$ 107</u>	<u>\$ 105</u>	<u>\$ 102</u>	<u>\$ 121</u>	<u>\$ 114</u>
Ratio of earnings to fixed charges	<u>3.8</u>	<u>2.9</u>	<u>3.4</u>	<u>2.9</u>	<u>2.8</u>	<u>3.4</u>
Preferred stock dividend requirements on a pre-tax basis		\$ 6	\$ 21	\$ 23	\$ 28	\$ 28
Fixed charges, as above	\$ 87	107	105	102	121	114
Total fixed charges and preferred stock dividends	<u>\$ 87</u>	<u>\$ 113</u>	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 149</u>	<u>\$ 142</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>3.8</u>	<u>2.8</u>	<u>2.9</u>	<u>2.4</u>	<u>2.3</u>	<u>2.8</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)				Predecessor (b)		
	9 Months Ended Sep. 30, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009 2008	
Earnings, as defined:							
Income from Continuing Operations Before Income Taxes	\$ 412	\$ 331	\$ 419	\$ 70	\$ 300	\$ (1,235)	\$ (1,536)
Adjustment to reflect earnings from equity method investments on a cash basis (c)		33	(1)		(4)	11	
Loss on impairment of goodwill						1,493	1,806
Mark to market impact of derivative instruments				2	(20)	(19)	34
	<u>412</u>	<u>364</u>	<u>418</u>	<u>72</u>	<u>276</u>	<u>250</u>	<u>304</u>
Total fixed charges as below	<u>116</u>	<u>157</u>	<u>153</u>	<u>25</u>	<u>158</u>	<u>186</u>	<u>199</u>
Total earnings	<u>\$ 528</u>	<u>\$ 521</u>	<u>\$ 571</u>	<u>\$ 97</u>	<u>\$ 434</u>	<u>\$ 436</u>	<u>\$ 503</u>
Fixed charges, as defined:							
Interest charges (d)	\$ 111	\$ 151	\$ 147	\$ 24	\$ 153	\$ 176	\$ 184
Estimated interest component of operating rentals	5	6	6	1	5	5	5
Estimated discontinued operations interest component of rental expense						5	10
Total fixed charges	<u>\$ 116</u>	<u>\$ 157</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 158</u>	<u>\$ 186</u>	<u>\$ 199</u>
Ratio of earnings to fixed charges	<u>4.6</u>	<u>3.3</u>	<u>3.7</u>	<u>3.9</u>	<u>2.7</u>	<u>2.3</u>	<u>2.5</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes other-than-temporary impairment loss of \$25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)				Predecessor (b)		
	9 Months Ended Sep. 30, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009 2008	
Earnings, as defined:							
Income Before Income Taxes	\$ 191	\$ 192	\$ 195	\$ 29	\$ 167	\$ 142	\$ 131
Mark to market impact of derivative instruments				1	(20)	(20)	35
	<u>191</u>	<u>192</u>	<u>195</u>	<u>30</u>	<u>147</u>	<u>122</u>	<u>166</u>
Total fixed charges as below	<u>32</u>	<u>44</u>	<u>46</u>	<u>8</u>	<u>40</u>	<u>46</u>	<u>60</u>
Total earnings	<u>\$ 223</u>	<u>\$ 236</u>	<u>\$ 241</u>	<u>\$ 38</u>	<u>\$ 187</u>	<u>\$ 168</u>	<u>\$ 226</u>
Fixed charges, as defined:							
Interest charges (c)	\$ 30	\$ 42	\$ 44	\$ 8	\$ 38	\$ 44	\$ 58
Estimated interest component of operating rentals	<u>2</u>	<u>2</u>	<u>2</u>		<u>2</u>	<u>2</u>	<u>2</u>
Total fixed charges	<u>\$ 32</u>	<u>\$ 44</u>	<u>\$ 46</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 46</u>	<u>\$ 60</u>
Ratio of earnings fixed charges	<u>7.0</u>	<u>5.4</u>	<u>5.2</u>	<u>4.8</u>	<u>4.7</u>	<u>3.7</u>	<u>3.8</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)				Predecessor (b)		
	9 Months Ended Sep. 30, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009 2008	
Earnings, as defined:							
Income Before Income Taxes	\$ 272	\$ 215	\$ 282	\$ 55	\$ 218	\$ 200	\$ 226
Adjustment to reflect earnings from equity method investments on a cash basis (c)		33	(1)		(4)	11	
Mark to market impact of derivative instruments						1	(1)
	<u>272</u>	<u>248</u>	<u>281</u>	<u>55</u>	<u>214</u>	<u>212</u>	<u>225</u>
Total fixed charges as below	<u>54</u>	<u>72</u>	<u>73</u>	<u>11</u>	<u>71</u>	<u>79</u>	<u>77</u>
Total earnings	<u>\$ 326</u>	<u>\$ 320</u>	<u>\$ 354</u>	<u>\$ 66</u>	<u>\$ 285</u>	<u>\$ 291</u>	<u>\$ 302</u>
Fixed charges, as defined:							
Interest charges (d)	\$ 51	\$ 69	\$ 70	\$ 10	\$ 69	\$ 76	\$ 74
Estimated interest component of operating rentals	<u>3</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>3</u>
Total fixed charges	<u>\$ 54</u>	<u>\$ 72</u>	<u>\$ 73</u>	<u>\$ 11</u>	<u>\$ 71</u>	<u>\$ 79</u>	<u>\$ 77</u>
Ratio of earnings to fixed charges	<u>6.0</u>	<u>4.4</u>	<u>4.8</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>	<u>3.9</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes other-than-temporary impairment loss of \$25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ William H. Spence

William H. Spence
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 PPL Corporation

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ Paul A. Farr

Paul A. Farr
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)
 PPL Corporation

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ David G. DeCampli
 David G. DeCampli
 President
 (Principal Executive Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President
(Principal Financial Officer)
PPL Energy Supply, LLC

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ Gregory N. Dudkin
 Gregory N. Dudkin
 President
 (Principal Executive Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, DENNIS A. URBAN, JR., certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ Dennis A. Urban, Jr.

Dennis A. Urban, Jr.

Controller

(Principal Financial Officer and Principal Accounting Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2013

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2013

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, David G. DeCampli, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2013

/s/ David G. DeCampli

David G. DeCampli
President
(Principal Executive Officer)
PPL Energy Supply, LLC

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President
(Principal Financial Officer)
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Dennis A. Urban, Jr., the Principal Financial and Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2013

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial and Accounting Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2013

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

LG&E & KU ENERGY LLC

FORM 8-K (Current report filing)

Filed 10/03/13 for the Period Ending 10/03/13

Address	220 WEST MAIN STREET LOUISVILLE, KY 40202
Telephone	502-672-2000
CIK	0001518339
SIC Code	4931 - Electric and Other Services Combined
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 3, 2013

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Section 8 - Other Events

Item 8.01 Other Events

On October 3, 2013, Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company (“KU”) and, together with LG&E, the “Companies”) issued a press release announcing that they plan to build an approximately 700 megawatt (“MW”) natural gas combined-cycle generating unit at KU’s Green River generating site in western Kentucky. Subject to regulatory applications, permitting and construction schedules, the facility is planned to be operational in 2018. The project’s anticipated cost is approximately \$700 million. The Companies also announced plans for a potential 10 MW solar generation facility to be operational in 2016 costing approximately \$25 million.

A copy of the Companies’ press release is filed herewith as Exhibit 99.1 and incorporated herein by reference.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(a) Exhibits

99.1 - Press Release dated October 3, 2013 of Louisville Gas and Electric Company and Kentucky Utilities Company.

Statements in this report and the accompanying press release, including statements with respect to future events and their timing, including the Companies’ potential regulatory outcomes, as well as other statements as to future costs or expenses, regulation, corporate strategy and performance, are “forward-looking statements” within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: regulatory and construction approvals and permitting; market demand and prices for electricity; political, regulatory or economic conditions in states, regions or countries where the Companies conduct business; and the progress of actual construction or purchase of the relevant assets or facilities. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation’s, LG&E and KU Energy LLC’s and the Companies’ Form 10-K and other reports on file with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: October 3, 2013

Contact:
Chris Whelan
T 502-627-4999
F 502-627-3629

October 3, 2013

**LG&E and KU Announce Plans to Build Second Natural Gas
Combined-Cycle Generating Station and a Solar Generation Facility**

*Both plants to be located on existing properties;
NGCC to create about 40 full-time, 250 construction jobs*

(LOUISVILLE, Ky.) – Louisville Gas and Electric and Kentucky Utilities companies announced today that they plan to file for a certificate of public convenience and necessity with the Kentucky Public Service Commission for permission to construct a second natural gas combined-cycle generating station (NGCC) and a solar generating facility. The NGCC plant, to be located in Muhlenberg County, is expected to create about 40 permanent full-time jobs and several hundred construction jobs in western Kentucky.

Due to increased federal environmental regulations, LG&E and KU previously announced they are retiring 800 megawatts of older coal-fired generation — at Cane Run, Green River and Tyrone stations — and building a 640-megawatt NGCC unit at Cane Run. A request for proposals was issued in September 2012 to address the remaining lost generation and long-term load growth.

LG&E and KU evaluated competitive bids which included renewable energy, existing energy within Kentucky and building new generation. The utilities also considered short-term proposals (from one to five years) and long-term proposals (from 10 to 20 years). After careful analysis, building a second NGCC at the existing Green River site proved to be the best long-term solution for baseload generation. While the details are being finalized, the plant is expected to have about 700 megawatts of capacity and cost approximately \$700 million to construct. Additionally, the companies will be seeking to construct about a 10-megawatt solar facility costing approximately \$25 million at one of its existing generating stations. Several sites are still being evaluated in order to determine the optimal location.

“ In order to continue to meet our customers ’ energy needs and considering ever-increasing federal environmental regulations, this has been a lengthy and complicated bid process. We ’ re pleased that the outcome creates economic development in western Kentucky and provides LG&E and KU customers with reliable, low-cost energy that will meet the latest set of federal EPA regulations, ” said Paul W. Thompson, LG&E and KU chief operating officer.

LG&E and KU plan to file the certificate of public convenience and necessity for the new NGCC plant and solar facility with the KPSC before the end of the year. The utilities intend to have the NGCC plant online in 2018 and the solar facility online in 2016. If approved, LG&E and KU ’ s generation capacity will be 59 percent coal-fired, 40 percent natural gas-fired and 1 percent renewable.

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Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve a total of 1.2 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 321,000 natural gas and 397,000 electric customers in Louisville and 16 surrounding counties. Kentucky Utilities serves 546,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com.

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FORM 8-K

PPL CORP - PPL

Filed: November 14, 2013 (period: November 06, 2013)

Report of unscheduled material events or corporate changes.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **November 6, 2013**

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
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1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
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Section 2 - Financial Information

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

and

Section 8 - Other Events

Item 8.01 Other Events

Louisville Gas and Electric Company

On November 6, 2013, Louisville Gas and Electric Company (“LG&E”) entered into an underwriting agreement (the “LG&E Underwriting Agreement”) with Citigroup Global Markets Inc., RBS Securities Inc., Sun Trust Robinson Humphrey, Inc. and U. S. Bancorp Investments, Inc., as representatives of the several underwriters, relating to the offering and sale by LG&E of \$250 million of 4.65% First Mortgage Bonds due 2043 (the “LG&E Bonds”).

The Bonds were issued on November 14, 2013, under LG&E’s Indenture (the “LG&E Indenture”), dated as of October 1, 2010, to The Bank of New York Mellon, as trustee, as previously supplemented and as supplemented by Supplemental Indenture No. 3 thereto (the “LG&E Supplemental Indenture”), dated as of November 1, 2013 (collectively, the “LG&E Indenture”). The Bonds will be secured by the lien of the LG&E Indenture, which creates, subject to certain exceptions and exclusions, a lien on substantially all of LG&E’s real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage, transportation and distribution of natural gas, as described therein.

The Bonds are due November 15, 2043, subject to early redemption. LG&E will use the net proceeds from the sale of the Bonds for repayment of short term debt, including commercial paper, for capital expenditures and for other general corporate purposes.

The Bonds were offered and sold under LG&E’s Registration Statement on Form S-3 on file with the Securities and Exchange Commission (Registration No. 333-180410-01).

A copy of the LG&E Underwriting Agreement is attached as Exhibit 1(a) to this report and incorporated herein by reference. The LG&E Supplemental Indenture and LG&E Officer’s Certificate are filed with this report as Exhibits 4(a) and 4(c), respectively.

Kentucky Utilities Company

On November 6, 2013, Kentucky Utilities Company (“KU”) entered into an underwriting agreement (the “KU Underwriting Agreement”) with BNP Paribas Securities Corp., Citigroup Global Markets Inc., Goldman, Sachs & Co., and Mitsubishi UFJ Securities (USA), Inc., as representatives of the several underwriters, relating to the offering and sale by KU of \$250 million of 4.65% First Mortgage Bonds due 2043 (the “KU Bonds”).

The KU Bonds were issued on November 14, 2013, under KU’s Indenture (the “KU Indenture”), dated as of October 1, 2010, to The Bank of New York Mellon, as trustee, as previously supplemented and as supplemented by Supplemental Indenture No. 3 thereto (the “KU Supplemental Indenture”), dated as of November 1, 2013

(collectively, the “KU Indenture”). The KU Bonds will be secured by the lien of the KU Indenture, which creates, subject to certain exceptions and exclusions, a lien on substantially all of KU’s real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity, as described therein.

The KU Bonds are due November 15, 2043, subject to early redemption. KU will use the net proceeds from the sale of the KU Bonds for repayment of short term debt, including commercial paper, for capital expenditures and for other general corporate purposes.

The KU Bonds were offered and sold under KU’s Registration Statement on Form S-3 on file with the Securities and Exchange Commission (Registration No. 333-180410-02).

A copy of the KU Underwriting Agreement is attached as Exhibit 1(b) to this report and incorporated herein by reference. The KU Supplemental Indenture and KU Officer’s Certificate are filed with this report as Exhibits 4(b) and 4(d), respectively.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

- (a) Exhibits
 - 1(a) Underwriting Agreement, dated November 6, 2013, among Louisville Gas and Electric Company and Citigroup Global Markets Inc., RBS Securities Inc., Sun Trust Robinson Humphrey, Inc. and U. S. Bancorp Investments, Inc., as representatives of the several underwriters named therein.
 - 1(b) Underwriting Agreement, dated November 6, 2013, among Kentucky Utilities Company and BNP Paribas Securities Corp., Citigroup Global Markets Inc., Goldman, Sachs & Co., and Mitsubishi UFJ Securities (USA), Inc., as representatives of the several underwriters named therein.
 - 4(a) Supplemental Indenture No 3, dated as of November 1, 2013, of Louisville Gas and Electric Company to The Bank of New York Mellon, as Trustee.
 - 4(b) Supplemental Indenture No. 3, dated as of November 1, 2013, of Kentucky Utilities Company to The Bank of New York Mellon, as Trustee.
 - 4(c) LG&E Officer’s Certificate, dated November 14, 2013, pursuant to Section 201 and 301 of the LG&E Indenture.
 - 4(d) KU Officer’s Certificate, dated November 14, 2013, pursuant to Section 201 and 301 of the KU Indenture.
 - 5(a) Opinion of Dorothy E. O’Brien, Vice President and Deputy General Counsel — Legal and Environmental Affairs of Louisville Gas and Electric Company.
 - 5(b) Opinion of Dorothy E. O’Brien, Vice President and Deputy General Counsel — Legal and Environmental Affairs of Kentucky Utilities Company

- 5(c) Opinion of Pillsbury Winthrop Shaw Pittman LLP as to the LG&E Bonds.
- 5(d) Opinion of Pillsbury Winthrop Shaw Pittman LLP as to the KU Bonds.
- 5(e) Opinion of Stoll Keenon Ogden PLLC as to the KU Bonds.
- 23(a) Consent of Dorothy E. O'Brien, Vice President and Deputy General Counsel of Louisville Gas and Electric Company (included as part of Exhibit 5(a)).
- 23(b) Consent of Dorothy E. O'Brien, Vice President and Deputy General Counsel of Kentucky Utilities Company (included as part of Exhibit 5(b)).
- 23(c) Consent of Pillsbury Winthrop Shaw Pittman LLP (included as part of Exhibit 5(c)).
- 23(d) Consent of Pillsbury Winthrop Shaw Pittman LLP (included as part of Exhibit 5(d)).
- 23(e) Consent of Stoll Keenon Ogden PLLC (included as part of Exhibit 5(e)).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: November 14, 2013

LOUISVILLE GAS AND ELECTRIC COMPANY

\$250,000,000
First Mortgage Bonds, 4.65% Series due 2043

UNDERWRITING AGREEMENT

November 6, 2013

Citigroup Global Markets Inc.
RBS Securities Inc.
SunTrust Robinson Humphrey, Inc.
U.S. Bancorp Investments, Inc.

As Representatives of the Several Underwriters
c/o Citigroup Global Markets Inc.
388 Greenwich Street
New York, NY 10013

Ladies and Gentlemen:

1. Introductory.

Louisville Gas and Electric Company, a corporation organized under the laws of the Commonwealth of Kentucky (the “Company”), proposes to issue and sell, and the several Underwriters named in Section 3 hereof (the “Underwriters”), for whom you are acting as representatives (the “Representatives”), propose, severally and not jointly, to purchase, upon the terms and conditions set forth herein, \$250,000,000 aggregate principal amount of the Company’s First Mortgage Bonds, 4.65% Series due 2043 (the “Bonds”) to be issued under an Indenture, dated as of October 1, 2010 (the “Base Indenture”), as heretofore amended and supplemented by Supplemental Indenture No. 1, dated as of October 15, 2010, and Supplemental Indenture No. 2 thereto, dated as of November 1, 2010, and as to be further supplemented by Supplemental Indenture No. 3 thereto relating to the Bonds, to be dated as of November 1, 2013 (the “Supplemental Indenture”, and the Base Indenture as so amended and supplemented, the “Indenture”), between the Company and The Bank of New York Mellon, as trustee thereunder (the “Trustee”).

The Company has filed with the Securities and Exchange Commission (the “Commission”) an automatic shelf registration statement (No. 333-180410-01) on Form S-3, including the related preliminary prospectus or prospectus, which registration statement became effective upon filing under Rule 462(e) (“Rule 462(e)”) of the rules and regulations of the Commission (the “Securities Act Regulations”) under the

Securities Act of 1933, as amended (the “Securities Act”). Such registration statement covers the registration of the Bonds under the Securities Act. Promptly after the date of this Agreement, the Company will prepare and file a prospectus in accordance with the provisions of Rule 430B (“Rule 430B”) of the Securities Act Regulations and paragraph (b) of Rule 424 (“Rule 424(b)”) of the Securities Act Regulations. Any information included in such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of and included in such registration statement pursuant to Rule 430B is referred to as “Rule 430B Information.” Each prospectus used in connection with the offering of the Bonds that omitted Rule 430B Information (other than a “free writing prospectus” as defined in Rule 405 of the Securities Act Regulations that has not been approved in writing by the Company and the Representatives), including any related prospectus supplement and the documents incorporated by reference therein pursuant to Item 12 of Form S-3, is herein called a “preliminary prospectus.” Such registration statement, at any given time, including the amendments or supplements thereto to such time, the exhibits and any schedules thereto at such time, the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Securities Act at such time and the documents otherwise deemed to be a part thereof or included therein by the Securities Act Regulations, is herein called the “Registration Statement.” The Registration Statement at the time it originally became effective is herein called the “Original Registration Statement.” The final prospectus in the form first furnished to the Underwriters for use in connection with the offering of the Bonds, including the related prospectus supplement and the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Securities Act as of the date hereof, is herein called the “Prospectus.” For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the Prospectus or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval (“EDGAR”) system.

All references in this Agreement to financial statements and schedules and other information which is “contained,” “included” or “stated” in the Registration Statement, any preliminary prospectus or the Prospectus (or other references of like import) shall be deemed to mean and include all such financial statements and schedules and other information which is incorporated by reference in or otherwise deemed by the Securities Act Regulations to be a part of or included in the Registration Statement, any preliminary prospectus or the Prospectus, as the case may be; and all references in this Agreement to amendments or supplements to the Registration Statement, any preliminary prospectus or the Prospectus shall be deemed to mean and include the filing of any document under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) which is incorporated by reference in or otherwise deemed by the Securities Act Regulations to be a part of or included in the Registration Statement, such preliminary prospectus or the Prospectus, as the case may be.

2. Representations and Warranties.

The Company represents and warrants to each Underwriter as of the date hereof, as of the Applicable Time referred to in Section 2(b) hereof and as of the Closing Date referred to in Section 5 hereof, and agrees with each Underwriter as follows:

(a) (A) At the time of filing the Original Registration Statement, (B) at the time of the most recent amendment thereto for the purposes of complying with Section 10(a)(3) of the Securities Act (whether such amendment was by post-effective amendment, incorporated report filed pursuant to Section 13 or 15(d) of the Exchange Act or form of prospectus), (C) at the time the Company or any person acting on its behalf (within the meaning, for this clause only, of Rule 163(c) of the Securities Act Regulations) made any offer relating to the Bonds in reliance on the exemption of Rule 163 of the Securities Act Regulations (“Rule 163”) or made a bona fide offer (within the meaning of Rule 164(h)(2) of the Securities Act Regulations) and (D) at the date hereof, the Company was and is eligible to register and issue the Bonds as a “well-known seasoned issuer” as defined in Rule 405 of the Securities Act Regulations (“Rule 405”), including not having been and not being an “ineligible issuer” as defined in Rule 405. The Registration Statement is an “automatic shelf registration statement,” as defined in Rule 405, and the Bonds, since their registration on the Registration Statement, have been and remain eligible for registration by the Company on a Rule 405 “automatic shelf registration statement.” The Company has not received from the Commission any notice pursuant to Rule 401(g)(2) of the Securities Act Regulations objecting to the use of the automatic shelf registration statement form;

(b) The Original Registration Statement became effective upon filing under Rule 462(e) of the Securities Act Regulations on March 28, 2012, and any post-effective amendment thereto also became effective upon filing under Rule 462(e). No stop order suspending the effectiveness of the Registration Statement or any notice objecting to its use has been issued under the Securities Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with.

Any offer that is a written communication relating to the Bonds made prior to the filing of the Original Registration Statement by the Company or any person acting on its behalf (within the meaning, for this paragraph only, of Rule 163(c) of the Securities Act Regulations) has been filed with the Commission in accordance with the exemption provided by Rule 163 and otherwise complied with the requirements of Rule 163, including without limitation the legending requirement, to qualify such offer for the exemption from Section 5(c) of the Securities Act provided by Rule 163.

At the respective times the Original Registration Statement and each amendment thereto became effective, at each deemed effective date with respect to the Underwriters pursuant to Rule 430B(f)(2) of the Securities Act Regulations and at the Closing Date, the Registration Statement complied and will comply in all material respects with the requirements of the Securities Act and the Securities Act Regulations and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and the rules and regulations thereunder, and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

Neither the Prospectus nor any amendments or supplements thereto, at the time the Prospectus or any such amendment or supplement was issued and at the Closing Date, included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Each preliminary prospectus (including the prospectus or prospectuses filed as part of the Original Registration Statement or any amendment thereto) complied when so filed and each Prospectus will comply when so filed in all material respects with the Securities Act Regulations and each preliminary prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

As of the Applicable Time (as defined below), neither (x) the Issuer General Use Free Writing Prospectus(es) (as defined below) issued at or prior to the Applicable Time, the Statutory Prospectus (as defined below) and the Issuer Free Writing Prospectus, including the Final Term Sheet prepared and filed pursuant to Section 6(b) identified on Schedule A hereto, all considered together (collectively, the "General Disclosure Package"), nor (y) any individual Issuer Limited Use Free Writing Prospectus (as defined below), when considered together with the General Disclosure Package, included any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

As of the time of the filing of the Final Term Sheet, the General Disclosure Package, when considered together with the Final Term Sheet (as defined in Section 6(b)), will not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

As used in this subsection and elsewhere in this Agreement:

“Applicable Time” means 2:40 p.m., New York City time, on November 6, 2013 or such other time as agreed by the Company and the Representatives.

“Issuer Free Writing Prospectus” means any “issuer free writing prospectus,” as defined in Rule 433 of the Securities Act Regulations (“Rule 433”), relating to the Bonds that (i) is required to be filed with the Commission by the Company, (ii) is a “road show that is a written communication” within the meaning of Rule 433(d)(8)(i), whether or not required to be filed with the Commission or (iii) is exempt from filing pursuant to Rule 433(d)(5)(i) because it contains a description of the Bonds or of the offering that does not reflect the final terms, in each case in the form filed or required to be filed with the Commission or, if not required to be filed, in the form retained in the Company’s records pursuant to Rule 433(g).

“Issuer General Use Free Writing Prospectus” means any Issuer Free Writing Prospectus that is intended for general distribution to prospective investors, as evidenced by its being specified in Schedule A hereto.

“Issuer Limited Use Free Writing Prospectus” means any Issuer Free Writing Prospectus that is not an Issuer General Use Free Writing Prospectus.

“Permitted Free Writing Prospectus” means any free writing prospectus consented to in writing by the Company and the Representatives. For the avoidance of doubt, any free writing prospectus that is not consented to in writing by the Company does not constitute a Permitted Free Writing Prospectus and will not be an Issuer Free Writing Prospectus.

“Statutory Prospectus” as of any time means the prospectus relating to the Bonds that is included in the Registration Statement immediately prior to that time, including any document incorporated by reference therein and any preliminary or other prospectus deemed to be a part thereof.

Each Issuer Free Writing Prospectus, as of its issue date and at all subsequent times through the completion of the public offer and sale of the Bonds or until any earlier date that the Company notified or notifies the Representatives as described in Section 6(g), did not, does not and will not include any information that conflicted, conflicts or will conflict with the information contained in the Registration Statement or the Prospectus, including any document incorporated by reference therein and any preliminary or other prospectus deemed to be a part thereof that has not been superseded or modified.

The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement, the Prospectus or any Issuer Free Writing Prospectus made in reliance upon and in conformity with written information furnished to the Company as set forth in Schedule B hereto by any Underwriter through the Representatives expressly for use therein or to any statements in or omissions from the Statement of Eligibility of the Trustee under the Indenture. At the effective date of the Registration Statement, the Indenture conformed in all material respects to the Trust Indenture Act and the rules and regulations thereunder;

(c) The Company has been duly organized, is validly existing as a corporation in good standing under the laws of the Commonwealth of Kentucky, has the power and authority to own its property and to conduct its business as described in the General Disclosure Package and the Prospectus and to enter into and perform its obligations under this Agreement, the Indenture and the Bonds, and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company;

(d) The Bonds have been duly authorized by the Company and, when issued, authenticated and delivered in the manner provided for in the Indenture and delivered against payment of the consideration therefor, will constitute valid and binding obligations of the Company enforceable in accordance with their terms, except to the extent limited by bankruptcy, insolvency, fraudulent conveyance, reorganization or moratorium laws or by other laws now or hereafter in effect relating to or affecting the enforcement of mortgagee's and other creditors' rights and by general equitable principles (regardless of whether considered in a proceeding in equity or at law), an implied covenant of good faith and fair dealing and consideration of public policy, and federal or state securities law limitations on indemnification and contribution (the "Enforceability Exceptions"); the Bonds will be in the forms established pursuant to, and entitled to the benefits of, the Indenture; and the Bonds will conform in all material respects to the statements relating thereto contained in the General Disclosure Package and the Prospectus;

(e) The Indenture has been duly authorized by the Company; at the Closing Date, the Supplemental Indenture will have been duly executed and delivered by the Company, and assuming due authorization, execution and delivery of the Indenture by the Trustee, the Indenture will constitute a valid and legally binding obligation of the Company enforceable in accordance with its terms (except to the extent limited by the Enforceability Exceptions); the Indenture conforms and will conform in all material respects to the statements relating thereto contained in the General Disclosure Package and the Prospectus; and at the

effective date of the Registration Statement, the Indenture was duly qualified under the Trust Indenture Act;

(f) The Company is in compliance in all material respects with its amended and restated articles of incorporation and bylaws;

(g) The Order of the Kentucky Public Service Commission, dated August 3, 2012, has been obtained and is in full force and effect and is sufficient to authorize the issuance and sale by the Company of the Bonds as contemplated by this Agreement, and no further consent, approval, authorization, order, registration or qualification of or with any federal, state or local governmental agency or body or any federal, state or local court is required to be obtained by the Company for the consummation of the transactions contemplated by this Agreement and the Indenture in connection with the offering, issuance and sale of the Bonds by the Company, or the performance by the Company of its obligations hereunder or thereunder, except (i) such as have been obtained or (ii) such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Bonds by the Underwriters in the manner contemplated herein and in the General Disclosure Package and the Prospectus;

(h) None of the execution and delivery of this Agreement, the Supplemental Indenture, the issue and sale of the Bonds, or the consummation of any of the transactions herein or therein contemplated, will (i) violate any law or any regulation, order, writ, injunction or decree of any court or governmental instrumentality applicable to the Company, (ii) breach or violate, or constitute a default under, the Company's amended and restated articles of incorporation or bylaws, or (iii) breach or violate, or constitute a default under, any material agreement or instrument to which the Company is a party or by which it is bound, except in the case of clauses (i) and (iii), for such violations, breaches or defaults that would not in the aggregate have a material adverse effect on the Company's ability to perform its obligations hereunder or thereunder;

(i) The consolidated financial statements of the Company, together with the related notes and schedules, each set forth or incorporated by reference in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Exchange Act and the related published rules and regulations thereunder; such audited financial statements have been prepared in all material respects in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; and no material modifications are required to be made to the unaudited interim financial statements for them to be in conformity with generally accepted accounting principles;

(j) This Agreement has been duly and validly authorized, executed and delivered by the Company;

(k) Since the respective dates as of which information is given in the General Disclosure Package and the Prospectus, except as otherwise stated therein or contemplated thereby, there has been no material adverse change, or event or occurrence that would result in a material adverse change in the financial position or results of operations of the Company;

(l) The Company is not, and after giving effect to the offering and sale of the Bonds and the application of the proceeds thereof as described in the General Disclosure Package and the Prospectus, will not be, an “investment company” as such term is defined in the Investment Company Act of 1940, as amended;

(m) Ernst & Young LLP and PricewaterhouseCoopers LLP, who have each audited certain financial statements of the Company and issued their respective reports with respect to the audited consolidated financial statements and schedules included and incorporated by reference in the General Disclosure Package and the Prospectus, are independent registered public accounting firms with respect to the Company during the periods covered by their reports within the meaning of the Securities Act and the Securities Act Regulations and the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”);

(n) The Company maintains systems of internal accounting controls sufficient to provide reasonable assurance that transactions are executed in accordance with management’s authorizations and transactions are recorded as necessary to permit preparation of financial statements. The Company maintains effective “disclosure controls and procedures” as such term is defined in Rule 13a-15(e) under the Exchange Act;

(o) (i) The Company has good and sufficient title to the interest and estate of the Company in all real property, and good title to all other property, which is or is to be specifically or generally described or referred to in the Indenture as being subject to the lien thereof, subject only to (A) the lien of the Indenture, (B) Permitted Liens (as defined in the Indenture), and (C) defects and irregularities in title and other Liens (as defined in the Indenture) that in each case are not prohibited by the Indenture and that, in the Company’s judgment, do not, individually or in the aggregate, impair the operation of the Company’s business in any material respect; (ii) the descriptions of all such property contained or referred to in the Indenture are adequate for purposes of the lien purported to be created by the Indenture; (iii) the Indenture (excluding the Supplemental Indenture) constitutes, and, on the Closing Date, the Indenture will constitute, a valid mortgage lien on and security interest in all property which is specifically or generally described or referred to therein as being subject to the lien thereof (other than such property as has been released from the lien of the Indenture in accordance with the terms thereof), subject only to the Liens, defects and irregularities referred to in subparagraph (i) above; and (iv) on and after the

Closing Date, the Indenture by its terms will effectively subject to the lien thereof all property located in the Commonwealth of Kentucky acquired by the Company after the Closing Date of the character generally described or referred to in the Indenture as being subject to the lien thereof, subject to (A) defects and irregularities in title existing at the time of such acquisition, (B) Purchase Money Liens (as defined in the Indenture) and any other Liens placed or otherwise existing or placed on such property at the time of such acquisition, (C) with respect to real property, Liens placed thereon following the acquisition thereof by the Company and prior to the recording and filing of a supplemental indenture or other instrument specifically describing such real property and (D) possible limitations arising out of laws relating to preferential transfers of property during certain periods prior to commencement of bankruptcy, insolvency or similar proceedings and to limitations on liens on property acquired by a debtor after the commencement of any such proceedings, and possible claims and taxes of the federal government, and except as otherwise provided in Article Thirteen of the Indenture; it being understood that, if any property were to become subject to the lien of the Indenture by virtue of the "springing lien provisions" contained in the proviso at the end of the definition of "Excepted Property" in the granting clauses of the Indenture, the lien of the Indenture as to such property would be subject to any Liens existing on such property at the time such property became subject to the lien of the Indenture;

(p) On the Closing Date, the Indenture will have been duly recorded or lodged for record as a mortgage of real estate, and any required filings with respect to personal property and fixtures subject to the lien of the Indenture will have been duly made, in each place in which such recording and filing is required to protect, preserve and perfect the lien of the Indenture, and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements and similar documents and the issuance of the Bonds will have been paid;

(q) The interactive data in eXtensible Business Reporting Language included or incorporated by reference in the Registration Statement fairly presents the information called for in all material respects and has been prepared in accordance with the Commission's rules and guidelines applicable thereto;

(r) None of the Company or, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (collectively, the "FCPA"), including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any "foreign official"

(as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA, and the Company and, to the knowledge of the Company, its affiliates have conducted their businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith;

(s) The operations of the Company are and have been conducted at all times in compliance in all material respects with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all applicable jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines issued, administered or enforced by any governmental agency (collectively, the “Money Laundering Laws”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company with respect to the Money Laundering Laws is pending or, to the best knowledge of the Company, threatened; and

(t) None of the Company or, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department (“OFAC”); and the Company will not directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds, to any joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

Each of you, as one of the several Underwriters, represents and warrants to, and agrees with, the Company, its directors and such of its officers as shall have signed the Registration Statement, and to each other Underwriter, that the information set forth in Schedule B hereto furnished to the Company by or through you or on your behalf expressly for use in the Registration Statement or the Prospectus does not contain an untrue statement of a material fact and does not omit to state a material fact in connection with such information required to be stated therein or necessary to make such information not misleading.

3. Purchase and Sale of Bonds.

On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein contained, the Company agrees to sell to the Underwriters, and the Underwriters agree, severally and not jointly, to purchase from the Company, at a purchase price of 98.405% of the principal amount thereof, plus accrued interest, if any, from the date of the first authentication of the Bonds

to the Closing Date (as hereinafter defined), the respective principal amounts of the Bonds set forth below opposite the names of such Underwriters.

Underwriters	Principal Amount of Bonds
Citigroup Global Markets Inc.	\$ 50,000,000
RBS Securities Inc.	\$ 50,000,000
SunTrust Robinson Humphrey, Inc.	\$ 50,000,000
U.S. Bancorp Investments, Inc.	\$ 50,000,000
Banco Bilbao Vizcaya Argentaria, S.A.	\$ 12,500,000
BNY Mellon Capital Markets, LLC	\$ 12,500,000
Mizuho Securities USA Inc.	\$ 12,500,000
PNC Capital Markets LLC	\$ 12,500,000
Total	\$ 250,000,000

4. Public Offering.

The several Underwriters agree that as soon as practicable, in their judgment, they will make a public offering of their respective portions of the Bonds in accordance with the terms set forth in the General Disclosure Package and the Prospectus.

5. Delivery and Payment.

The Bonds will be represented by one or more definitive global securities in book-entry form which will be deposited by or on behalf of the Company with The Depository Trust Company (“DTC”) or its designated custodian. The Company will deliver the Bonds to you against payment by you of the purchase price therefor (such delivery and payment herein referred to as the “Closing”) by wire transfer of immediately available funds to the Company’s account (No. 3752099133) at Bank of America (ABA Routing Number 026-0095-93) by 10:00 a.m., New York City time, on the Closing Date. Such payment shall be made upon delivery of the Bonds for the account of Citigroup Global Markets Inc. at DTC. The Bonds so to be delivered will be in fully registered form in such authorized denominations as established pursuant to the Indenture. The Company will make the Bonds available for inspection by you at the office of The Bank of New York Mellon, 101 Barclay Street, 8th Floor, New York, New York 10286, Attention: Corporate Trust, not later than 10:00 a.m., New York City time, on the Business Day next preceding the Closing Date (“Business Day” shall mean any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in The City of New York).

Each Underwriter represents and agrees that, unless it obtains the prior written consent of the Company and the Representatives, it has not and will not make any

offer relating to the Bonds that would constitute or would use an “issuer free writing prospectus” as defined in Rule 433 or that would otherwise constitute a “free writing prospectus” as defined in Rule 405 of the Securities Act Regulations that would be required to be filed with the Commission, other than information contained in the Final Term Sheet prepared in accordance with Section 6(b).

The term “Closing Date” wherever used in this Agreement shall mean November 14, 2013, or such other date (i) not later than the seventh full Business Day thereafter as may be agreed upon in writing by the Company and you, or (ii) as shall be determined by postponement pursuant to the provisions of Section 10 hereof.

6. Certain Covenants of the Company.

The Company covenants and agrees with the several Underwriters:

(a) Subject to Section 6(b), to comply with the requirements of Rule 430B and to notify the Representatives immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement or new registration statement relating to the Bonds shall become effective, or any supplement to the Prospectus or any amended Prospectus shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or the filing of a new registration statement or any amendment or supplement to the Prospectus or any document incorporated by reference therein or otherwise deemed to be a part thereof or for additional information, (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or such new registration statement or any notice objecting to its use or of any order preventing or suspending the use of any preliminary prospectus, or of the suspension of the qualification of the Bonds for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes or of any examination pursuant to Section 8(e) of the Securities Act concerning the Registration Statement and (v) if the Company becomes the subject of a proceeding under Section 8A of the Securities Act in connection with the offering of the Bonds. The Company will effect the filings required under Rule 424(b), in the manner and within the time period required by Rule 424(b) (without reliance on Rule 424(b)(8)). The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment. The Company shall pay the required Commission filing fees relating to the Bonds within the time required by Rule 456(b)(1)(i) of the Securities Act Regulations without regard to the proviso therein and otherwise in accordance with Rules 456(b) and 457(r) of the Securities Act Regulations (including, if applicable, by updating the “Calculation of Registration Fee” table in accordance with Rule 456(b)(1)(ii) either in a post-effective amendment to the Registration Statement or on the cover page of a prospectus filed pursuant to Rule 424(b)).

(b) To give the Representatives notice of its intention to file or prepare any amendment to the Registration Statement or new registration statement relating to the Bonds or any amendment, supplement or revision to either any preliminary prospectus (including any prospectus included in the Original Registration Statement or amendment thereto at the time it became effective) or to the Prospectus, whether pursuant to the Securities Act, the Exchange Act or otherwise, and the Company will furnish the Representatives with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file or use any such document to which the Representatives shall reasonably object in writing. The Company will give the Representatives notice of its intention to make any such filing pursuant to the Exchange Act, Securities Act or Securities Act Regulations from the Applicable Time to the Closing Date and will furnish the Representatives with copies of any such documents a reasonable amount of time prior to such proposed filing and will not file or use any such document to which the Representatives shall reasonably object in writing. The Company will prepare a final term sheet (the “Final Term Sheet”) substantially in the form attached as Annex I hereto reflecting the final terms of the Bonds, and shall file such Final Term Sheet as an “Issuer Free Writing Prospectus” in accordance with Rule 433; provided that the Company shall furnish the Representatives with copies of any such Final Term Sheet a reasonable amount of time prior to such proposed filing and will not use or file any such document to which the Representatives shall reasonably object in writing.

(c) To furnish to each Underwriter, without charge, during the period when the Prospectus is required to be delivered under the Securities Act, as many copies of the Prospectus and any amendments and supplements thereto as each Underwriter may reasonably request.

(d) That before amending and supplementing the preliminary prospectus or the Prospectus, it will furnish to the Representatives a copy of each such proposed amendment or supplement and that it will not use any such proposed amendment or supplement to which the Representatives reasonably object in writing.

(e) To use its best efforts to qualify the Bonds and to assist in the qualification of the Bonds by you or on your behalf for offer and sale under the securities or “blue sky” laws of such jurisdictions as you may designate, to continue such qualification in effect so long as required for the distribution of the Bonds and to reimburse you for any expenses (including filing fees and fees and disbursements of counsel) paid by you or on your behalf to qualify the Bonds for offer and sale, to continue such qualification, to determine its eligibility for investment and to print any preliminary or supplemental “blue sky” survey or legal investment memorandum relating thereto; provided that the Company shall not be required to qualify as a foreign corporation in any State, to consent to service of process in any State other than with respect to claims arising out of the offering or

sale of the Bonds, or to meet any other requirement in connection with this paragraph (e) deemed by the Company to be unduly burdensome;

(f) Promptly to deliver to you one signed copy of the Registration Statement as originally filed and of all amendments thereto heretofore or hereafter filed, including conformed copies of all exhibits except those incorporated by reference, and such number of conformed copies of the Registration Statement (but excluding the exhibits), each related preliminary prospectus, the Prospectus, and any amendments and supplements thereto, as you may reasonably request;

(g) If at any time prior to the completion of the sale of the Bonds by the Underwriters (as determined by the Representatives), any event occurs as a result of which the Prospectus, as then amended or supplemented, would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it should be necessary to amend or supplement the Prospectus to comply with applicable law, the Company promptly (i) will notify the Representatives of any such event; (ii) subject to the requirements of paragraph (b) of this Section 6, will prepare an amendment or supplement that will correct such statement or omission or effect such compliance; and (iii) will supply any supplemented or amended Prospectus to the several Underwriters without charge in such quantities as they may reasonably request; provided that the expense of preparing and filing any such amendment or supplement to the Prospectus (x) that is necessary in connection with such a delivery of a supplemented or amended Prospectus more than nine months after the date of this Agreement or (y) that relates solely to the activities of any Underwriter shall be borne by the Underwriter or Underwriters or the dealer or dealers requiring the same; and provided further that you shall, upon inquiry by the Company, advise the Company whether or not any Underwriter or dealer which shall have been selected by you retains any unsold Bonds and, for the purposes of this subsection (g), the Company shall be entitled to assume that the distribution of the Bonds has been completed when they are advised by you that no such Underwriter or dealer retains any Bonds. If at any time following issuance of an Issuer Free Writing Prospectus, there occurs an event or development as a result of which such Issuer Free Writing Prospectus would conflict with the information contained in the Registration Statement (or any other registration statement related to the Bonds) or the Statutory Prospectus or any preliminary prospectus would include an untrue statement of a material fact or would omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances prevailing at that subsequent time, not misleading, the Company will promptly notify the Representatives and will promptly amend or supplement, at its own expense, such Issuer Free Writing Prospectus to eliminate or correct such conflict, untrue statement or omission.

(h) As soon as practicable, to make generally available to its security holders an earnings statement covering a period of at least twelve months beginning after the “effective date of the registration statement” within the meaning of Rule 158 under the Securities Act which will satisfy the provisions of Section 11(a) of the Securities Act;

(i) To pay or bear (i) all expenses in connection with the matters herein required to be performed by the Company, including all expenses (except as provided in Section 6(g) above) in connection with the preparation and filing of the Registration Statement, the General Disclosure Package and the Prospectus, and any amendment or supplement thereto, and the furnishing of copies thereof to the Underwriters, and all audits, statements or reports in connection therewith, and all expenses in connection with the issue and delivery of the Bonds to the Underwriters at the place designated in Section 5 hereof, any fees and expenses relating to the eligibility and issuance of the Bonds in book-entry form and the cost of obtaining CUSIP or other identification numbers for the Bonds, all federal and state taxes (if any) payable (not including any transfer taxes) upon the original issue of the Bonds; (ii) all expenses in connection with the printing, reproduction and delivery of this Agreement and the printing, reproduction and delivery of any preliminary prospectus and each Prospectus, and (except as provided in Section 6(g) above) any amendment or supplement thereto, to the Underwriters; (iii) any and all fees payable in connection with the rating of the Bonds; (iv) the Company’s costs and expenses relating to investor presentations on any “road show” undertaken in connection with the marketing of the offering of the Bonds, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, travel and lodging expenses of the representatives and officers of the Company and any such consultants, and the Company’s portion of the costs of any aircraft chartered in connection with the road show; (v) all costs and expenses relating to the creation, filing or perfection of the security interests under the Indenture; and (vi) the reasonable fees and expenses of the Trustee, including the fees and disbursements of counsel for the Trustee, in connection with the Indenture and the Bonds;

(j) During the period from the date of this Agreement through the Closing Date, the Company shall not, without the Representatives’ prior written consent, directly or indirectly, sell, offer to sell, grant any option for the sale of, or otherwise dispose of, any Bonds, any security convertible into or exchangeable into or exercisable for Bonds or any debt securities substantially similar to the Bonds (except for the Bonds issued pursuant to this Agreement); and

(k) The Company represents and agrees that, unless it obtains the prior consent of the Representatives (such consent not to be unreasonably withheld), it has not made and will not make any offer relating to the Bonds that would

constitute an Issuer Free Writing Prospectus or that would otherwise constitute a “free writing prospectus,” as defined in Rule 405 of the Securities Act Regulations, required to be filed with the Commission. The Company represents that it has treated or agrees that it will treat each Permitted Free Writing Prospectus as an “issuer free writing prospectus,” as defined in Rule 433, and has complied and will comply with the requirements of Rule 433 applicable to any Permitted Free Writing Prospectus, including timely filing with the Commission where required, legending and record keeping in accordance with the Securities Act Regulations.

7. Conditions of Underwriters’ Obligations.

The obligations of the several Underwriters to purchase and pay for the Bonds on the Closing Date shall be subject to the accuracy of the representations and warranties on the part of the Company contained herein at the date of this Agreement and the Closing Date, to the accuracy of the statements of the Company made in any certificates pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions:

(a) You shall have received a certificate, dated the Closing Date, of (1) an executive officer of the Company and (2) a principal financial or accounting officer or the controller of the Company, in which such officers, to the best of their knowledge after reasonable investigation, shall state that (i) the representations and warranties of the Company in this Agreement are true and correct in all material respects as of the Closing Date, (ii) the Company has complied in all material respects with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Closing Date, (iii) no stop order suspending the effectiveness of the Registration Statement has been issued, and no proceedings for that purpose have been instituted or are pending by the Commission, and (iv) subsequent to the date of the latest financial statements in the General Disclosure Package and the Prospectus, there has been no material adverse change in the financial position or results of operations of the Company except as set forth or contemplated in the General Disclosure Package and the Prospectus.

(b) You shall have received from PricewaterhouseCoopers LLP a letter, dated the Closing Date, (i) confirming that PricewaterhouseCoopers LLP was an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act and the Securities Act Regulations, (ii) stating that in their opinion, the consolidated financial statements of the Company audited by them and included or incorporated by reference in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Exchange Act, and the related published rules and regulations thereunder, and (iii) stating that they have read certain financial and statistical amounts included or incorporated by reference in the Registration Statement and the Prospectus, which amounts are set forth in such letter and agreed such amounts to the Company’s accounting records which are

subject to controls over financial reporting or which have been derived directly from such accounting records by analysis or computation and have found such amounts to be in agreement with such results, except as otherwise specified in such letter. You shall have also received from Ernst & Young LLP letters, dated the date of this Agreement and the Closing Date, confirming that Ernst & Young LLP is an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act and the Securities Act Regulations, and that:

(i) in their opinion, the consolidated financial statements of the Company audited by them and included or incorporated by reference in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Exchange Act, and the related published rules and regulations thereunder;

(ii) they have read the minutes of the meetings of the Company's Board of Directors and committees thereof as set forth in the minute books at a specified date not more than five Business Days prior to the date of delivery of such letter;

(iii) they have, if applicable, performed the procedures specified by the Public Company Accounting Oversight Board (United States) for a review of interim financial information as described in Statement on Auditing Standards No. 100, Interim Financial Information, on the unaudited condensed interim financial statements of the Company included or incorporated by reference in the Registration Statement and have read the unaudited interim financial data for the period from the date of the latest balance sheet included or incorporated by reference in the Registration Statement to the date of the latest available interim financial data; and

(iv) on the basis of the review referred to in clauses (ii) and (iii) above, a reading of the latest available interim financial statements of the Company, inquiries performed by them of certain officials of the Company who have responsibility for financial and accounting matters regarding the specific items for which representations are requested below and other specified procedures, nothing came to their attention that caused them to believe that:

(A) any material modifications should be made to the unaudited interim financial statements included or incorporated by reference in the Registration Statement for them to be in conformity with generally accepted accounting principles;

(B) the unaudited interim financial statements included or incorporated by reference in the Registration Statement do not

comply as to form in all material respects with the applicable accounting requirements of the Securities Act, the Exchange Act and the related published rules and regulations thereunder;

(C) at the date of the latest available balance sheet of the Company read by such accountants, there was any change in the stockholders equity, common stock, treasury stock or preferred securities (with or without sinking fund requirements), or any increase in long-term debt, as compared with amounts shown on the latest consolidated balance sheet included or incorporated by reference in the Registration Statement, or, at the date of the latest available income statement of the Company read by such accountants, there was any change in the consolidated operating revenue, consolidated operating income or consolidated net income, as compared with amounts shown on the latest consolidated income statement included or incorporated by reference in the Registration Statement; or

(D) at a date not more than five Business Days prior to the date of this Agreement, there was any change in (i) the stockholders equity, common stock, treasury stock or preferred securities (with or without sinking fund requirements), or any increase in long-term debt, as compared with amounts shown on the latest consolidated balance sheet included or incorporated by reference in the Registration Statement or (ii) the consolidated operating revenue, consolidated operating income or consolidated net income, as compared with amounts shown on the latest consolidated income statement included or incorporated by reference in the Registration Statement; except in all cases for changes, increases or decreases that the Prospectus discloses have occurred or may occur or that are described in such letter; and

(v) they have read certain financial and statistical amounts included or incorporated by reference in the Registration Statement and the Prospectus, which amounts are set forth in such letter and agreed such amounts to the Company's accounting records which are subject to controls over financial reporting or which have been derived directly from such accounting records by analysis or computation and have found such amounts to be in agreement with such results, except as otherwise specified in such letter, and such other procedures as the Underwriters may request and Ernst & Young LLP is willing to perform and report upon.

(c) The Registration Statement shall have become effective and, on the Closing Date, no stop order suspending the effectiveness of the Registration

Statement and/or any notice objecting to its use shall have been issued under the Securities Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Underwriters. A prospectus containing the Rule 430B Information shall have been filed with the Commission in the manner and within the time period required by Rule 424(b) without reliance on Rule 424(b)(8) (or a post-effective amendment providing such information shall have been filed and become effective in accordance with the requirements of Rule 430B). The Company shall have paid the required Commission filing fees relating to the Bonds within the time period required by Rule 456(b)(1)(i) of the Securities Act Regulations without regard to the proviso therein and otherwise in accordance with Rules 456(b) and 457(r) of the Securities Act Regulations and, if applicable, shall have updated the "Calculation of Registration Fee" table in accordance with Rule 456(b)(1)(ii) either in a post-effective amendment to the Registration Statement or on the cover page of a prospectus filed pursuant to Rule 424(b).

(d) Subsequent to the execution of this Agreement, there shall not have occurred (i) any material adverse change not contemplated by the General Disclosure Package or the Prospectus (as it exists on the date hereof) in or affecting particularly the business or properties of the Company which, in your judgment, materially impairs the investment quality of the Bonds; (ii) any suspension or limitation of trading in securities generally on the New York Stock Exchange, or any setting of minimum prices for trading on such exchange, or any suspension of trading of any securities of the Company on any exchange or in the over-the-counter market; (iii) a general banking moratorium declared by federal or New York authorities or a material disruption in securities settlement, payment or clearance services in the United States; (iv) any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by Congress or any other substantial national or international calamity or emergency if, in your reasonable judgment, the effect of any such outbreak, escalation, declaration, calamity or emergency makes it impractical and inadvisable to proceed with completion of the sale of and payment for the Bonds and you shall have made a similar determination with respect to all other underwritings of debt securities of utility or energy companies in which you are participating and have a contractual right to make such a determination; or (v) any decrease in the ratings of the Bonds by Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business, Moody's Investors Service, Inc. or Fitch Ratings, or any such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of the Bonds.

(e) At or before the Closing Date, the Kentucky Public Service Commission and any other regulatory authority whose consent or approval shall be required for the issue and sale of the Bonds by the Company shall have taken all requisite action, or all such requisite action shall be deemed in fact and law to have

been taken, to authorize such issue and sale on the terms set forth in the Prospectus.

(f) You shall have received from Dorothy E. O'Brien, Vice President and Deputy General Counsel, Legal and Environmental Affairs, of the Company, or such other counsel for the Company as may be acceptable to you, an opinion in form and substance satisfactory to you, dated the Closing Date and addressed to you, as Representatives of the Underwriters, substantially to the effect that:

(i) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the Commonwealth of Kentucky, with power and authority to own its properties and conduct its business as described in the General Disclosure Package and the Prospectus;

(ii) The Bonds have been duly authorized, executed and delivered by the Company and, assuming due authentication and delivery by the Trustee in the manner provided for in the Indenture and delivery against payment therefor, are valid and legally binding obligations of the Company entitled to the benefits and security of the Indenture, enforceable against the Company in accordance with their terms (except to the extent limited by the Enforceability Exceptions);

(iii) The Indenture has been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms (except to the extent limited by the Enforceability Exceptions);

(iv) The Company has good and sufficient title to the interest and estate of the Company in all real property which is or is to be specifically or generally described or referred to in the Indenture as being subject to the lien thereof, subject only to (A) the lien of the Indenture, (B) Permitted Liens (as defined in the Indenture), and (C) defects and irregularities in title and other Liens (as defined in the Indenture) that in each case are not prohibited by the Indenture and that, in the judgment of such counsel, do not individually or in the aggregate, impair the operation of the Company's business in any material respect;

(v) The descriptions of all such property contained or referred to in the Indenture are adequate for purposes of the lien purported to be created by the Indenture;

(vi) The Indenture constitutes a valid mortgage lien on and security interest in all property which is specifically or generally described or referred to therein as being subject to the lien thereof (other than such

property as has been released from the Lien of the Indenture in accordance with the terms thereof), subject only to the Liens, defects and irregularities referred to in subparagraph (iv) above;

(vii) The Indenture by its terms will effectively subject to the lien thereof all property located in the Commonwealth of Kentucky acquired by the Company after the Closing Date of the character generally described or referred to in the Indenture as being subject to the lien thereof, subject to (A) defects and irregularities in title existing at the time of such acquisition, (B) Purchase Money Liens (as defined in the Indenture) and any other Liens placed or otherwise existing on such property at the time of such acquisition, (C) with respect to real property, Liens placed thereon following the acquisition thereof by the Company and prior to the recording and filing of a supplemental indenture or other instrument specifically describing such real property and (D) possible limitations arising out of laws relating to preferential transfers of property during certain periods prior to commencement of bankruptcy, insolvency or similar proceedings and to limitations on liens on property acquired by a debtor after the commencement of any such proceedings, and possible claims and taxes of the federal government, and except as otherwise provided in Article Thirteen of the Indenture; it being understood that, if any property were to become subject to the lien of the Indenture by virtue of the "springing lien" provisions contained in the proviso at the end of the definition of "Excepted Property" in the granting clauses of the Indenture, the lien of the Indenture as to such property would be subject to any Liens existing on such property at the time such property became subject to the Lien of the Indenture;

(viii) The Indenture has been duly recorded or lodged for record as a mortgage of real estate, and any required filings with respect to personal property and fixtures subject to the lien of the Indenture have been duly made, in each place in which such recording and filing is required to protect, preserve and perfect the lien of the Indenture, and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements and similar documents and the issuance of the Bonds have been paid.

(ix) The descriptions in the Registration Statement, the General Disclosure Package and the Prospectus of statutes, legal and governmental proceedings and contracts and other documents are accurate and fairly present the information required to be shown; and (1) such counsel does not know of any legal or governmental proceedings required to be described in the Registration Statement, the General Disclosure Package or the Prospectus which are not described, or of any contracts or

documents of a character required to be described in the Registration Statement, the General Disclosure Package or the Prospectus or to be filed as exhibits to the Registration Statement which are not described and filed as required and (2) nothing has come to the attention of such counsel that would lead such counsel to believe either that the Registration Statement, at its effective date, contained any untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or that the General Disclosure Package, as of the Applicable Time, or that the Prospectus, as supplemented, as of the date of this Agreement and as of the Closing Date, contained or contains any untrue statement of a material fact or omits or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; it being understood that such counsel need express no opinion as to the financial statements and other financial data contained in the Registration Statement, the General Disclosure Package or the Prospectus;

(x) None of the execution and delivery of this Agreement, the Supplemental Indenture, the issue and sale of the Bonds, or the consummation of any of the transactions herein or therein contemplated, will (i) violate any law or any regulation, order, writ, injunction or decree of any court or governmental instrumentality known to such counsel to be applicable to the Company, (ii) breach or violate, or constitute a default under, the Company's amended and restated articles of incorporation or bylaws, or (iii) breach or violate, or constitute a default under, any material agreement or instrument known to such counsel to which the Company is a party or by which it is bound, except in the case of clauses (i) and (iii), for such violations, breaches or defaults that would not in the aggregate have a material adverse effect on the Company's ability to perform its obligations hereunder or thereunder;

(xi) This Agreement has been duly authorized, executed and delivered by the Company;

(xii) The Order of the Kentucky Public Service Commission, dated August 3, 2012, has been obtained and is in full force and effect and is sufficient to authorize the issuance and sale by the Company of the Bonds as contemplated by this Agreement, and no further consent, approval, authorization, order, registration or qualification of or with any federal, state or local governmental agency or body or any federal, state or local court is required to be obtained by the Company for the consummation of the transactions contemplated by this Agreement and the Indenture in connection with the offering, issuance and sale by the Company of the Bonds, or the performance by the Company of its

obligations hereunder or thereunder, except (i) such as have been obtained or (ii) such as may be required under the blue sky laws of any jurisdiction; and

(xiii) Except as described in the Registration Statement, the General Disclosure Package and the Prospectus, and except where the failure to hold such is not reasonably expected to have a material adverse effect on the Company's operations, the Company holds all franchises, certificates of public convenience, licenses and permits (some of which expire at various dates and some of which are without time limit) necessary to carry on the utility business in which it is engaged.

In expressing any of the foregoing opinions (other than the opinions in paragraph (ix) above), the Deputy General Counsel of the Company (or such other counsel for the Company) may rely on opinions, dated the Closing Date, of Pillsbury Winthrop Shaw Pittman LLP, Frost Brown Todd LLC, Kentucky counsel to the Company, and/or Stoll Keenon Ogden PLLC, special Kentucky counsel to the Company, and in the case of the opinions in paragraphs (iv) to (viii) above, the Deputy General Counsel (or such other counsel as the case may be) shall rely, in part, on such opinions of Frost Brown Todd LLC and/or Stoll Keenon Ogden PLLC. Copies of the opinions of Frost Brown Todd LLC and Stoll Keenon Ogden PLLC shall be delivered to the Underwriters and the Underwriters and Counsel for the Underwriters shall be entitled to rely on such opinions.

(g) You shall have received from Pillsbury Winthrop Shaw Pittman LLP, special counsel to the Company, an opinion in form and substance satisfactory to you, dated the Closing Date and addressed to you, as Representatives of the Underwriters, substantially to the effect that:

(i) The Bonds have been duly authorized, executed and delivered by the Company and, assuming due authentication and delivery by the Trustee in the manner provided for in the Indenture and delivery against payment therefor, are valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms (except to the extent limited by the Enforceability Exceptions) and are entitled to the benefits and security of the Indenture;

(ii) The Indenture has been duly authorized, executed and delivered by the Company, has been qualified under the Trust Indenture Act and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms (except to the extent limited by the Enforceability Exceptions);

(iii) This Agreement has been duly authorized, executed and delivered by the Company;

(iv) (1) The Registration Statement has become effective under the Securities Act, and any preliminary prospectus included in the General Disclosure Package at the Applicable Time and the Prospectus were filed with the Commission pursuant to the subparagraph of Rule 424(b) specified in such opinion on the date or dates specified therein, and the Issuer General Use Free Writing Prospectus described in Schedule A attached hereto was filed with the Commission pursuant to Rule 433 on the date specified in such opinion; (2) to the best of the knowledge of such counsel after inquiry of the Company, no stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued and no proceedings for that purpose have been instituted under the Securities Act; (3) the Registration Statement, as of its effective date, the Prospectus, as of the date of this Agreement, and any amendment or supplement thereto, as of its date, appeared on their face to be appropriately responsive in all material respects to the requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder; and (4) no facts have come to the attention of such counsel that cause such counsel to believe either that the Registration Statement, as of its effective date, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading; the General Disclosure Package, as of the Applicable Time, contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; or that the Prospectus, as supplemented, as of the date of this Agreement and as it shall have been amended or supplemented, as of the Closing Date, contained or contains any untrue statement of a material fact or omits or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; it being understood that such counsel need express no opinion as to the financial statements and other financial or statistical data, or management's assessment of the effectiveness of the Company's internal controls, contained or incorporated by reference in the Registration Statement, the General Disclosure Package or the Prospectus;

(v) No consent, approval, authorization or other order of any public board or body of the United States or the State of New York (except for the registration of the Bonds under the Securities Act and the qualification of the Indenture under the Trust Indenture Act and other than in connection or compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which such counsel need express no opinion) is legally required for the authorization of the issuance of the Bonds in the manner contemplated herein and in the General Disclosure Package and the Prospectus;

(vi) The statements in the General Disclosure Package and the Prospectus under the caption “Description of the Bonds”, insofar as they purport to constitute summaries of certain terms of the Indenture and the Bonds, constitute accurate summaries of such terms of such document and securities in all material respects; and

(vii) The Company is not an “investment company” as such term is defined in the Investment Company Act of 1940, as amended.

In rendering such opinion, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters governed by Kentucky law upon the opinion of the Deputy General Counsel of the Company or such other counsel referred to in Section 7(f).

(h) You shall have received from Davis Polk & Wardwell LLP, counsel for the Underwriters, such opinion or opinions in form and substance satisfactory to you, dated the Closing Date, with respect to matters as you may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters. In rendering such opinion or opinions, Davis Polk & Wardwell LLP may rely, as to matters governed by Kentucky law, upon the opinion of the Deputy General Counsel of the Company referred to above or the opinion of any special counsel referred to above; and

(i) You shall have received from the Company a copy of the rating letters from Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, Moody’s Investors Service, Inc. and Fitch Ratings assigning ratings on the Bonds or other evidence reasonably satisfactory to the Representatives of such ratings.

The Company will furnish you as promptly as practicable after the Closing Date with such conformed copies of such opinions, certificates, letters and documents as you may reasonably request.

In case any such condition shall not have been satisfied, this Agreement may be terminated by you upon notice in writing or by telegram to the Company without liability or obligation on the part of the Company or any Underwriter, except as provided in Sections 6(e), 6(i), 9, 11 and 14 hereof.

8. Conditions of Company’s Obligations.

The obligations of the Company to sell and deliver the Bonds on the Closing Date are subject to the following conditions:

(a) At the Closing Date, no stop order suspending the effectiveness of the Registration Statement shall be in effect or proceeding therefor shall have been instituted or, to the knowledge of the Company, shall be contemplated.

(b) At or before the Closing Date, the Kentucky Public Service Commission and any other regulatory authority whose consent or approval shall be required for the issue and sale of the Bonds by the Company shall have taken all requisite action, or all such requisite action shall be deemed in fact and law to have been taken, to authorize such issue and sale on the terms set forth in the Prospectus.

If any such conditions shall not have been satisfied, then the Company shall be entitled, by notice in writing or by telegram to you, to terminate this Agreement without any liability or obligation on the part of the Company or any Underwriter, except as provided in Sections 6(e), 6(i), 9, 11 and 14 hereof.

9. Indemnification and Contribution.

(a) The Company agrees that it will indemnify and hold harmless each Underwriter and the officers, directors, partners, members, employees, agents and affiliates of each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act (each "an indemnified party"), against any loss, expense, claim, damage or liability to which, jointly or severally, such Underwriter or such controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, expense, claim, damage or liability (or actions in respect thereof) arises out of or is based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Statutory Prospectus, any Issuer Free Writing Prospectus or the Prospectus, or any amendment or supplement to any thereof, or arises out of or is based upon the omission or alleged omission to state therein any material fact required to be stated therein or necessary to make the statements therein not misleading and, except as hereinafter in this Section 9 provided, the Company agrees to reimburse each indemnified party for any reasonable legal or other expenses as incurred by such indemnified party in connection with investigating or defending any such loss, expense, claim, damage or liability; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, expense, claim, damage or liability arises out of or is based on an untrue statement or alleged untrue statement or omission or alleged omission made in any such document in reliance upon, and in conformity with, written information furnished to the Company as set forth in Schedule B hereto by or through you on behalf of any Underwriter expressly for use in any such document or arises out of, or is based on, statements or omissions from the part of the Registration Statement which shall constitute the Statement of Eligibility under the Trust Indenture Act of the Trustee under the Indenture.

(b) Each Underwriter, severally and not jointly, agrees that it will indemnify and hold harmless the Company and its officers and directors, and each of them, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, against any loss, expense, claim, damage or

liability to which it or they may become subject, under the Securities Act or otherwise, insofar as such loss, expense, claim, damage or liability (or actions in respect thereof) arises out of or is based on any untrue statement or alleged untrue statement of any material fact contained in the Statutory Prospectus, any Issuer Free Writing Prospectus or the Prospectus, or any amendment or supplement to any thereof, or arises out of or is based upon the omission or alleged omission to state therein any material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, and only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such documents in reliance upon, and in conformity with, written information furnished to the Company as set forth in Schedule B hereto by or through you on behalf of such Underwriter expressly for use in any such document; and, except as hereinafter in this Section 9 provided, each Underwriter, severally and not jointly, agrees to reimburse the Company and its officers and directors, and each of them, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, for any reasonable legal or other expenses incurred by it or them in connection with investigating or defending any such loss, expense, claim, damage or liability.

(c) Upon receipt of notice of the commencement of any action against an indemnified party, the indemnified party shall, with reasonable promptness, if a claim in respect thereof is to be made against an indemnifying party under its agreement contained in this Section 9, notify such indemnifying party in writing of the commencement thereof; but the omission so to notify an indemnifying party shall not relieve it from any liability which it may have to the indemnified party otherwise than under subsection (a) or (b) of this Section 9. In the case of any such notice to an indemnifying party, the indemnifying party shall be entitled to participate at its own expense in the defense, or if it so elects, to assume the defense, of any such action, but, if it elects to assume the defense, such defense shall be conducted by counsel chosen by it and satisfactory to the indemnified party and to any other indemnifying party that is a defendant in the suit. In the event that any indemnifying party elects to assume the defense of any such action and retain such counsel, the indemnified party shall bear the fees and expenses of any additional counsel retained by it unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the contrary; (ii) the indemnifying party has failed within a reasonable time to retain counsel reasonably satisfactory to the indemnified party; (iii) the indemnified party shall have reasonably concluded that there may be legal defenses available to it that are different from or in addition to those available to the indemnifying party; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and the representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them; provided, however, that in no event shall the indemnifying party be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from its own counsel for all indemnified parties in

connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall be liable in the event of any settlement of any such action effected without its consent. Each indemnified party agrees promptly to notify each indemnifying party of the commencement of any litigation or proceedings against it in connection with the issue and sale of the Bonds.

(d) If any Underwriter or person entitled to indemnification by the terms of subsection (a) of this Section 9 shall have given notice to the Company of a claim in respect thereof pursuant to subsection (c) of this Section 9, and if such claim for indemnification is thereafter held by a court to be unavailable for any reason other than by reason of the terms of this Section 9 or if such claim is unavailable under controlling precedent, such Underwriter or person shall be entitled to contribution from the Company for liabilities and expenses, except to the extent that contribution is not permitted under Section 11(f) of the Securities Act. In determining the amount of contribution to which such Underwriter or person is entitled, there shall be considered the relative benefits received by such Underwriter or person and the Company from the offering of the Bonds that were the subject of the claim for indemnification (taking into account the portion of the proceeds of the offering realized by each), the Underwriter or person's relative knowledge and access to information concerning the matter with respect to which the claim was asserted, the opportunity to correct and prevent any statement or omission, and any other equitable considerations appropriate under the circumstances. The Company and the Underwriters agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation (even if the Underwriters were treated as one entity for such purpose).

(e) No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 9 (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party and all liability arising out of such litigation, investigation, proceeding or claim, and (ii) does not include a statement as to or an admission of fault, culpability or the failure to act by or on behalf of any indemnified party.

(f) The indemnity and contribution provided for in this Section 9 and the representations and warranties of the Company and the several Underwriters set forth in this Agreement shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter or the Company or their respective directors or

officers, (ii) the acceptance of any Bonds and payment therefor under this Agreement, and (iii) any termination of this Agreement.

10. Default of Underwriters.

If any Underwriter or Underwriters default in their obligations to purchase Bonds hereunder, the non-defaulting Underwriters may make arrangements satisfactory to the Company for the purchase of such Bonds by other persons, including any of the non-defaulting Underwriters, but if no such arrangements are made by the Closing Date, the other Underwriters shall be obligated, severally in the proportion which their respective commitments hereunder bear to the total commitment of the non-defaulting Underwriters, to purchase the Bonds which such defaulting Underwriter or Underwriters agreed but failed to purchase. In the event that any Underwriter or Underwriters default in their obligations to purchase Bonds hereunder, the Company may by prompt written notice to non-defaulting Underwriters postpone the Closing Date for a period of not more than seven full Business Days in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus or in any other documents, and the Company will promptly file any amendments to the Registration Statement or supplements to the Prospectus which may thereby be made necessary. As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section. Nothing herein will relieve an Underwriter from liability for its default.

11. Survival of Certain Representations and Obligations.

The respective indemnities, agreements, representations and warranties of the Company and of or on behalf of the several Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of any Underwriter or the Company or any of its officers or directors or any controlling person, and will survive delivery of and payment for the Bonds. If for any reason the purchase of the Bonds by the Underwriters is not consummated, the Company shall remain responsible for the expenses to be paid or reimbursed by it pursuant to Section 6, and the respective obligations of the Company and the Underwriters pursuant to Section 9 hereof shall remain in effect.

12. Notices.

The Company shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of each of the Underwriters if the same shall have been made or given by you jointly or by Citigroup Global Markets Inc. All statements, requests, notices, consents and agreements hereunder shall be in writing, or by telegraph subsequently confirmed in writing, and, if to the Company, shall be sufficient in all respects if delivered or mailed to the Company at 220 West Main Street, Louisville, Kentucky 40202, Attention: Treasurer, and, if to you, shall be sufficient in all respects if delivered or mailed to you at the address set forth on the first page hereof (a copy of

which shall be sent to Citigroup Global Markets Inc., 388 Greenwich Street, New York, NY 10013, Attention: General Counsel , RBS Securities Inc., 3600 Washington Blvd, Stamford, CT 06901, Attention: Debt Capital Markets/Syndicate, SunTrust Robinson Humphrey, Inc., 3333 Peachtree Road, 11th Floor, Mail Code: GA-ATLANTA-3947, Atlanta, GA 30326, Attention: Investment Grade Debt Capital Markets, and U.S. Bancorp Investments, Inc., 214 N. Tryon St., Charlotte, NC 28202, Attention: High Grade Syndicate); provided, however, that any notice to an Underwriter pursuant to Section 9 hereof will also be delivered or mailed to such Underwriter at the address, if any, of such Underwriter furnished to the Company in writing for the purpose of communications hereunder.

13. Parties in Interest.

This Agreement shall inure solely to the benefit of the Company and the Underwriters and, to the extent provided in Section 9 hereof, to any person who controls any Underwriter, to the officers and directors of the Company, and to any person who controls the Company, and their respective successors. No other person, partnership, association or corporation shall acquire or have any right under or by virtue of this Agreement. The term “successor” shall not include any assignee of an Underwriter (other than one who shall acquire all or substantially all of such Underwriter’s business and properties), nor shall it include any purchaser of Bonds from any Underwriter merely because of such purchase.

14. No Advisory or Fiduciary Relationship.

The Company acknowledges and agrees that (a) the purchase and sale of the Bonds pursuant to this Agreement, including the determination of the public offering price of the Bonds and any related discounts and commissions, is an arm’s-length commercial transaction between the Company, on the one hand, and the several Underwriters, on the other hand, (b) in connection with the offering contemplated hereby and the process leading to such transaction, each Underwriter is and has been acting solely as a principal and is not the agent or fiduciary of the Company, or its stockholders, creditors, employees or any other party, (c) no Underwriter has assumed or will assume an advisory or fiduciary responsibility in favor of the Company with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Company on other matters) and no Underwriter has any obligation to the Company with respect to the offering contemplated hereby except the obligations expressly set forth in this Agreement, (d) the Underwriters and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company, (e) the Underwriters have not provided any legal, accounting, regulatory or tax advice with respect to the offering contemplated hereby and the Company has consulted its own legal, accounting, regulatory and tax advisors to the extent it deemed appropriate and (f) the Company waives, to the fullest extent permitted by law, any claims it may have against the Underwriters for breach of fiduciary duty or alleged breach of fiduciary duty and agrees

that the Underwriters shall have no liability (whether direct or indirect) to the Company in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, including its respective stockholders, creditors or employees.

15. Representation of Underwriters.

Any action under this Agreement taken by the Representatives will be binding upon all the Underwriters.

16. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

17. Effectiveness.

This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

18. Waiver of Jury Trial.

The Company and each of the Underwriters hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

19. Headings.

The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

20. Applicable Law.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

Please confirm that the foregoing correctly sets forth the agreement between us by signing in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the Company and the several Underwriters in accordance with its terms.

Yours very truly,

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

The foregoing Underwriting Agreement is hereby confirmed and accepted as of the date first above written.

CITIGROUP GLOBAL MARKETS INC.

By: /s/ Brian D. Bednarski

Name: Brian D. Bednarski

Title: Managing Director

RBS SECURITIES INC.

By: /s/ Jennifer Powers

Name: Jennifer Powers

Title: Managing Director

SUNTRUST ROBINSON HUMPHREY, INC.

By: /s/ Christopher S. Grumboski

Name: Christopher S. Grumboski

Title: Director

U.S. BANCORP INVESTMENTS, INC.

By: /s/ Phillip Bennett

Name: Phillip Bennett

Title: SVP/Managing Director

Acting severally on behalf of themselves and as Representatives of the several Underwriters named in Section 3 hereof.

SCHEDULE A

Issuer General Use Free Writing Prospectus

1. Final Terms and Conditions, dated November 6, 2013, for \$250,000,000 aggregate principal amount of 4.65% First Mortgage Bonds due 2043 filed with the Commission by the Company pursuant to Rule 433 under the Securities Act, a form of which is included herein as Annex I.
-

SCHEDULE B

Information Represented and Warranted by the Underwriters Pursuant to Section 2 of the Underwriting Agreement

1. The third paragraph under the caption “Underwriting” in the Prospectus related to the initial public offering price and selling concessions;
 2. The second and third sentences of the fourth paragraph under the caption “Underwriting” in the Prospectus related to market making;
 3. The fifth, sixth and seventh paragraphs under the caption “Underwriting” in the Prospectus related to short sales, stabilizing transactions and short covering transactions; and
 4. The twelfth paragraph under the caption “Underwriting” in the Prospectus related to activities of the Underwriters.
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Form of Final Term Sheet

LOUISVILLE GAS AND ELECTRIC COMPANY
 \$250,000,000
 FIRST MORTGAGE BONDS, 4.65% SERIES DUE 2043

Issuer:	Louisville Gas and Electric Company
Title:	4.65% First Mortgage Bonds due 2043
Issuance Format:	SEC Registered
Principal Amount:	\$250,000,000
Trade Date:	November 6, 2013
Settlement Date:	November 14, 2013 (T+5)
Maturity Date:	November 15, 2043
Interest Payment Dates:	May 15 and November 15, commencing May 15, 2014
Annual Interest Rate:	4.650%
Price to Public:	99.280%
Benchmark Treasury:	2.875% due May 15, 2043
Benchmark Treasury Yield:	3.795%
Spread to Benchmark Treasury:	90 basis points
Yield to Maturity:	4.695%
Optional Redemption:	Prior to May 15, 2043, the bonds will be redeemable, in whole at any time or in part from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of the bonds being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest discounted on a semi-annual basis at the Adjusted Treasury Rate, plus 15 basis points; plus, in either case, accrued and unpaid interest to the Redemption Date. On or after May 15, 2043, the bonds will be redeemable at a redemption price equal to 100% of the principal amount of the bonds being redeemed, plus accrued and unpaid interest to the Redemption Date.
CUSIP / ISIN:	546676 AV9 / US546676AV99
Joint Book-Running Managers:	Citigroup Global Markets Inc. RBS Securities Inc. SunTrust Robinson Humphrey, Inc. U.S. Bancorp Investments, Inc.

Co-Managers:

Banco Bilbao Vizcaya Argentaria, S.A.
BNY Mellon Capital Markets, LLC
Mizuho Securities USA Inc.
PNC Capital Markets LLC

Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Bonds prior to the settlement date will be required, by virtue of the fact that the Bonds initially will settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Bonds who wish to trade the Bonds prior to the settlement date should consult their advisors.

The issuer has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at www.sec.gov. Alternatively, the issuer, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling Citigroup Global Markets Inc. at (800) 831-9146; RBS Securities Inc. at (866) 884-2071; SunTrust Robinson Humphrey, Inc. at (800) 685-4786; and U.S. Bancorp Investments, Inc. at (877) 558-2607.

KENTUCKY UTILITIES COMPANY

\$250,000,000
First Mortgage Bonds, 4.65% Series due 2043

UNDERWRITING AGREEMENT

November 6, 2013

BNP Paribas Securities Corp.
Citigroup Global Markets Inc.
Goldman, Sachs & Co.
Mitsubishi UFJ Securities (USA), Inc.

As Representatives of the Several Underwriters

c/o Goldman, Sachs & Co.
200 West Street
New York, NY 10282

Ladies and Gentlemen:

1. Introductory.

Kentucky Utilities Company, a corporation organized under the laws of the Commonwealth of Kentucky and the Commonwealth of Virginia (the "Company"), proposes to issue and sell, and the several Underwriters named in Section 3 hereof (the "Underwriters"), for whom you are acting as representatives (the "Representatives"), propose, severally and not jointly, to purchase, upon the terms and conditions set forth herein, \$250,000,000 aggregate principal amount of the Company's First Mortgage Bonds, 4.65% Series due 2043 (the "Bonds") to be issued under an Indenture, dated as of October 1, 2010 (the "Base Indenture"), as heretofore amended and supplemented by Supplemental Indenture No. 1, dated as of October 15, 2010, and Supplemental Indenture No. 2 thereto, dated as of November 1, 2010, and as to be further supplemented by Supplemental Indenture No. 3 thereto relating to the Bonds, to be dated as of November 1, 2013 (the "Supplemental Indenture", and the Base Indenture as so amended and supplemented, the "Indenture"), between the Company and The Bank of New York Mellon, as trustee thereunder (the "Trustee").

The Company has filed with the Securities and Exchange Commission (the "Commission") an automatic shelf registration statement (No. 333-180410-02) on Form S-3, including the related preliminary prospectus or prospectus, which registration statement became effective upon filing under Rule 462(e) ("Rule 462(e)") of the rules and regulations of the Commission (the "Securities Act Regulations") under the

Securities Act of 1933, as amended (the “Securities Act”). Such registration statement covers the registration of the Bonds under the Securities Act. Promptly after the date of this Agreement, the Company will prepare and file a prospectus in accordance with the provisions of Rule 430B (“Rule 430B”) of the Securities Act Regulations and paragraph (b) of Rule 424 (“Rule 424(b)”) of the Securities Act Regulations. Any information included in such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of and included in such registration statement pursuant to Rule 430B is referred to as “Rule 430B Information.” Each prospectus used in connection with the offering of the Bonds that omitted Rule 430B Information (other than a “free writing prospectus” as defined in Rule 405 of the Securities Act Regulations that has not been approved in writing by the Company and the Representatives), including any related prospectus supplement and the documents incorporated by reference therein pursuant to Item 12 of Form S-3, is herein called a “preliminary prospectus.” Such registration statement, at any given time, including the amendments or supplements thereto to such time, the exhibits and any schedules thereto at such time, the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Securities Act at such time and the documents otherwise deemed to be a part thereof or included therein by the Securities Act Regulations, is herein called the “Registration Statement.” The Registration Statement at the time it originally became effective is herein called the “Original Registration Statement.” The final prospectus in the form first furnished to the Underwriters for use in connection with the offering of the Bonds, including the related prospectus supplement and the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Securities Act as of the date hereof, is herein called the “Prospectus.” For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the Prospectus or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval (“EDGAR”) system.

All references in this Agreement to financial statements and schedules and other information which is “contained,” “included” or “stated” in the Registration Statement, any preliminary prospectus or the Prospectus (or other references of like import) shall be deemed to mean and include all such financial statements and schedules and other information which is incorporated by reference in or otherwise deemed by the Securities Act Regulations to be a part of or included in the Registration Statement, any preliminary prospectus or the Prospectus, as the case may be; and all references in this Agreement to amendments or supplements to the Registration Statement, any preliminary prospectus or the Prospectus shall be deemed to mean and include the filing of any document under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) which is incorporated by reference in or otherwise deemed by the Securities Act Regulations to be a part of or included in the Registration Statement, such preliminary prospectus or the Prospectus, as the case may be.

2. Representations and Warranties.

The Company represents and warrants to each Underwriter as of the date hereof, as of the Applicable Time referred to in Section 2(b) hereof and as of the Closing Date referred to in Section 5 hereof, and agrees with each Underwriter as follows:

(a) (A) At the time of filing the Original Registration Statement, (B) at the time of the most recent amendment thereto for the purposes of complying with Section 10(a)(3) of the Securities Act (whether such amendment was by post-effective amendment, incorporated report filed pursuant to Section 13 or 15(d) of the Exchange Act or form of prospectus), (C) at the time the Company or any person acting on its behalf (within the meaning, for this clause only, of Rule 163(c) of the Securities Act Regulations) made any offer relating to the Bonds in reliance on the exemption of Rule 163 of the Securities Act Regulations ("Rule 163") or made a bona fide offer (within the meaning of Rule 164(h)(2) of the Securities Act Regulations) and (D) at the date hereof, the Company was and is eligible to register and issue the Bonds as a "well-known seasoned issuer" as defined in Rule 405 of the Securities Act Regulations ("Rule 405"), including not having been and not being an "ineligible issuer" as defined in Rule 405. The Registration Statement is an "automatic shelf registration statement," as defined in Rule 405, and the Bonds, since their registration on the Registration Statement, have been and remain eligible for registration by the Company on a Rule 405 "automatic shelf registration statement." The Company has not received from the Commission any notice pursuant to Rule 401(g)(2) of the Securities Act Regulations objecting to the use of the automatic shelf registration statement form;

(b) The Original Registration Statement became effective upon filing under Rule 462(e) of the Securities Act Regulations on March 28, 2012, and any post-effective amendment thereto also became effective upon filing under Rule 462(e). No stop order suspending the effectiveness of the Registration Statement or any notice objecting to its use has been issued under the Securities Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with.

Any offer that is a written communication relating to the Bonds made prior to the filing of the Original Registration Statement by the Company or any person acting on its behalf (within the meaning, for this paragraph only, of Rule 163(c) of the Securities Act Regulations) has been filed with the Commission in accordance with the exemption provided by Rule 163 and otherwise complied with the requirements of Rule 163, including without limitation the legending requirement, to qualify such offer for the exemption from Section 5(c) of the Securities Act provided by Rule 163.

At the respective times the Original Registration Statement and each amendment thereto became effective, at each deemed effective date with respect to the Underwriters pursuant to Rule 430B(f)(2) of the Securities Act Regulations and at the Closing Date, the Registration Statement complied and will comply in all material respects with the requirements of the Securities Act and the Securities Act Regulations and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and the rules and regulations thereunder, and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

Neither the Prospectus nor any amendments or supplements thereto, at the time the Prospectus or any such amendment or supplement was issued and at the Closing Date, included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Each preliminary prospectus (including the prospectus or prospectuses filed as part of the Original Registration Statement or any amendment thereto) complied when so filed and each Prospectus will comply when so filed in all material respects with the Securities Act Regulations and each preliminary prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

As of the Applicable Time (as defined below), neither (x) the Issuer General Use Free Writing Prospectus(es) (as defined below) issued at or prior to the Applicable Time, the Statutory Prospectus (as defined below) and the Issuer Free Writing Prospectus, including the Final Term Sheet prepared and filed pursuant to Section 6(b) identified on Schedule A hereto, all considered together (collectively, the "General Disclosure Package"), nor (y) any individual Issuer Limited Use Free Writing Prospectus (as defined below), when considered together with the General Disclosure Package, included any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

As of the time of the filing of the Final Term Sheet, the General Disclosure Package, when considered together with the Final Term Sheet (as defined in Section 6(b)), will not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

As used in this subsection and elsewhere in this Agreement:

“Applicable Time” means 2:40 p.m., New York City time, on November 6, 2013 or such other time as agreed by the Company and the Representatives.

“Issuer Free Writing Prospectus” means any “issuer free writing prospectus,” as defined in Rule 433 of the Securities Act Regulations (“Rule 433”), relating to the Bonds that (i) is required to be filed with the Commission by the Company, (ii) is a “road show that is a written communication” within the meaning of Rule 433(d)(8)(i), whether or not required to be filed with the Commission or (iii) is exempt from filing pursuant to Rule 433(d)(5)(i) because it contains a description of the Bonds or of the offering that does not reflect the final terms, in each case in the form filed or required to be filed with the Commission or, if not required to be filed, in the form retained in the Company’s records pursuant to Rule 433(g).

“Issuer General Use Free Writing Prospectus” means any Issuer Free Writing Prospectus that is intended for general distribution to prospective investors, as evidenced by its being specified in Schedule A hereto.

“Issuer Limited Use Free Writing Prospectus” means any Issuer Free Writing Prospectus that is not an Issuer General Use Free Writing Prospectus.

“Permitted Free Writing Prospectus” means any free writing prospectus consented to in writing by the Company and the Representatives. For the avoidance of doubt, any free writing prospectus that is not consented to in writing by the Company does not constitute a Permitted Free Writing Prospectus and will not be an Issuer Free Writing Prospectus.

“Statutory Prospectus” as of any time means the prospectus relating to the Bonds that is included in the Registration Statement immediately prior to that time, including any document incorporated by reference therein and any preliminary or other prospectus deemed to be a part thereof.

Each Issuer Free Writing Prospectus, as of its issue date and at all subsequent times through the completion of the public offer and sale of the Bonds or until any earlier date that the Company notified or notifies the Representatives as described in Section 6(g), did not, does not and will not include any information that conflicted, conflicts or will conflict with the information contained in the Registration Statement or the Prospectus, including any document incorporated by reference therein and any preliminary or other prospectus deemed to be a part thereof that has not been superseded or modified.

The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement, the Prospectus or any Issuer Free Writing Prospectus made in reliance upon and in conformity with written information furnished to the Company as set forth in Schedule B hereto by any Underwriter through the Representatives expressly for use therein or to any statements in or omissions from the Statement of Eligibility of the Trustee under the Indenture. At the effective date of the Registration Statement, the Indenture conformed in all material respects to the Trust Indenture Act and the rules and regulations thereunder;

(c) The Company has been duly organized, is validly existing as a corporation in good standing under the laws of the Commonwealths of Kentucky and Virginia, has the power and authority to own its property and to conduct its business as described in the General Disclosure Package and the Prospectus and to enter into and perform its obligations under this Agreement, the Indenture and the Bonds, and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company;

(d) The Bonds have been duly authorized by the Company and, when issued, authenticated and delivered in the manner provided for in the Indenture and delivered against payment of the consideration therefor, will constitute valid and binding obligations of the Company enforceable in accordance with their terms, except to the extent limited by bankruptcy, insolvency, fraudulent conveyance, reorganization or moratorium laws or by other laws now or hereafter in effect relating to or affecting the enforcement of mortgagee's and other creditors' rights and by general equitable principles (regardless of whether considered in a proceeding in equity or at law), an implied covenant of good faith and fair dealing and consideration of public policy, and federal or state securities law limitations on indemnification and contribution (the "Enforceability Exceptions"); the Bonds will be in the forms established pursuant to, and entitled to the benefits of, the Indenture; and the Bonds will conform in all material respects to the statements relating thereto contained in the General Disclosure Package and the Prospectus;

(e) The Indenture has been duly authorized by the Company; at the Closing Date, the Supplemental Indenture will have been duly executed and delivered by the Company, and assuming due authorization, execution and delivery of the Indenture by the Trustee, the Indenture will constitute a valid and legally binding obligation of the Company enforceable in accordance with its terms (except to the extent limited by the Enforceability Exceptions); the Indenture conforms and will conform in all material respects to the statements relating thereto contained in the General Disclosure Package and the Prospectus; and at the

effective date of the Registration Statement, the Indenture was duly qualified under the Trust Indenture Act;

(f) The Company is in compliance in all material respects with its amended and restated articles of incorporation and bylaws;

(g) The Order of the Kentucky Public Service Commission, dated August 3, 2012, the Order of the State Corporation Commission of the Commonwealth of Virginia, dated July 27, 2012, and the Order of the Tennessee Regulatory Authority, dated September 27, 2012, have been obtained and are in full force and effect and are sufficient to authorize the issuance and sale by the Company of the Bonds as contemplated by this Agreement, and no further consent, approval, authorization, order, registration or qualification of or with any federal, state or local governmental agency or body or any federal, state or local court is required to be obtained by the Company for the consummation of the transactions contemplated by this Agreement and the Indenture in connection with the offering, issuance and sale of the Bonds by the Company, or the performance by the Company of its obligations hereunder or thereunder, except (i) such as have been obtained or (ii) such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Bonds by the Underwriters in the manner contemplated herein and in the General Disclosure Package and the Prospectus;

(h) None of the execution and delivery of this Agreement, the Supplemental Indenture, the issue and sale of the Bonds, or the consummation of any of the transactions herein or therein contemplated, will (i) violate any law or any regulation, order, writ, injunction or decree of any court or governmental instrumentality applicable to the Company, (ii) breach or violate, or constitute a default under, the Company's amended and restated articles of incorporation or bylaws, or (iii) breach or violate, or constitute a default under, any material agreement or instrument to which the Company is a party or by which it is bound, except in the case of clauses (i) and (iii), for such violations, breaches or defaults that would not in the aggregate have a material adverse effect on the Company's ability to perform its obligations hereunder or thereunder;

(i) The consolidated financial statements of the Company, together with the related notes and schedules, each set forth or incorporated by reference in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Exchange Act and the related published rules and regulations thereunder; such audited financial statements have been prepared in all material respects in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; and no material modifications are required to be made to the unaudited interim financial statements for them to be in conformity with generally accepted accounting principles;

(j) This Agreement has been duly and validly authorized, executed and delivered by the Company;

(k) Since the respective dates as of which information is given in the General Disclosure Package and the Prospectus, except as otherwise stated therein or contemplated thereby, there has been no material adverse change, or event or occurrence that would result in a material adverse change in the financial position or results of operations of the Company;

(l) The Company is not, and after giving effect to the offering and sale of the Bonds and the application of the proceeds thereof as described in the General Disclosure Package and the Prospectus, will not be, an “investment company” as such term is defined in the Investment Company Act of 1940, as amended;

(m) Ernst & Young LLP and PricewaterhouseCoopers LLP, who have each audited certain financial statements of the Company and issued their respective reports with respect to the audited consolidated financial statements and schedules included and incorporated by reference in the General Disclosure Package and the Prospectus, are independent registered public accounting firms with respect to the Company during the periods covered by their reports within the meaning of the Securities Act and the Securities Act Regulations and the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”);

(n) The Company maintains systems of internal accounting controls sufficient to provide reasonable assurance that transactions are executed in accordance with management’s authorizations and transactions are recorded as necessary to permit preparation of financial statements. The Company maintains effective “disclosure controls and procedures” as such term is defined in Rule 13a-15(e) under the Exchange Act;

(o) (i) The Company has good and sufficient title to the interest and estate of the Company in all real property, and good title to all other property, which is or is to be specifically or generally described or referred to in the Indenture as being subject to the lien thereof, subject only to (A) the lien of the Indenture, (B) Permitted Liens (as defined in the Indenture), and (C) defects and irregularities in title and other Liens (as defined in the Indenture) that in each case are not prohibited by the Indenture and that, in the Company’s judgment, do not, individually or in the aggregate, impair the operation of the Company’s business in any material respect; (ii) the descriptions of all such property contained or referred to in the Indenture are adequate for purposes of the lien purported to be created by the Indenture; (iii) the Indenture (excluding the Supplemental Indenture) constitutes, and, on the Closing Date, the Indenture will constitute, a valid mortgage lien on and security interest in all property which is specifically or generally described or referred to therein as being subject to the lien thereof (other

than such property as has been released from the lien of the Indenture in accordance with the terms thereof), subject only to the Liens, defects and irregularities referred to in subparagraph (i) above; and (iv) on and after the Closing Date, the Indenture by its terms will effectively subject to the lien thereof all property located in the Commonwealth of Kentucky acquired by the Company after the Closing Date of the character generally described or referred to in the Indenture as being subject to the lien thereof, subject to (A) defects and irregularities in title existing at the time of such acquisition, (B) Purchase Money Liens (as defined in the Indenture) and any other Liens placed or otherwise existing or placed on such property at the time of such acquisition, (C) with respect to real property, Liens placed thereon following the acquisition thereof by the Company and prior to the recording and filing of a supplemental indenture or other instrument specifically describing such real property and (D) possible limitations arising out of laws relating to preferential transfers of property during certain periods prior to commencement of bankruptcy, insolvency or similar proceedings and to limitations on liens on property acquired by a debtor after the commencement of any such proceedings, and possible claims and taxes of the federal government, and except as otherwise provided in Article Thirteen of the Indenture; it being understood that, if any property were to become subject to the lien of the Indenture by virtue of the "springing lien provisions" contained in the proviso at the end of the definition of "Excepted Property" in the granting clauses of the Indenture, the lien of the Indenture as to such property would be subject to any Liens existing on such property at the time such property became subject to the lien of the Indenture;

(p) On the Closing Date, the Indenture will have been duly recorded or lodged for record as a mortgage of real estate, and any required filings with respect to personal property and fixtures subject to the lien of the Indenture will have been duly made, in each place in which such recording and filing is required to protect, preserve and perfect the lien of the Indenture, and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements and similar documents and the issuance of the Bonds will have been paid;

(q) The interactive data in eXtensible Business Reporting Language included or incorporated by reference in the Registration Statement fairly presents the information called for in all material respects and has been prepared in accordance with the Commission's rules and guidelines applicable thereto;

(r) None of the Company or, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (collectively, the "FCPA"), including, without limitation, making use of the mails or any means or instrumentality of interstate

commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any "foreign official" (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA, and the Company and, to the knowledge of the Company, its affiliates have conducted their businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith;

(s) The operations of the Company are and have been conducted at all times in compliance in all material respects with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all applicable jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines issued, administered or enforced by any governmental agency (collectively, the "Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company with respect to the Money Laundering Laws is pending or, to the best knowledge of the Company, threatened; and

(t) None of the Company or, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and the Company will not directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds, to any joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

Each of you, as one of the several Underwriters, represents and warrants to, and agrees with, the Company, its directors and such of its officers as shall have signed the Registration Statement, and to each other Underwriter, that the information set forth in Schedule B hereto furnished to the Company by or through you or on your behalf expressly for use in the Registration Statement or the Prospectus does not contain an untrue statement of a material fact and does not omit to state a material fact in connection with such information required to be stated therein or necessary to make such information not misleading.

3. Purchase and Sale of Bonds.

On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein contained, the Company agrees to sell to the Underwriters, and the Underwriters agree, severally and not jointly, to

purchase from the Company, at a purchase price of 98.405% of the principal amount thereof, plus accrued interest, if any, from the date of the first authentication of the Bonds to the Closing Date (as hereinafter defined), the respective principal amounts of the Bonds set forth below opposite the names of such Underwriters.

Underwriters	Principal Amount of Bonds
BNP Paribas Securities Corp.	\$ 50,000,000
Citigroup Global Markets Inc.	\$ 50,000,000
Goldman, Sachs & Co.	\$ 50,000,000
Mitsubishi UFJ Securities (USA), Inc.	\$ 50,000,000
BNY Mellon Capital Markets, LLC	\$ 12,500,000
CIBC World Markets Corp.	\$ 12,500,000
Mizuho Securities USA Inc.	\$ 12,500,000
SMBC Nikko Securities America, Inc.	\$ 12,500,000
Total	<u>\$ 250,000,000</u>

4. Public Offering.

The several Underwriters agree that as soon as practicable, in their judgment, they will make a public offering of their respective portions of the Bonds in accordance with the terms set forth in the General Disclosure Package and the Prospectus.

5. Delivery and Payment.

The Bonds will be represented by one or more definitive global securities in book-entry form which will be deposited by or on behalf of the Company with The Depository Trust Company (“DTC”) or its designated custodian. The Company will deliver the Bonds to you against payment by you of the purchase price therefor (such delivery and payment herein referred to as the “Closing”) by wire transfer of immediately available funds to the Company’s account (No. 3752099120) at Bank of America (ABA Routing Number 026-0095-93) by 10:00 a.m., New York City time, on the Closing Date. Such payment shall be made upon delivery of the Bonds for the account of Goldman, Sachs & Co. at DTC. The Bonds so to be delivered will be in fully registered form in such authorized denominations as established pursuant to the Indenture. The Company will make the Bonds available for inspection by you at the office of The Bank of New York Mellon, 101 Barclay Street, 8th Floor, New York, New York 10286, Attention: Corporate Trust, not later than 10:00 a.m., New York City time, on the Business Day next preceding the Closing Date (“Business Day” shall mean any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in The City of New York).

Each Underwriter represents and agrees that, unless it obtains the prior written consent of the Company and the Representatives, it has not and will not make any offer relating to the Bonds that would constitute or would use an “issuer free writing prospectus” as defined in Rule 433 or that would otherwise constitute a “free writing prospectus” as defined in Rule 405 of the Securities Act Regulations that would be required to be filed with the Commission, other than information contained in the Final Term Sheet prepared in accordance with Section 6(b).

The term “Closing Date” wherever used in this Agreement shall mean November 14, 2013, or such other date (i) not later than the seventh full Business Day thereafter as may be agreed upon in writing by the Company and you, or (ii) as shall be determined by postponement pursuant to the provisions of Section 10 hereof.

6. Certain Covenants of the Company.

The Company covenants and agrees with the several Underwriters:

(a) Subject to Section 6(b), to comply with the requirements of Rule 430B and to notify the Representatives immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement or new registration statement relating to the Bonds shall become effective, or any supplement to the Prospectus or any amended Prospectus shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or the filing of a new registration statement or any amendment or supplement to the Prospectus or any document incorporated by reference therein or otherwise deemed to be a part thereof or for additional information, (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or such new registration statement or any notice objecting to its use or of any order preventing or suspending the use of any preliminary prospectus, or of the suspension of the qualification of the Bonds for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes or of any examination pursuant to Section 8(e) of the Securities Act concerning the Registration Statement and (v) if the Company becomes the subject of a proceeding under Section 8A of the Securities Act in connection with the offering of the Bonds. The Company will effect the filings required under Rule 424(b), in the manner and within the time period required by Rule 424(b) (without reliance on Rule 424(b)(8)). The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment. The Company shall pay the required Commission filing fees relating to the Bonds within the time required by Rule 456(b)(1)(i) of the Securities Act Regulations without regard to the proviso therein and otherwise in accordance with Rules 456(b) and 457(r) of the Securities Act Regulations (including, if applicable, by updating the “Calculation of Registration Fee” table in accordance with Rule 456(b)(1)(ii) either in a post-effective

amendment to the Registration Statement or on the cover page of a prospectus filed pursuant to Rule 424(b)).

(b) To give the Representatives notice of its intention to file or prepare any amendment to the Registration Statement or new registration statement relating to the Bonds or any amendment, supplement or revision to either any preliminary prospectus (including any prospectus included in the Original Registration Statement or amendment thereto at the time it became effective) or to the Prospectus, whether pursuant to the Securities Act, the Exchange Act or otherwise, and the Company will furnish the Representatives with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file or use any such document to which the Representatives shall reasonably object in writing. The Company will give the Representatives notice of its intention to make any such filing pursuant to the Exchange Act, Securities Act or Securities Act Regulations from the Applicable Time to the Closing Date and will furnish the Representatives with copies of any such documents a reasonable amount of time prior to such proposed filing and will not file or use any such document to which the Representatives shall reasonably object in writing. The Company will prepare a final term sheet (the “Final Term Sheet”) substantially in the form attached as Annex I hereto reflecting the final terms of the Bonds, and shall file such Final Term Sheet as an “Issuer Free Writing Prospectus” in accordance with Rule 433; provided that the Company shall furnish the Representatives with copies of any such Final Term Sheet a reasonable amount of time prior to such proposed filing and will not use or file any such document to which the Representatives shall reasonably object in writing.

(c) To furnish to each Underwriter, without charge, during the period when the Prospectus is required to be delivered under the Securities Act, as many copies of the Prospectus and any amendments and supplements thereto as each Underwriter may reasonably request.

(d) That before amending and supplementing the preliminary prospectus or the Prospectus, it will furnish to the Representatives a copy of each such proposed amendment or supplement and that it will not use any such proposed amendment or supplement to which the Representatives reasonably object in writing.

(e) To use its best efforts to qualify the Bonds and to assist in the qualification of the Bonds by you or on your behalf for offer and sale under the securities or “blue sky” laws of such jurisdictions as you may designate, to continue such qualification in effect so long as required for the distribution of the Bonds and to reimburse you for any expenses (including filing fees and fees and disbursements of counsel) paid by you or on your behalf to qualify the Bonds for offer and sale, to continue such qualification, to determine its eligibility for investment and to print any preliminary or supplemental “blue sky” survey or legal

investment memorandum relating thereto; provided that the Company shall not be required to qualify as a foreign corporation in any State, to consent to service of process in any State other than with respect to claims arising out of the offering or sale of the Bonds, or to meet any other requirement in connection with this paragraph (e) deemed by the Company to be unduly burdensome;

(f) Promptly to deliver to you one signed copy of the Registration Statement as originally filed and of all amendments thereto heretofore or hereafter filed, including conformed copies of all exhibits except those incorporated by reference, and such number of conformed copies of the Registration Statement (but excluding the exhibits), each related preliminary prospectus, the Prospectus, and any amendments and supplements thereto, as you may reasonably request;

(g) If at any time prior to the completion of the sale of the Bonds by the Underwriters (as determined by the Representatives), any event occurs as a result of which the Prospectus, as then amended or supplemented, would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it should be necessary to amend or supplement the Prospectus to comply with applicable law, the Company promptly (i) will notify the Representatives of any such event; (ii) subject to the requirements of paragraph (b) of this Section 6, will prepare an amendment or supplement that will correct such statement or omission or effect such compliance; and (iii) will supply any supplemented or amended Prospectus to the several Underwriters without charge in such quantities as they may reasonably request; provided that the expense of preparing and filing any such amendment or supplement to the Prospectus (x) that is necessary in connection with such a delivery of a supplemented or amended Prospectus more than nine months after the date of this Agreement or (y) that relates solely to the activities of any Underwriter shall be borne by the Underwriter or Underwriters or the dealer or dealers requiring the same; and provided further that you shall, upon inquiry by the Company, advise the Company whether or not any Underwriter or dealer which shall have been selected by you retains any unsold Bonds and, for the purposes of this subsection (g), the Company shall be entitled to assume that the distribution of the Bonds has been completed when they are advised by you that no such Underwriter or dealer retains any Bonds. If at any time following issuance of an Issuer Free Writing Prospectus, there occurs an event or development as a result of which such Issuer Free Writing Prospectus would conflict with the information contained in the Registration Statement (or any other registration statement related to the Bonds) or the Statutory Prospectus or any preliminary prospectus would include an untrue statement of a material fact or would omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances prevailing at that subsequent time, not misleading, the Company will promptly notify the Representatives and will promptly amend or supplement, at its own expense, such

Issuer Free Writing Prospectus to eliminate or correct such conflict, untrue statement or omission.

(h) As soon as practicable, to make generally available to its security holders an earnings statement covering a period of at least twelve months beginning after the “effective date of the registration statement” within the meaning of Rule 158 under the Securities Act which will satisfy the provisions of Section 11(a) of the Securities Act;

(i) To pay or bear (i) all expenses in connection with the matters herein required to be performed by the Company, including all expenses (except as provided in Section 6(g) above) in connection with the preparation and filing of the Registration Statement, the General Disclosure Package and the Prospectus, and any amendment or supplement thereto, and the furnishing of copies thereof to the Underwriters, and all audits, statements or reports in connection therewith, and all expenses in connection with the issue and delivery of the Bonds to the Underwriters at the place designated in Section 5 hereof, any fees and expenses relating to the eligibility and issuance of the Bonds in book-entry form and the cost of obtaining CUSIP or other identification numbers for the Bonds, all federal and state taxes (if any) payable (not including any transfer taxes) upon the original issue of the Bonds; (ii) all expenses in connection with the printing, reproduction and delivery of this Agreement and the printing, reproduction and delivery of any preliminary prospectus and each Prospectus, and (except as provided in Section 6(g) above) any amendment or supplement thereto, to the Underwriters; (iii) any and all fees payable in connection with the rating of the Bonds; (iv) the Company’s costs and expenses relating to investor presentations on any “road show” undertaken in connection with the marketing of the offering of the Bonds, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, travel and lodging expenses of the representatives and officers of the Company and any such consultants, and the Company’s portion of the costs of any aircraft chartered in connection with the road show; (v) all costs and expenses relating to the creation, filing or perfection of the security interests under the Indenture; and (vi) the reasonable fees and expenses of the Trustee, including the fees and disbursements of counsel for the Trustee, in connection with the Indenture and the Bonds;

(j) During the period from the date of this Agreement through the Closing Date, the Company shall not, without the Representatives’ prior written consent, directly or indirectly, sell, offer to sell, grant any option for the sale of, or otherwise dispose of, any Bonds, any security convertible into or exchangeable into or exercisable for Bonds or any debt securities substantially similar to the Bonds (except for the Bonds issued pursuant to this Agreement); and

(k) The Company represents and agrees that, unless it obtains the prior consent of the Representatives (such consent not to be unreasonably withheld), it has not made and will not make any offer relating to the Bonds that would constitute an Issuer Free Writing Prospectus or that would otherwise constitute a “free writing prospectus,” as defined in Rule 405 of the Securities Act Regulations, required to be filed with the Commission. The Company represents that it has treated or agrees that it will treat each Permitted Free Writing Prospectus as an “issuer free writing prospectus,” as defined in Rule 433, and has complied and will comply with the requirements of Rule 433 applicable to any Permitted Free Writing Prospectus, including timely filing with the Commission where required, legending and record keeping in accordance with the Securities Act Regulations.

7. Conditions of Underwriters’ Obligations.

The obligations of the several Underwriters to purchase and pay for the Bonds on the Closing Date shall be subject to the accuracy of the representations and warranties on the part of the Company contained herein at the date of this Agreement and the Closing Date, to the accuracy of the statements of the Company made in any certificates pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions:

(a) You shall have received a certificate, dated the Closing Date, of (1) an executive officer of the Company and (2) a principal financial or accounting officer or the controller of the Company, in which such officers, to the best of their knowledge after reasonable investigation, shall state that (i) the representations and warranties of the Company in this Agreement are true and correct in all material respects as of the Closing Date, (ii) the Company has complied in all material respects with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Closing Date, (iii) no stop order suspending the effectiveness of the Registration Statement has been issued, and no proceedings for that purpose have been instituted or are pending by the Commission, and (iv) subsequent to the date of the latest financial statements in the General Disclosure Package and the Prospectus, there has been no material adverse change in the financial position or results of operations of the Company except as set forth or contemplated in the General Disclosure Package and the Prospectus.

(b) You shall have received from PricewaterhouseCoopers LLP a letter, dated the Closing Date, (i) confirming that PricewaterhouseCoopers LLP was an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act and the Securities Act Regulations, (ii) stating that in their opinion, the consolidated financial statements of the Company audited by them and included or incorporated by reference in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Exchange Act, and the related published rules and regulations thereunder, and (iii) stating that they have read certain

financial and statistical amounts included or incorporated by reference in the Registration Statement and the Prospectus, which amounts are set forth in such letter and agreed such amounts to the Company's accounting records which are subject to controls over financial reporting or which have been derived directly from such accounting records by analysis or computation and have found such amounts to be in agreement with such results, except as otherwise specified in such letter. You shall have also received from Ernst & Young LLP letters, dated the date of this Agreement and the Closing Date, confirming that Ernst & Young LLP is an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act and the Securities Act Regulations, and that:

(i) in their opinion, the consolidated financial statements of the Company audited by them and included or incorporated by reference in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Exchange Act, and the related published rules and regulations thereunder;

(ii) they have read the minutes of the meetings of the Company's Board of Directors and committees thereof as set forth in the minute books at a specified date not more than five Business Days prior to the date of delivery of such letter;

(iii) they have, if applicable, performed the procedures specified by the Public Company Accounting Oversight Board (United States) for a review of interim financial information as described in Statement on Auditing Standards No. 100, Interim Financial Information, on the unaudited condensed interim financial statements of the Company included or incorporated by reference in the Registration Statement and have read the unaudited interim financial data for the period from the date of the latest balance sheet included or incorporated by reference in the Registration Statement to the date of the latest available interim financial data; and

(iv) on the basis of the review referred to in clauses (ii) and (iii) above, a reading of the latest available interim financial statements of the Company, inquiries performed by them of certain officials of the Company who have responsibility for financial and accounting matters regarding the specific items for which representations are requested below and other specified procedures, nothing came to their attention that caused them to believe that:

(A) any material modifications should be made to the unaudited interim financial statements included or incorporated by

reference in the Registration Statement for them to be in conformity with generally accepted accounting principles;

(B) the unaudited interim financial statements included or incorporated by reference in the Registration Statement do not comply as to form in all material respects with the applicable accounting requirements of the Securities Act, the Exchange Act and the related published rules and regulations thereunder;

(C) at the date of the latest available balance sheet of the Company read by such accountants, there was any change in the stockholders equity, common stock, treasury stock or preferred securities (with or without sinking fund requirements), or any increase in long-term debt, as compared with amounts shown on the latest consolidated balance sheet included or incorporated by reference in the Registration Statement, or, at the date of the latest available income statement of the Company read by such accountants, there was any change in the consolidated operating revenue, consolidated operating income or consolidated net income, as compared with amounts shown on the latest consolidated income statement included or incorporated by reference in the Registration Statement; or

(D) at a date not more than five Business Days prior to the date of this Agreement, there was any change in (i) the stockholders equity, common stock, treasury stock or preferred securities (with or without sinking fund requirements), or any increase in long-term debt, as compared with amounts shown on the latest consolidated balance sheet included or incorporated by reference in the Registration Statement or (ii) the consolidated operating revenue, consolidated operating income or consolidated net income, as compared with amounts shown on the latest consolidated income statement included or incorporated by reference in the Registration Statement; except in all cases for changes, increases or decreases that the Prospectus discloses have occurred or may occur or that are described in such letter; and

(v) they have read certain financial and statistical amounts included or incorporated by reference in the Registration Statement and the Prospectus, which amounts are set forth in such letter and agreed such amounts to the Company's accounting records which are subject to controls over financial reporting or which have been derived directly from such accounting records by analysis or computation and have found such amounts to be in agreement with such results, except as otherwise specified in such letter, and such other procedures as the Underwriters

may request and Ernst & Young LLP is willing to perform and report upon.

(c) The Registration Statement shall have become effective and, on the Closing Date, no stop order suspending the effectiveness of the Registration Statement and/or any notice objecting to its use shall have been issued under the Securities Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Underwriters. A prospectus containing the Rule 430B Information shall have been filed with the Commission in the manner and within the time period required by Rule 424(b) without reliance on Rule 424(b)(8) (or a post-effective amendment providing such information shall have been filed and become effective in accordance with the requirements of Rule 430B). The Company shall have paid the required Commission filing fees relating to the Bonds within the time period required by Rule 456(b)(1)(i) of the Securities Act Regulations without regard to the proviso therein and otherwise in accordance with Rules 456(b) and 457(r) of the Securities Act Regulations and, if applicable, shall have updated the "Calculation of Registration Fee" table in accordance with Rule 456(b)(1)(ii) either in a post-effective amendment to the Registration Statement or on the cover page of a prospectus filed pursuant to Rule 424(b).

(d) Subsequent to the execution of this Agreement, there shall not have occurred (i) any material adverse change not contemplated by the General Disclosure Package or the Prospectus (as it exists on the date hereof) in or affecting particularly the business or properties of the Company which, in your judgment, materially impairs the investment quality of the Bonds; (ii) any suspension or limitation of trading in securities generally on the New York Stock Exchange, or any setting of minimum prices for trading on such exchange, or any suspension of trading of any securities of the Company on any exchange or in the over-the-counter market; (iii) a general banking moratorium declared by federal or New York authorities or a material disruption in securities settlement, payment or clearance services in the United States; (iv) any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by Congress or any other substantial national or international calamity or emergency if, in your reasonable judgment, the effect of any such outbreak, escalation, declaration, calamity or emergency makes it impractical and inadvisable to proceed with completion of the sale of and payment for the Bonds and you shall have made a similar determination with respect to all other underwritings of debt securities of utility or energy companies in which you are participating and have a contractual right to make such a determination; or (v) any decrease in the ratings of the Bonds by Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business, Moody's Investors Service, Inc. or Fitch Ratings, or any such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of the Bonds.

(e) At or before the Closing Date, the Kentucky Public Service Commission, the State Corporation Commission of the Commonwealth of Virginia, and the Tennessee Regulatory Authority and any other regulatory authority whose consent or approval shall be required for the issue and sale of the Bonds by the Company shall have taken all requisite action, or all such requisite action shall be deemed in fact and law to have been taken, to authorize such issue and sale on the terms set forth in the Prospectus.

(f) You shall have received from Dorothy E. O'Brien, Vice President and Deputy General Counsel, Legal and Environmental Affairs, of the Company, or such other counsel for the Company as may be acceptable to you, an opinion in form and substance satisfactory to you, dated the Closing Date and addressed to you, as Representatives of the Underwriters, substantially to the effect that:

(i) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the Commonwealth of Kentucky and the Commonwealth of Virginia, with power and authority to own its properties and conduct its business as described in the General Disclosure Package and the Prospectus;

(ii) The Bonds have been duly authorized, executed and delivered by the Company and, assuming due authentication and delivery by the Trustee in the manner provided for in the Indenture and delivery against payment therefor, are valid and legally binding obligations of the Company entitled to the benefits and security of the Indenture, enforceable against the Company in accordance with their terms (except to the extent limited by the Enforceability Exceptions);

(iii) The Indenture has been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms (except to the extent limited by the Enforceability Exceptions);

(iv) The Company has good and sufficient title to the interest and estate of the Company in all real property which is or is to be specifically or generally described or referred to in the Indenture as being subject to the lien thereof, subject only to (A) the lien of the Indenture, (B) Permitted Liens (as defined in the Indenture), and (C) defects and irregularities in title and other Liens (as defined in the Indenture) that in each case are not prohibited by the Indenture and that, in the judgment of such counsel, do not individually or in the aggregate, impair the operation of the Company's business in any material respect;

(v) The descriptions of all such property contained or referred to in the Indenture are adequate for purposes of the lien purported to be created by the Indenture;

(vi) The Indenture constitutes a valid mortgage lien on and security interest in all property which is specifically or generally described or referred to therein as being subject to the lien thereof (other than such property as has been released from the Lien of the Indenture in accordance with the terms thereof), subject only to the Liens, defects and irregularities referred to in subparagraph (iv) above;

(vii) The Indenture by its terms will effectively subject to the lien thereof all property located in the Commonwealth of Kentucky acquired by the Company after the Closing Date of the character generally described or referred to in the Indenture as being subject to the lien thereof, subject to (A) defects and irregularities in title existing at the time of such acquisition, (B) Purchase Money Liens (as defined in the Indenture) and any other Liens placed or otherwise existing on such property at the time of such acquisition, (C) with respect to real property, Liens placed thereon following the acquisition thereof by the Company and prior to the recording and filing of a supplemental indenture or other instrument specifically describing such real property and (D) possible limitations arising out of laws relating to preferential transfers of property during certain periods prior to commencement of bankruptcy, insolvency or similar proceedings and to limitations on liens on property acquired by a debtor after the commencement of any such proceedings, and possible claims and taxes of the federal government, and except as otherwise provided in Article Thirteen of the Indenture; it being understood that, if any property were to become subject to the lien of the Indenture by virtue of the "springing lien" provisions contained in the proviso at the end of the definition of "Excepted Property" in the granting clauses of the Indenture, the lien of the Indenture as to such property would be subject to any Liens existing on such property at the time such property became subject to the Lien of the Indenture;

(viii) The Indenture has been duly recorded or lodged for record as a mortgage of real estate, and any required filings with respect to personal property and fixtures subject to the lien of the Indenture have been duly made, in each place in which such recording and filing is required to protect, preserve and perfect the lien of the Indenture, and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements and similar documents and the issuance of the Bonds have been paid.

(ix) The descriptions in the Registration Statement, the General Disclosure Package and the Prospectus of statutes, legal and governmental proceedings and contracts and other documents are accurate and fairly present the information required to be shown; and (1) such counsel does not know of any legal or governmental proceedings required to be described in the Registration Statement, the General Disclosure Package or the Prospectus which are not described, or of any contracts or documents of a character required to be described in the Registration Statement, the General Disclosure Package or the Prospectus or to be filed as exhibits to the Registration Statement which are not described and filed as required and (2) nothing has come to the attention of such counsel that would lead such counsel to believe either that the Registration Statement, at its effective date, contained any untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or that the General Disclosure Package, as of the Applicable Time, or that the Prospectus, as supplemented, as of the date of this Agreement and as of the Closing Date, contained or contains any untrue statement of a material fact or omits or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; it being understood that such counsel need express no opinion as to the financial statements and other financial data contained in the Registration Statement, the General Disclosure Package or the Prospectus;

(x) None of the execution and delivery of this Agreement, the Supplemental Indenture, the issue and sale of the Bonds, or the consummation of any of the transactions herein or therein contemplated, will (i) violate any law or any regulation, order, writ, injunction or decree of any court or governmental instrumentality known to such counsel to be applicable to the Company, (ii) breach or violate, or constitute a default under, the Company's amended and restated articles of incorporation or bylaws, or (iii) breach or violate, or constitute a default under, any material agreement or instrument known to such counsel to which the Company is a party or by which it is bound, except in the case of clauses (i) and (iii), for such violations, breaches or defaults that would not in the aggregate have a material adverse effect on the Company's ability to perform its obligations hereunder or thereunder;

(xi) This Agreement has been duly authorized, executed and delivered by the Company;

(xii) The Order of the Kentucky Public Service Commission, dated August 3, 2012, the Order of the State Corporation Commission of the Commonwealth of Virginia, dated July 27, 2012, and the Order of the

Tennessee Regulatory Authority, dated September 27, 2012, have been obtained and are in full force and effect and are sufficient to authorize the issuance and sale by the Company of the Bonds as contemplated by this Agreement, and no further consent, approval, authorization, order, registration or qualification of or with any federal, state or local governmental agency or body or any federal, state or local court is required to be obtained by the Company for the consummation of the transactions contemplated by this Agreement and the Indenture in connection with the offering, issuance and sale by the Company of the Bonds, or the performance by the Company of its obligations hereunder or thereunder, except (i) such as have been obtained or (ii) such as may be required under the blue sky laws of any jurisdiction; and

(xiii) Except as described in the Registration Statement, the General Disclosure Package and the Prospectus, and except where the failure to hold such is not reasonably expected to have a material adverse effect on the Company's operations, the Company holds all franchises, certificates of public convenience, licenses and permits (some of which expire at various dates and some of which are without time limit) necessary to carry on the utility business in which it is engaged.

In expressing any of the foregoing opinions (other than the opinions in paragraph (ix) above), the Deputy General Counsel of the Company (or such other counsel for the Company) may rely on opinions, dated the Closing Date, of Pillsbury Winthrop Shaw Pittman LLP, Stoll Keenon Ogden PLLC, special counsel to the Company, and in the case of the opinions in paragraphs (iv) to (viii) above, the Deputy General Counsel (or such other counsel as the case may be) shall rely, in part, on such opinion of Stoll Keenon Ogden PLLC. Copies of the opinion of Stoll Keenon Ogden PLLC shall be delivered to the Underwriters and the Underwriters and Counsel for the Underwriters shall be entitled to rely on such opinions.

(g) You shall have received from Pillsbury Winthrop Shaw Pittman LLP, special counsel to the Company, an opinion in form and substance satisfactory to you, dated the Closing Date and addressed to you, as Representatives of the Underwriters, substantially to the effect that:

(i) The Bonds have been duly authorized, executed and delivered by the Company and, assuming due authentication and delivery by the Trustee in the manner provided for in the Indenture and delivery against payment therefor, are valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms (except to the extent limited by the Enforceability Exceptions) and are entitled to the benefits and security of the Indenture;

(ii) The Indenture has been duly authorized, executed and delivered by the Company, has been qualified under the Trust Indenture Act and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms (except to the extent limited by the Enforceability Exceptions);

(iii) This Agreement has been duly authorized, executed and delivered by the Company;

(iv) (1) The Registration Statement has become effective under the Securities Act, and any preliminary prospectus included in the General Disclosure Package at the Applicable Time and the Prospectus were filed with the Commission pursuant to the subparagraph of Rule 424(b) specified in such opinion on the date or dates specified therein, and the Issuer General Use Free Writing Prospectus described in Schedule A attached hereto was filed with the Commission pursuant to Rule 433 on the date specified in such opinion; (2) to the best of the knowledge of such counsel after inquiry of the Company, no stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued and no proceedings for that purpose have been instituted under the Securities Act; (3) the Registration Statement, as of its effective date, the Prospectus, as of the date of this Agreement, and any amendment or supplement thereto, as of its date, appeared on their face to be appropriately responsive in all material respects to the requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder; and (4) no facts have come to the attention of such counsel that cause such counsel to believe either that the Registration Statement, as of its effective date, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading; the General Disclosure Package, as of the Applicable Time, contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; or that the Prospectus, as supplemented, as of the date of this Agreement and as it shall have been amended or supplemented, as of the Closing Date, contained or contains any untrue statement of a material fact or omits or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; it being understood that such counsel need express no opinion as to the financial statements and other financial or statistical data, or management's assessment of the effectiveness of the Company's internal controls, contained or incorporated by reference in the Registration Statement, the General Disclosure Package or the Prospectus;

(v) No consent, approval, authorization or other order of any public board or body of the United States or the State of New York (except for the registration of the Bonds under the Securities Act and the qualification of the Indenture under the Trust Indenture Act and other than in connection or compliance with the provisions of the securities or “blue sky” laws of any jurisdiction, as to which such counsel need express no opinion) is legally required for the authorization of the issuance of the Bonds in the manner contemplated herein and in the General Disclosure Package and the Prospectus;

(vi) The statements in the General Disclosure Package and the Prospectus under the caption “Description of the Bonds”, insofar as they purport to constitute summaries of certain terms of the Indenture and the Bonds, constitute accurate summaries of such terms of such document and securities in all material respects; and

(vii) The Company is not an “investment company” as such term is defined in the Investment Company Act of 1940, as amended.

In rendering such opinion, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters governed by Kentucky, Virginia or Tennessee law upon the opinion of the Deputy General Counsel of the Company or such other counsel referred to in Section 7(f).

(h) You shall have received from Davis Polk & Wardwell LLP, counsel for the Underwriters, such opinion or opinions in form and substance satisfactory to you, dated the Closing Date, with respect to matters as you may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters. In rendering such opinion or opinions, Davis Polk & Wardwell LLP may rely, as to matters governed by Kentucky, Virginia or Tennessee law, upon the opinion of the Deputy General Counsel of the Company referred to above or the opinion of any special counsel referred to above; and

(i) You shall have received from the Company a copy of the rating letters from Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, Moody’s Investors Service, Inc. and Fitch Ratings assigning ratings on the Bonds or other evidence reasonably satisfactory to the Representatives of such ratings.

The Company will furnish you as promptly as practicable after the Closing Date with such conformed copies of such opinions, certificates, letters and documents as you may reasonably request.

In case any such condition shall not have been satisfied, this Agreement may be terminated by you upon notice in writing or by telegram to the Company without

liability or obligation on the part of the Company or any Underwriter, except as provided in Sections 6(e), 6(i), 9, 11 and 14 hereof.

8. Conditions of Company's Obligations.

The obligations of the Company to sell and deliver the Bonds on the Closing Date are subject to the following conditions:

- (a) At the Closing Date, no stop order suspending the effectiveness of the Registration Statement shall be in effect or proceeding therefor shall have been instituted or, to the knowledge of the Company, shall be contemplated.
- (b) At or before the Closing Date, the Kentucky Public Service Commission, the State Corporation Commission of the Commonwealth of Virginia, and the Tennessee Regulatory Authority and any other regulatory authority whose consent or approval shall be required for the issue and sale of the Bonds by the Company shall have taken all requisite action, or all such requisite action shall be deemed in fact and law to have been taken, to authorize such issue and sale on the terms set forth in the Prospectus.

If any such conditions shall not have been satisfied, then the Company shall be entitled, by notice in writing or by telegram to you, to terminate this Agreement without any liability or obligation on the part of the Company or any Underwriter, except as provided in Sections 6(e), 6(i), 9, 11 and 14 hereof.

9. Indemnification and Contribution.

- (a) The Company agrees that it will indemnify and hold harmless each Underwriter and the officers, directors, partners, members, employees, agents and affiliates of each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act (each "an indemnified party"), against any loss, expense, claim, damage or liability to which, jointly or severally, such Underwriter or such controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, expense, claim, damage or liability (or actions in respect thereof) arises out of or is based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Statutory Prospectus, any Issuer Free Writing Prospectus or the Prospectus, or any amendment or supplement to any thereof, or arises out of or is based upon the omission or alleged omission to state therein any material fact required to be stated therein or necessary to make the statements therein not misleading and, except as hereinafter in this Section 9 provided, the Company agrees to reimburse each indemnified party for any reasonable legal or other expenses as incurred by such indemnified party in connection with investigating or defending any such loss, expense, claim, damage or liability; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, expense, claim, damage or liability arises out of or is

based on an untrue statement or alleged untrue statement or omission or alleged omission made in any such document in reliance upon, and in conformity with, written information furnished to the Company as set forth in Schedule B hereto by or through you on behalf of any Underwriter expressly for use in any such document or arises out of, or is based on, statements or omissions from the part of the Registration Statement which shall constitute the Statement of Eligibility under the Trust Indenture Act of the Trustee under the Indenture.

(b) Each Underwriter, severally and not jointly, agrees that it will indemnify and hold harmless the Company and its officers and directors, and each of them, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, against any loss, expense, claim, damage or liability to which it or they may become subject, under the Securities Act or otherwise, insofar as such loss, expense, claim, damage or liability (or actions in respect thereof) arises out of or is based on any untrue statement or alleged untrue statement of any material fact contained in the Statutory Prospectus, any Issuer Free Writing Prospectus or the Prospectus, or any amendment or supplement to any thereof, or arises out of or is based upon the omission or alleged omission to state therein any material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, and only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such documents in reliance upon, and in conformity with, written information furnished to the Company as set forth in Schedule B hereto by or through you on behalf of such Underwriter expressly for use in any such document; and, except as hereinafter in this Section 9 provided, each Underwriter, severally and not jointly, agrees to reimburse the Company and its officers and directors, and each of them, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, for any reasonable legal or other expenses incurred by it or them in connection with investigating or defending any such loss, expense, claim, damage or liability.

(c) Upon receipt of notice of the commencement of any action against an indemnified party, the indemnified party shall, with reasonable promptness, if a claim in respect thereof is to be made against an indemnifying party under its agreement contained in this Section 9, notify such indemnifying party in writing of the commencement thereof; but the omission so to notify an indemnifying party shall not relieve it from any liability which it may have to the indemnified party otherwise than under subsection (a) or (b) of this Section 9. In the case of any such notice to an indemnifying party, the indemnifying party shall be entitled to participate at its own expense in the defense, or if it so elects, to assume the defense, of any such action, but, if it elects to assume the defense, such defense shall be conducted by counsel chosen by it and satisfactory to the indemnified party and to any other indemnifying party that is a defendant in the suit. In the event that any indemnifying party elects to assume the defense of any such action and retain such counsel, the indemnified party shall bear the fees and expenses of

any additional counsel retained by it unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the contrary; (ii) the indemnifying party has failed within a reasonable time to retain counsel reasonably satisfactory to the indemnified party; (iii) the indemnified party shall have reasonably concluded that there may be legal defenses available to it that are different from or in addition to those available to the indemnifying party; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and the representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them; provided, however, that in no event shall the indemnifying party be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from its own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall be liable in the event of any settlement of any such action effected without its consent. Each indemnified party agrees promptly to notify each indemnifying party of the commencement of any litigation or proceedings against it in connection with the issue and sale of the Bonds.

(d) If any Underwriter or person entitled to indemnification by the terms of subsection (a) of this Section 9 shall have given notice to the Company of a claim in respect thereof pursuant to subsection (c) of this Section 9, and if such claim for indemnification is thereafter held by a court to be unavailable for any reason other than by reason of the terms of this Section 9 or if such claim is unavailable under controlling precedent, such Underwriter or person shall be entitled to contribution from the Company for liabilities and expenses, except to the extent that contribution is not permitted under Section 11(f) of the Securities Act. In determining the amount of contribution to which such Underwriter or person is entitled, there shall be considered the relative benefits received by such Underwriter or person and the Company from the offering of the Bonds that were the subject of the claim for indemnification (taking into account the portion of the proceeds of the offering realized by each), the Underwriter or person's relative knowledge and access to information concerning the matter with respect to which the claim was asserted, the opportunity to correct and prevent any statement or omission, and any other equitable considerations appropriate under the circumstances. The Company and the Underwriters agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation (even if the Underwriters were treated as one entity for such purpose).

(e) No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this

Section 9 (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party and all liability arising out of such litigation, investigation, proceeding or claim, and (ii) does not include a statement as to or an admission of fault, culpability or the failure to act by or on behalf of any indemnified party.

(f) The indemnity and contribution provided for in this Section 9 and the representations and warranties of the Company and the several Underwriters set forth in this Agreement shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter or the Company or their respective directors or officers, (ii) the acceptance of any Bonds and payment therefor under this Agreement, and (iii) any termination of this Agreement.

10. Default of Underwriters.

If any Underwriter or Underwriters default in their obligations to purchase Bonds hereunder, the non-defaulting Underwriters may make arrangements satisfactory to the Company for the purchase of such Bonds by other persons, including any of the non-defaulting Underwriters, but if no such arrangements are made by the Closing Date, the other Underwriters shall be obligated, severally in the proportion which their respective commitments hereunder bear to the total commitment of the non-defaulting Underwriters, to purchase the Bonds which such defaulting Underwriter or Underwriters agreed but failed to purchase. In the event that any Underwriter or Underwriters default in their obligations to purchase Bonds hereunder, the Company may by prompt written notice to non-defaulting Underwriters postpone the Closing Date for a period of not more than seven full Business Days in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus or in any other documents, and the Company will promptly file any amendments to the Registration Statement or supplements to the Prospectus which may thereby be made necessary. As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section. Nothing herein will relieve an Underwriter from liability for its default.

11. Survival of Certain Representations and Obligations.

The respective indemnities, agreements, representations and warranties of the Company and of or on behalf of the several Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of any Underwriter or the Company or any of its officers or directors or any controlling person, and will survive delivery of and payment for the Bonds. If for any reason the purchase of the Bonds by the Underwriters is not consummated, the Company shall remain responsible for the expenses to be paid or reimbursed by it pursuant to Section 6, and the

respective obligations of the Company and the Underwriters pursuant to Section 9 hereof shall remain in effect.

12. Notices.

The Company shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of each of the Underwriters if the same shall have been made or given by you jointly or by Goldman, Sachs & Co.. All statements, requests, notices, consents and agreements hereunder shall be in writing, or by telegraph subsequently confirmed in writing, and, if to the Company, shall be sufficient in all respects if delivered or mailed to the Company at One Quality Street, Lexington, Kentucky 40507, Attention: Treasurer, and, if to you, shall be sufficient in all respects if delivered or mailed to you at the address set forth on the first page hereof (a copy of which shall be sent to BNP Paribas Securities Corp., 787 Seventh Avenue, New York, NY 10019, Attention: Syndicate Desk, Citigroup Global Markets Inc., 388 Greenwich Street, New York, NY 10013, Attention: General Counsel, Goldman, Sachs & Co., 200 West Street, New York, NY 10282, Attention: Registration Department, and Mitsubishi UFJ Securities (USA), Inc., 1633 Broadway, 29th Floor, New York, NY 10019, Attention: Capital Markets Group); provided, however, that any notice to an Underwriter pursuant to Section 9 hereof will also be delivered or mailed to such Underwriter at the address, if any, of such Underwriter furnished to the Company in writing for the purpose of communications hereunder.

13. Parties in Interest.

This Agreement shall inure solely to the benefit of the Company and the Underwriters and, to the extent provided in Section 9 hereof, to any person who controls any Underwriter, to the officers and directors of the Company, and to any person who controls the Company, and their respective successors. No other person, partnership, association or corporation shall acquire or have any right under or by virtue of this Agreement. The term "successor" shall not include any assignee of an Underwriter (other than one who shall acquire all or substantially all of such Underwriter's business and properties), nor shall it include any purchaser of Bonds from any Underwriter merely because of such purchase.

14. No Advisory or Fiduciary Relationship.

The Company acknowledges and agrees that (a) the purchase and sale of the Bonds pursuant to this Agreement, including the determination of the public offering price of the Bonds and any related discounts and commissions, is an arm's-length commercial transaction between the Company, on the one hand, and the several Underwriters, on the other hand, (b) in connection with the offering contemplated hereby and the process leading to such transaction, each Underwriter is and has been acting solely as a principal and is not the agent or fiduciary of the Company, or its stockholders, creditors, employees or any other party, (c) no Underwriter has assumed or will assume an advisory or fiduciary responsibility in favor of the Company with respect to the

offering contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Company on other matters) and no Underwriter has any obligation to the Company with respect to the offering contemplated hereby except the obligations expressly set forth in this Agreement, (d) the Underwriters and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company, (e) the Underwriters have not provided any legal, accounting, regulatory or tax advice with respect to the offering contemplated hereby and the Company has consulted its own legal, accounting, regulatory and tax advisors to the extent it deemed appropriate and (f) the Company waives, to the fullest extent permitted by law, any claims it may have against the Underwriters for breach of fiduciary duty or alleged breach of fiduciary duty and agrees that the Underwriters shall have no liability (whether direct or indirect) to the Company in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, including its respective stockholders, creditors or employees.

15. Representation of Underwriters.

Any action under this Agreement taken by the Representatives will be binding upon all the Underwriters.

16. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

17. Effectiveness.

This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

18. Waiver of Jury Trial.

The Company and each of the Underwriters hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

19. Headings.

The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

20. Applicable Law.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

Please confirm that the foregoing correctly sets forth the agreement between us by signing in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the Company and the several Underwriters in accordance with its terms.

Yours very truly,

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough
Name: Daniel K. Arbough
Title: Treasurer

The foregoing Underwriting Agreement is hereby confirmed and accepted as of the date first above written.

BNP PARIBAS SECURITIES CORP.

By: /s/ Jim Turner

Name: Jim Turner

Title: Managing Director, Head of Debt Capital Markets

CITIGROUP GLOBAL MARKETS INC.

By: /s/ Brian D. Bednarski

Name: Brian D. Bednarski

Title: Managing Director

GOLDMAN, SACHS & CO.

By: /s/ Ryan Gilliam

Name: Ryan Gilliam

Title: Vice President

mitsubishi ufj securities (usa), inc.

By: /s/ Brian Cogliandro

Name: Brian Cogliandro

Title: Managing Director

Acting severally on behalf of themselves and as Representatives of the several Underwriters named in Section 3 hereof.

SCHEDULE A

Issuer General Use Free Writing Prospectus

1. Final Terms and Conditions, dated November 6, 2013, for \$250,000,000 aggregate principal amount of 4.65% First Mortgage Bonds due 2043 filed with the Commission by the Company pursuant to Rule 433 under the Securities Act, a form of which is included herein as Annex I.
-

SCHEDULE B

Information Represented and Warranted by the Underwriters Pursuant to Section 2 of the Underwriting Agreement

1. The third paragraph under the caption “Underwriting” in the Prospectus related to the initial public offering price and selling concessions;
 2. The second and third sentences of the fourth paragraph under the caption “Underwriting” in the Prospectus related to market making;
 3. The fifth, sixth and seventh paragraphs under the caption “Underwriting” in the Prospectus related to short sales, stabilizing transactions and short covering transactions; and
 4. The twelfth paragraph under the caption “Underwriting” in the Prospectus related to activities of the Underwriters.
-

Form of Final Term Sheet

KENTUCKY UTILITIES COMPANY
\$250,000,000
FIRST MORTGAGE BONDS, 4.65% SERIES DUE 2043

Issuer:	Kentucky Utilities Company
Title:	4.65% First Mortgage Bonds due 2043
Issuance Format:	SEC Registered
Principal Amount:	\$250,000,000
Trade Date:	November 6, 2013
Settlement Date:	November 14, 2013 (T+5)
Maturity Date:	November 15, 2043
Interest Payment Dates:	May 15 and November 15, commencing May 15, 2014
Annual Interest Rate:	4.650%
Price to Public:	99.280%
Benchmark Treasury:	2.875% due May 15, 2043
Benchmark Treasury Yield:	3.795%
Spread to Benchmark Treasury:	90 basis points
Yield to Maturity:	4.695%
Optional Redemption:	Prior to May 15, 2043, the bonds will be redeemable, in whole at any time or in part from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of the bonds being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest discounted on a semi-annual basis at the Adjusted Treasury Rate, plus 15 basis points; plus, in either case, accrued and unpaid interest to the Redemption Date. On or after May 15, 2043, the bonds will be redeemable at a redemption price equal to 100% of the principal amount of the bonds being redeemed, plus accrued and unpaid interest to the Redemption Date.
CUSIP / ISIN:	491674 BJ5 / US491674BJ53
Joint Book-Running Managers:	BNP Paribas Securities Corp. Citigroup Global Markets Inc. Goldman, Sachs & Co. Mitsubishi UFJ Securities (USA), Inc.

Co-Managers:

BNY Mellon Capital Markets, LLC
CIBC World Markets Corp.
Mizuho Securities USA Inc.
SMBC Nikko Securities America, Inc.

Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Bonds prior to the settlement date will be required, by virtue of the fact that the Bonds initially will settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Bonds who wish to trade the Bonds prior to the settlement date should consult their advisors.

The issuer has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at www.sec.gov. Alternatively, the issuer, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling BNP Paribas Securities Corp. at (800) 854-5674; Citigroup Global Markets Inc. at (800) 831-9146; Goldman, Sachs & Co. at (866) 471-2526; and Mitsubishi UFJ Securities (USA), Inc. at (877) 649-6848.

LOUISVILLE GAS AND ELECTRIC COMPANY

TO

THE BANK OF NEW YORK MELLON,

Trustee

**Supplemental Indenture No. 3
dated as of November 1, 2013**

**Supplemental to the Indenture
dated as of October 1, 2010**

Establishing

First Mortgage Bonds, 4.65% Series due 2043

SUPPLEMENTAL INDENTURE NO. 3

SUPPLEMENTAL INDENTURE No. 3, dated as of the 1st day of November, 2013, made and entered into by and between LOUISVILLE GAS AND ELECTRIC COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky, having its principal corporate offices at 220 West Main Street, Louisville, Kentucky 40202 (hereinafter sometimes called the “Company”), and THE BANK OF NEW YORK MELLON, a New York banking corporation, having its corporate trust office at 101 Barclay Street, 7th Floor, New York, New York 10286 and having its principal place of business at One Wall Street, New York, New York 10286 (hereinafter sometimes called the “Trustee”), as Trustee under the Indenture, dated as of October 1, 2010 (hereinafter called the “Original Indenture”), between the Company and said Trustee, as heretofore supplemented, this Supplemental Indenture No. 3 being supplemental thereto. The Original Indenture, as heretofore supplemented, and this Supplemental Indenture No. 3 are hereinafter sometimes, collectively, called the “Indenture.”

Recitals of the Company

The Original Indenture was authorized, executed and delivered by the Company to provide for the issuance from time to time of its Securities (such term and all other capitalized terms used herein without definition having the meanings assigned to them in the Original Indenture), to be issued in one or more series as contemplated therein, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on such Securities.

The Company has heretofore executed and delivered supplemental indentures for the purpose of creating series of Securities as set forth in Exhibit A hereto.

The Original Indenture and Supplemental Indentures No. 1 and No. 2, and financing statements in respect thereof, have been duly recorded and filed in the various official records in the Commonwealth of Kentucky as set forth in Exhibit B hereto.

Pursuant to Article Three of the Original Indenture, the Company wishes to establish a series of Securities, such series of Securities to be hereinafter sometimes called “Securities of Series No. 4”, and, pursuant to Section 1401 of the Original Indenture, the Company wishes to correct an error in each of Section 805 and Section 807 of the Original Indenture.

As contemplated in Section 301 of the Original Indenture, the Company further wishes to establish the designation and certain terms of the Securities of Series No. 4. The Company has duly authorized the execution and delivery of this Supplemental Indenture No. 3 to establish the designation and certain terms of such series of Securities and has duly authorized the issuance of such Securities; and all acts necessary to make this Supplemental Indenture No. 3 a valid agreement of the Company, and to make the Securities of Series No. 4 valid obligations of the Company, have been performed.

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE NO. 3 WITNESSETH, that, for and in consideration of the premises and of the purchase of the Securities by the Holders thereof and in order to secure the payment of the principal of and premium, if any, and interest, if any, on all Securities from time to time Outstanding and the performance of the covenants therein and in the Indenture contained, the Company hereby grants, bargains, sells, conveys, assigns, transfers, mortgages, pledges, sets over and confirms to the Trustee, and grants to the Trustee a security interest in and lien on, the real property specifically referred to in Exhibit C attached hereto and incorporated herein by reference and all right, title and interest of the Company in and to all property personal and mixed located thereon (other than Excepted Property), as and to the extent, and subject to the terms and conditions, set forth in the Original Indenture; and it is further mutually covenanted and agreed as follows:

ARTICLE ONE

SECURITIES OF SERIES NO. 4

SECTION 101. Creation of Series No. 4.

There is hereby created a series of Securities designated "First Mortgage Bonds, 4.65% Series due 2043", and the Securities of such series shall:

(a) be issued initially in the aggregate principal amount of \$250,000,000 and shall be limited to such aggregate principal amount (except as contemplated in Section 301(b) of the Original Indenture); provided, however, that, as contemplated in the last paragraph of Section 301 of the Original Indenture, additional Securities of such series may be subsequently issued from time to time, without any consent of Holders of the Securities of such series, if and to the extent that, prior to each such subsequent issuance, the aggregate principal amount of the additional Securities then to be issued shall have been set forth in a Supplemental Indenture, and, thereupon, the Securities of such series shall be limited to such aggregate principal amount as so increased (except as aforesaid and subject to further such increases);

(b) be dated November 14, 2013;

(c) have a Stated Maturity of November 15, 2043, subject to prior redemption or purchase by the Company;

(d) have such additional terms as are established in an Officer's Certificate as contemplated in Section 301 of the Original Indenture;
and

(e) be in substantially the form or forms established therefor in an Officer's Certificate, as contemplated by Section 201 of the Original Indenture.

ARTICLE TWO

COVENANT

SECTION 201. Satisfaction and Discharge.

The Company hereby agrees that, if the Company shall make any deposit of money and/or Eligible Obligations with respect to any Securities of Series No. 4, or any portion of the principal amount thereof, as contemplated by Section 901 of the Indenture, the Company shall not deliver an Officer's Certificate described in clause (z) in the first paragraph of said Section 901 unless the Company shall also deliver to the Trustee, together with such Officer's Certificate, either:

(a) an instrument wherein the Company, notwithstanding the satisfaction and discharge of its indebtedness in respect of such Securities, or portions of the principal amount thereof, shall retain the obligation (which shall be absolute and unconditional) to irrevocably deposit with the Trustee or Paying Agent such additional sums of money, if any, or additional Eligible Obligations (meeting the requirements of Section 901), if any, or any combination thereof, at such time or times, as shall be necessary, together with the money and/or Eligible Obligations theretofore so deposited, to pay when due the principal of and premium, if any, and interest due and to become due on such Securities or portions thereof, all in accordance with and subject to the provisions of said Section 901; provided, however, that such instrument may state that the obligation of the Company to make additional deposits as aforesaid shall be subject to the

delivery to the Company by the Trustee of a notice asserting the deficiency accompanied by an opinion of an independent public accountant of nationally recognized standing, selected by the Trustee, showing the calculation thereof (which opinion shall be obtained at the expense of the Company); or

(b) an Opinion of Counsel to the effect that the beneficial owners of such Securities, or portions of the principal amount thereof, will not recognize income, gain or loss for United States federal income tax purposes as a result of the satisfaction and discharge of the Company's indebtedness in respect thereof and will be subject to United States federal income tax on the same amounts, at the same times and in the same manner as if such satisfaction and discharge had not been effected.

ARTICLE THREE

CORRECTIONS

SECTION 301. Correction of Section 805.

In accordance with Section 1401(l) of the Original Indenture, Section 805 of the Original Indenture is hereby corrected by inserting the phrase "sixty-six and two-thirds percentum (66-2/3%) of" immediately following the words "equal to" in the penultimate sentence thereof.

SECTION 302. Correction of Section 807.

In accordance with Section 1401(l) of the Original Indenture, Section 807 of the Original Indenture is hereby corrected by inserting the phrase "sixty-six and two-thirds percentum (66-2/3%) of" immediately following the words "equal to" in clause (d) in the first sentence thereof.

ARTICLE FOUR

MISCELLANEOUS PROVISIONS

SECTION 401. Single Instrument.

This Supplemental Indenture No. 3 is an amendment and supplement to the Original Indenture as heretofore amended and supplemented. As amended and supplemented by this Supplemental Indenture No. 3, the Original Indenture, as heretofore supplemented, is in all respects ratified, approved and confirmed, and the Original Indenture, as heretofore supplemented, and this Supplemental Indenture No. 3 shall together constitute the Indenture.

SECTION 402. Effect of Headings.

The Article and Section headings in this Supplemental Indenture No. 3 are for convenience only and shall not affect the construction hereof.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture No. 3 to be duly executed as of the day and year first written above.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

ATTEST:

/s/ Dorothy E. O'Brien

Name: Dorothy E. O'Brien

Title: Vice President and Deputy General Counsel,
Legal and Environmental Affairs

THE BANK OF NEW YORK MELLON, as Trustee

By: /s/ Francine Kincaid

Name: Francine Kincaid

Title: Vice President

COMMONWEALTH OF KENTUCKY)
) ss.:
COUNTY OF JEFFERSON)

On this 5th day of November, 2013, before me, a notary public, the undersigned, personally appeared Daniel K. Arbough, who acknowledged himself to be the Treasurer of LOUISVILLE GAS AND ELECTRIC COMPANY, a corporation of the Commonwealth of Kentucky and that he, as such Treasurer, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as Treasurer.

In witness whereof, I hereunto set my hand and official seal.

/s/ Betty L. Brinly
Betty L. Brinly
Notary Public, State at Large, KY
My Commission expires 6/21/2014

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On this 5th day of November, 2013, before me, a notary public, the undersigned, personally appeared Francine Kincaid, who acknowledged herself to be a Vice President of THE BANK OF NEW YORK MELLON, a corporation and that she, as Vice President, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by herself as Vice President.

In witness whereof, I hereunto set my hand and official seal.

By: /s/ Danny Lee
Danny Lee
Notary Public, State of New York
Notary #: 01LE6161129
Qualified in in New York County
Commission expires 2/20/2015

The Bank of New York Mellon hereby certifies that its precise name and address as Trustee hereunder are:

The Bank of New York Mellon
Global Structured Finance
101 Barclay Street, 7th Floor
New York, New York 10286
Attn: Global Americas

THE BANK OF NEW YORK MELLON, as Trustee

By: /s/ Francine Kincaid
Name: Francine Kincaid
Title: Vice President

CERTIFICATE OF PREPARER

The foregoing instrument was prepared by:

James J. Dimas, Senior Corporate Attorney
Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

/s/ James J. Dimas
James J. Dimas

LOUISVILLE GAS AND ELECTRIC COMPANY

**Bonds Issued and Outstanding
under the Indenture**

Supplemental Indenture No.	Dated as of	Series No.	Series Designation	Date of Securities	Principal Amount Issued	Principal Amount Outstanding(1)
1	October 15, 2010	1	Collateral Series 2010	October 20, 2010	\$ 574,304,000	\$ 574,304,000
2	November 1, 2010	2	1.625% Series due 2015	November 16, 2010	\$ 250,000,000	\$ 250,000,000
		3	5.125% Series due 2040	November 16, 2010	\$ 285,000,000	\$ 285,000,000

(1) As of November 1, 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Filing and Recording
of
Indenture, dated as of October 1, 2010**

COUNTY	DEED BOOK	PAGE NO.	DATE RECORDED
Breckinridge	369	1	10/11/2010
Bullitt	1342	466 - 1012	10/11/2010
Clark	702	1 - 547	10/11/2010
Green	262	36	10/12/2010
Hardin	1957	1 - 547	10/11/2010
Hart	311	1 - 547	10/12/2010
Henry	297	1 - 547	10/11/2010
Jefferson	12165	0237 - 0783	10/8/2010
Larue	295	1	10/11/2010
Meade	658	032 - 578	10/11/2010
Metcalfe	147	1	10/11/2010
Muhlenberg	602	1 - 547	10/12/2010
Nelson	911	1 - 547	10/11/2010
Oldham	1905	1 - 547	10/13/2010
Shelby	837	1 - 547	10/11/2010
Trimble	181	1 - 547	10/11/2010

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LOUISVILLE GAS AND ELECTRIC COMPANY

**Filing and Recording
of
Supplemental Indenture No. 1, dated as of October 15, 2010,
to
Indenture, dated as of October 1, 2010**

COUNTY	DEED BOOK	PAGE NO.	DATE RECORDED
Breckinridge	369	639 - 646	10/18/2010
Breckinridge — Affidavit of Amendment	370	43 - 53	10/26/2010
Bullitt	768	265 - 273	10/19/2010
Clark	703	122 - 130	10/19/2010
Green	262	731	10/19/2010
Hardin	1958	704 - 712	10/19/2010
Hart	310	573 - 581	10/19/2010
Henry	297	746 - 754	10/19/2010
Jefferson	12176	0011 - 0019	10/18/2010
Larue	295	644	10/19/2010
Meade	659	265 - 273	10/19/2010
Metcalfe	147	548	10/19/2010
Muhlenberg	601	751 - 759	10/19/2010
Nelson	912	562 - 570	10/19/2010
Oldham	1907	181 - 188	10/18/2010
Oldham — Affidavit of Amendment	1908	124 - 134	10/21/2010
Shelby	838	31 - 39	10/19/2010
Trimble	181	637 - 645	10/19/2010

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LOUISVILLE GAS AND ELECTRIC COMPANY

**Filing and Recording
of
Supplemental Indenture No. 2, dated as of November 1, 2010,
to
Indenture, dated as of October 1, 2010**

COUNTY	DEED BOOK	PAGE NO.	DATE RECORDED
Breckinridge	369	639 - 646	10/18/2010
Breckinridge — Affidavit of Amendment	370	43 - 53	10/26/2010
Bullitt	768	265 - 273	10/19/2010
Clark	703	122 - 130	10/19/2010
Green	262	731	10/19/2010
Hardin	1958	704 - 712	10/19/2010
Hart	310	573 - 581	10/19/2010
Henry	297	746 - 754	10/19/2010
Jefferson	12176	0011 - 0019	10/18/2010
Larue	295	644	10/19/2010
Meade	659	265 - 273	10/19/2010
Metcalfe	147	548	10/19/2010
Muhlenberg	601	751 - 759	10/19/2010
Nelson	912	562 - 570	10/19/2010
Oldham	1907	181 - 188	10/18/2010
Oldham — Affidavit of Amendment	1908	124 - 134	10/21/2010
Shelby	838	31 - 39	10/19/2010
Trimble	181	637 - 645	10/19/2010

B(3)-1

LOUISVILLE GAS AND ELECTRIC COMPANY

**UCC Filings — Kentucky Secretary of State
for
Indenture dated as of October 1, 2010,
as supplemented**

File No.	Date
2010-2481496-17.01	October 12, 2010
2010-2481496-17.02	October 19, 2010
2010-2481496-17.04	November 15, 2010
2010-2481496-17.05	November 15, 2010

B(4)-1

LOUISVILLE GAS AND ELECTRIC COMPANY

Real Property

Schedule of real property owned in fee located in the Commonwealth of Kentucky

DISTRIBUTION DRIVE:

Beginning at an iron pipe in the north right-of-way line of Distribution Drive and the west right-of-way line of Greenbelt Highway, said point being south 49 degrees 06 minutes 18 seconds west 41.21 feet from an iron pipe in the westerly right-of-way line of Greenbelt Highway; thence north 87 degrees 31 minutes 07 seconds west 1,107.83 feet along the north right-of-way line of Distribution Drive to an iron pipe at the southeasterly corner of Tract No. 47, as recorded in Plat and Subdivision Book 34, Page 50, in the office of the Clerk of Jefferson County, Kentucky; thence, continuing along said north right-of-way line of Distribution Drive, north 87 degrees 31 minutes 07 seconds west 270 feet to an iron pipe at the true point of beginning; thence along said north right-of-way line, north 87 degrees 31 minutes 07 seconds west 630.00 feet to an iron pipe at the southwesterly corner of Tract No. 46, as recorded in Plat and Subdivision Book 34 Page 50, in the Office aforesaid; thence north 02 degrees 28 minutes 53 seconds east 1,191.45 feet to an iron pipe at the northwesterly corner of Tract No. 46, as recorded in said Plat and Subdivision Book; thence south 87 degrees 31 minutes 07 seconds east 630.00 feet to an iron pipe; thence south 02 degrees 28 minutes 53 seconds west 1,191.45 feet to the true point of beginning and containing 17.231 acres more or less.

Also known as Tract A as shown on minor subdivision plat attached to and made a part of Deed Book 5728, Page 808, Docket #328-87, in the Office of the Clerk of Jefferson County, Kentucky.

The above legal description was revised pursuant to a physical survey conducted by David L. King II, AGE Engineering Services, Inc., Ky. R.L.S. #3118, dated the 31ST day of August, 2012, as follows:

BEGINNING at a ¾" Iron Pipe found on the north edge of right-of-way of Distribution Drive, said Distribution Drive having a 100' wide right-of-way per Plat Book 34, Pg. 50, said pipe being approximately 1378 feet west of the intersection of the western edge of right-of-way of the Greenbelt Highway and Distribution Drive, said pipe having the Kentucky State Plane North Zone (NAD83) coordinates of N=241240.60 E=1168457.43, said pipe being 61.26 feet north of the as-built centerline of Distribution Drive, said pipe being the southwest corner of Quartz Products Corp (D.B. 5736, Pg. 982) and being the POINT OF BEGINNING for this description; Thence leaving the line of Quartz Products Corp and with the northern edge of right-of-way of Distribution Drive, N87°30'20"W — 629.94 feet to a ¾" Iron Pipe Found, said pipe being 60.15 feet north of the as-built centerline of Distribution Drive, and said pin being the Southeast Corner of the County of Jefferson (D.B. 5521, Pg. 478); Thence leaving the northern edge of right-of-way of Distribution Drive and with the line of the County of Jefferson, N02°29'38"E — 1191.19 feet to a ¼" rebar with cap stamped LS 1828 found, said pin being on the southern line of D&M Trust (D.B. 8843, Pg. 819 — Tract 2) and being the Northeast corner of the County of Jefferson; Thence leaving the line of the County of Jefferson with the southern line of first D&M Trust and second Hollingsworth Capital Partners — Intermodal, LLC (D.B. 9238, PG. 704), S87°32'34"E — 629.76 feet to ½" rebar found @ the base of Chain Link Fence Corner Post, said pin being on the southern line of Hollingsworth Capital Partners — Intermodal, LLC (D.B. 9238, PG. 704), and being the Northwest corner of Ann Taylor Distribution Services, Inc. (D.B. 8756, Pg. 39); Thence leaving the southern line Hollingsworth Capital Partners — Intermodal, LLC (D.B. 9238, PG. 704), and with the western line of first Ann Taylor Distribution Services, Inc. and second the line of Quartz Products Corp (D.B. 5736, Pg. 982), S02°29'06"W — passing a ¼" rebar with Cap Stamped LS 1828 at 465.53 feet, said rebar being the common corner of Ann Taylor Distribution Services, Inc. and Quartz Products Corp, and continuing at the same bearing for an additional 726.07 feet for an overall total distance of 1191.60 feet to the Point of Beginning and containing 17.227 acres by survey.

BEING the same Property conveyed to Louisville Gas and Electric Company, a Kentucky corporation, by Deed dated November 15, 2012, of record in Deed Book 9977, Page 550, in the Office of the Clerk of Jefferson County, Kentucky.

HOSTS DEVELOPMENT:

BEING Lot 13, as shown on Minor Subdivision Plat approved by Louisville Metro Planning Commission, Docket No. 14965, on November 4, 2010, the original of which plat is attached to Deed of Record in Deed Book 9660, Page 236, in the Office aforesaid.

BEING the same property conveyed to Louisville Gas and Electric Company, a Kentucky corporation, by Deed dated December 20, 2010, of record in Deed Book 9660, Page 236, in the office of the Clerk of Jefferson County, Kentucky.

TRIMBLE COUNTY

MAHONEY PROPERTY — PARCEL 1:

Located and being on the waters of Barebone Creek in Trimble County, Kentucky and bounded and described as follows.

Beginning at a point in the branch, a corner of the property hereby conveyed and line of Pete Simpson, thence in a northerly direction with the branch as it now runs a distance of 105 yards, thence a new line in a westernly direction with the land of Mahoney a distance of 35 yards to a point, corner this land and that of Mahoney, thence in a southernly direction with the fence as it now runs to a point, corner to land of Pete Simpson, thence in an easternly direction with the line of said Pete Simpson to the point of beginning, containing One acre more or less.

The above legal description was revised pursuant to a physical survey conducted by Douglas G. Gooch, AGE Engineering Services, Inc., Ky. R.L.S. #3118, dated the 31st day of August, 2012, as follows:

COMMENCING at an iron pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments), said pin being on the southern edge of right-of-way Ogden Ridge Road and being 30 feet south of centerline of Ogden Ridge Road and being the northeast corner of Gary Callis (D.B. 72, Pg. 283), said pin having Kentucky State Plane — North Zone (NAD83) coordinates of N=400617.61 E=1311019.42, lying near the Community of Mount Pleasant, said pin being approximately 1.91 miles, as measured along Ogden Ridge Road from the intersection of centerline of Ogden Ridge Road and KY Hwy 625, lying in Trimble County, Kentucky; Thence leaving the corner of Callis and with the southern edge of right-of-way of Ogden Ridge Road, being 30' south of and parallel to the centerline of Ogden Ridge Road, N64°14'59"E - 34.53 feet to a point, N63°34'40"E - 96.34 feet to a point, N63°01'13"E - 97.37 feet to a point, N61°35'37"E - 94.92 feet to a point, N61°06'05"E - 92.13 feet to a point, and N64°57'32"E - 18.42 feet to an iron pin set, said pin being on the southern edge of right-of-way of Ogden Ridge Road and being 30' south of centerline, said pin being the Northwest Corner of Steve Boldery (D.B. 320, Pg. 91); Thence leaving the south edge of right-of-way of Ogden Ridge Road and generally with the fence and with the western boundary line of Boldery,

S20°14'57"E - 422.98 feet to an iron pin set at a fence post; Thence generally with the fence and first with the line of Boldery, second the line of Donna Hale (D.B. 130, Pg. 560) and thirdly the line of Donald Hale (D.B. 126, Pg. 385), N67°51'10"E - 905.07 feet to an iron pin set, said pin being on western boundary line of Anna Catherine Leach (D.B. 37, Pg. 282 & D.B. 38, Pg. 489); Thence leaving the line of Donald Hale and generally with the fence and with the western boundary line of Leach, S20°43'38"E — 2614.93 feet to an iron pin set, said pin being the Southwest corner of Leach and being on the northern boundary line of Troy Barnes (D.B. 127, Pg. 298); Thence leaving the boundary line of Leach and generally with the fence and with northern boundary line of Barnes, S60°40'53"W - 1311.16 feet to an iron pin found (PLS# 3868), said pin being a corner of Troy Barnes and also being a corner to a Life Estate of James L. Atkinson (being an exception to the deed of Troy Barnes D.B. 127, Pg. 298) and also being a corner of Walter Staples (D.B. 50, Pg. 797); Thence leaving the line of Barnes and the Life Estate of James L. Atkinson and with the line of Staples, N18°49'24"W - 142.80 feet to an iron pin set a tree fence corner; Thence continuing with the line of Staples, S64°07'37"W - 171.50 feet to a point in the centerline of creek and being the Point of Beginning for this description; Thence leaving the line of Staples and with the line of Jarrod & Jill Mahoney et. al. (D.B. 42, Pg. 26, D.B. 85, Pg. 733 and D.B. 72, Pg. 224) following the creek, N01°30'36"E - 354.65 feet to a point in the centerline of the creek; Thence continuing with Mahoney, N87°16'35"W — passing an iron witness pin set at 4.67 feet and continuing 100.33 feet for a total distance of 105.00 feet to an iron pin set and S02°43'25"W - 415.91 feet to an iron pin set on the northern line of Walter Staples (D.B. 50, Pg. 797); Thence leaving the line of Jarrod & Jill Mahoney et. al. (D.B. 42, Pg. 26, D.B. 85, Pg. 733 and D.B. 72, Pg. 224) and with the line of Staples, N64°07'37"E — 115.41 feet to a point and N64°07'37"E — 12.74 feet to the Point of Beginning and containing 0.965 acres by survey.

It is fully understood and agreed that any party in accepting this Deed hereby agrees to put a fence around said lot and to keep the same in repair at all times, same to be a general purpose fence against all livestock, this provision shall be binding on the owner, his heirs and assigns forever.

BEING the same Property conveyed to Louisville Gas and Electric Company, a Kentucky corporation, by Deed dated December 18, 2012, of record in Deed Book 132, Page 402, in the Office of the Clerk of Trimble County, Kentucky.

MAHONEY PROPERTY — PARCEL 2

TRACT #1: Located in Trimble County, Kentucky, bounded and described as follows:

BEGINNING at a stone in Browning's line; thence with same N 22-3/4 W 63 poles and 8 links to a stone, corner to Mahoney; thence with same S 67-1/2 W 50 poles to a stone corner to same; thence N 22-01/2 W... poles and 13 links to a stone corner to same and on the south side of Hopwood Road; S. 61 W 26 poles and 7 links to an Oak Tree on the top of the hill; thence S. 87 E 46 poles and 11 links to a stone corner to Andrew's line and Garriott's; thence N 58 E 15 poles and 7 links to the BEGINNING, containing THIRTY-FOUR ACRES < 109 poles, more or less.

TRACT #2: Located and being in Trimble County, Kentucky and bounded as follows:

BEGINNING at a stone in W.L. Garriott's line and A Browning's line S 23-3/4 E 94 poles and 21 links to a stone in Joe Garriott's line; thence with his line S 59 W 82 poles and 1 link to a

stone at the foot of the hill; thence N 20 W 8 poles and 8 feet to a stone; thence S 62-1/4 W 32 poles and 20 links to a stone; thence N 18-1/4 W 32 poles; thence N 20 poles to a stone; thence 18 W 68 poles to a stone on a hillside close to an oak tree; thence 18 W 36 poles and 7 links to a stone, corner oak tree; thence E 46 poles and 11 links to a stone in old fence; thence N 48-1/2 E 14 poles and 17 links to the BEGINNING, containing 59 acres and 70-4 poles.

The above legal description was revised pursuant to a physical survey conducted by Douglas G. Gooch, AGE Engineering Services, Inc., Ky. R.L.S. #3118, dated the 31st day of August, 2012, as follows:

BEGINNING at an iron pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments), said pin being on the southern edge of right-of-way Ogden Ridge Road and being 30 feet south of centerline of Ogden Ridge Road and being the northeast corner of Gary Callis (D.B. 72, Pg. 283), said pin having Kentucky State Plane — North Zone (NAD83) coordinates of N=400617.61 E=1311019.42, lying near the Community of Mount Pleasant, said pin being approximately 1.91 miles, as measured along Ogden Ridge Road from the intersection of centerline of Ogden Ridge Road and KY Hwy 625, lying in Trimble County, Kentucky **and being the Point of Beginning for this description**; Thence leaving the corner of Callis and with the southern edge of right-of-way of Ogden Ridge Road, being 30' south of and parallel to the centerline of Ogden Ridge Road, N64°14'59"E - 34.53 feet to a point, N63°34'40"E - 96.34 feet to a point, N63°01'13"E - 97.37 feet to a point, N61°35'37"E - 94.92 feet to a point, N61°06'05"E - 92.13 feet to a point, and N64°57'32"E - 18.42 feet to an iron pin set, said pin being on the southern edge of right-of-way of Ogden Ridge Road and being 30' south of centerline, said pin being the Northwest Corner of Steve Boldery (D.B. 320, Pg. 91); Thence leaving the south edge of right-of-way of Ogden Ridge Road and generally with the fence and with the western boundary line of Boldery, S20°14'57"E - 422.98 feet to an iron pin set at a fence post; Thence generally with the fence and first with the line of Boldery, second the line of Donna Hale (D.B. 130, Pg. 560) and thirdly the line of Donald Hale (D.B. 126, Pg. 385), N67°51'10"E - 905.07 feet to an iron pin set, said pin being on western boundary line of Anna Catherine Leach (D.B. 37, Pg. 282 & D.B. 38, Pg. 489); Thence leaving the line of Donald Hale and generally with the fence and with the western boundary line of Leach, S20°43'38"E — 2614.93 feet to an iron pin set, said pin being the Southwest corner of Leach and being on the northern boundary line of Troy Barnes (D.B. 127, Pg. 298); Thence leaving the boundary line of Leach and generally with the fence and with northern boundary line of Barnes, S60°40'53"W - 1311.16 feet to an iron pin found (PLS# 3868), said pin being a corner of Troy Barnes and also being a corner to a Life Estate of James L. Atkinson (being an exception to the deed of Troy Barnes D.B. 127, Pg. 298) and also being a corner of Walter Staples (D.B. 50, Pg. 797); Thence leaving the line of Barnes and the Life Estate of James L. Atkinson and with the line of Staples, N18°49'24"W - 142.80 feet to an iron pin set a tree fence corner; Thence continuing with the line of Staples, S64°07'37"W - 171.50 feet to a point in the centerline of creek, said point being a corner of Melvin Thomas Mahoney (D.B. 109, Pg. 288) and being on the northern boundary line of Staples; Thence leaving the line of Staples and with the line of Melvin Thomas Mahoney following the creek, N01°30'36"E - 354.65 feet to a point in the centerline of the creek; Thence continuing with Mahoney, N87°16'35"W — passing an iron witness pin set at 4.67 feet and continuing 100.33 feet for a total distance of 105.00 feet to an iron pin set and S02°43'25"W - 415.91 feet to an iron pin set on the northern line of Walter Staples (D.B. 50, Pg. 797); Thence leaving the line of Melvin Thomas Mahoney (D.B. 109, Pg. 288) and generally with existing

fence and with the line of Walter Staples, S64°07'37"W - 205.46 feet to an iron pin set, said pin being on the northern line of Staples and being a corner of Charlie Simpson (D.B. 38, Pg. 175 — now or formerly); Thence leaving the line of Staples and generally with the fence and the line of Simpson, N13°14'22"W — 472.35 feet to an iron pin set a base of a 48" Forked Sugar Maple Tree, said pin being the corner of Simpson and Les Ball & Amy Ball (D.B 123, Pg. 457); Thence leaving the line of Simpson and with the line of Ball, N04°38'29"W - 238.26 feet to an iron pin set at the base of a forked 30" Ash Tree with fence, N08°58'57"W - 124.95 feet to an iron pin set at the base of a 30" Oak Tree with fence, N04°20'04"W - 119.94 feet to an iron pin set at a 30" Maple Tree with fence, N29°35'33"W - 148.54 feet to an iron pin set at the base of 18" Maple Tree with fence, N10°51'03"W - 175.49 feet to an iron pin set at the base of 12" Chinkapin Oak Tree with fence, N16°38'01"W - 324.88 feet to an iron pin set at 36" Downed Tree, N10°55'44"W - 225.73 feet to an iron pin set at the base of a wood fence post, and N04° 07'13"E - 585.08 feet to an iron pin set at a fence corner; Thence first continuing with the line of Les Ball and second the line of Gary Callis (D.B. 72, Pg. 283), N23°45'17"W - 732.87 feet to the Point of Beginning and containing **99.294 acres** by survey.

BEING the same Property conveyed to Louisville Gas and Electric Company, a Kentucky corporation, by Deed dated December 18, 2012, of record in Deed Book 132, Page 407, in the Office of the Clerk of Trimble County, Kentucky.

NACKE PROPERTY:

Being a certain tract of land located on the East side of CR-1205 (Ogden Ridge Road), approximately 0.7 miles south of the intersection of KY 625 (Bedford and Mt. Pleasant Road), lying in Trimble County, Kentucky, and being more particularly described as follows:

BEGINNING at a ½ inch rebar (found) with cap marked "C.T. SMITH 3757" in the center of Tingle Lane and in the right-of-way of Ogden Ridge Road; thence with the east right-of-way of Ogden Ridge Road with a curve to the left having a cord of North 04 degrees, 45 minutes, 59 seconds East, 236.73 feet and a radius of 613 feet to a ½ inch rebar (found) with a cap marked "C.T. SMITH 3757"; thence with said right-of-way North 06 degrees, 22 minutes 01 seconds West, 180.00 feet to a ½ inch rebar (set) corner with Larry & P.J. Nacke (D.B. 117, page 55); thence leaving the right-of-way of Ogden Ridge Road and forming new division lines the following three calls: North 83 degrees, 37 minutes, 59 seconds East, 290.00 feet to a ½ inch rebar (set) South 10 degrees, 06 minutes, 05 seconds East, 396.23 feet to a ½ inch rebar (set), South 76 degrees 06 minutes, 15 seconds West 346.63 feet to a ½ inch rebar (found) with a cap marked "C.T. SMITH 3757" in the center line of Tingle Lane; thence with Tingle Lane, North 38 degrees, 26 minutes, 00 seconds West, 33.66 feet to the point of beginning Containing 3.004 Acres per survey by Christopher T. Smith on June 12 2008.

This survey is subject to all rights of way, easements, conveyances and restrictions that a title examination would reveal. No title report was provided to Surveyor.

All monuments referenced as ½ inch rebar (set) this survey are capped with a plastic cap stamped "C.T. SMITH 3757".

BEING the same Property conveyed to Louisville Gas and Electric Company, a Kentucky corporation, by Deed dated November 27, 2012, of record in Deed Book 132, Page 185, in the Office of the Clerk of Trimble County, Kentucky.

BALL PROPERTY:

A tract of land in Trimble County, Kentucky, on the Southeast side of the Mt. Pleasant Road, about 7 miles West of Bedford, bounded as follows:

BEGINNING at a small sugar tree marked as the Northwest corner of the 5 acre tract conveyed by Earl Mahoney and Margaret Mahoney to Charles Simpson by deed dated January 27, 1952, and recorded in Deed Book 38, Page 175, in the Trimble County Court Clerk's Office; thence to exclude said 5 acre tract as follows:

South 65 degrees West 1.98 chains to a locust; North 87 degrees West 2.70 chains to an ash, North 80 degrees West 2.49 chains to a hackberry South 58-1/2 West 1.07 chains to a hackberry, South 17 degrees West 1.66 chains to a hackberry South 24-1/4 West 1.21 chains to a lynn, South 68 degrees East 2.49 chains to a chinquapin; South 45-1/2 degrees East 3.12 chains to a chinquapin South 4-3/4 degrees East 1.25 chains to an elm, and South 3-1/2 degrees East 3.24 chains to a stake in fence line at the Southwest corner of said 5 acres tract in line of Richardson heirs; thence with Richardson as fenced, South 64 degrees West 16.72 chains to a stone; thence

North 20 degrees West (Passing a stone 9.39 chains corner to Richardson and Davis) whole distance 47.62 chains to a stone in Eugene David line corner to Nolas Mahoney; thence with Nolas Mahoney and the Mt. Pleasant Road as fenced North 62 degrees East 28.63 chains to a large walnut in the South line of the Mt. Pleasant Road corner Edward Mahoney; thence with Edward Mahoney as fenced as follows:

South 24 degrees East 11.35 chains to a stone, South 4-1/2 degrees East 9.21 chains to a post, South 11-1/2 East 3.35 chains to an ash, South 17 degrees East 4.94 chains to an ash, South 12 degrees East 2.79 chains to a hackberry; South 32 degrees East 2.11 chains to a spigut, South 3-3/4 degrees East 1.88 chains to a red elm; South 14-1/2 degrees East 1.87 chains to a locust and South 3 degrees East 4.03 chains to the point of beginning, containing 112.44 acres, Subject to Shelby REA easement and road right of way and waterline easements to L. G. & E. and Trimble County Water District No. 1.

THERE IS EXCEPTED FROM the above described real estate the following:

Being a certain lot or parcel of land lying on the Southern side of Ogden Ridge Road and located in Trimble County, Kentucky, more particularly described as follows:

Beginning at an existing iron pin in the Southern right of way of Ogden Ridge Road and corner to Edward and Mary Mahoney (Deed Book 36, Page 70; Deed Book 36, Page 89), and at the Northeastern corner of Theodore and Wadenna Bachmann (Deed Book 59, Page 89), said pin witnessed by an existing iron pin bearing North 38 degrees 06 minutes 00 seconds East, 120.50 feet, in the Northern right of way of said road and corner to Louisville Gas and Electric Company (Deed Book 63, Page 615); and by the Azimuth marker for triangulation stations Wises Bearing South 50 degrees 44 minutes 00 seconds East, 7.30 feet; thence South 23 degrees 40 minutes 00 seconds East, 478.31 feet, in line with Mahoney to an iron pin corner to Mahoney; thence South 62 degrees 02 minutes 20 seconds West, 181.86 feet, in line with Bachmann to an existing fence corner post; thence North 20 degrees 54 minutes 43 seconds West, 489.29 feet, with an existing fence line, to an existing corner post at the Southern right of way of said road; thence North 65 degrees 10 minutes 15 seconds East, 157.87 feet, with the said right of way, to the POINT OF BEGINNING. Containing 1.88 Acres of land. Subject to any utility easements, passways or other easements that may be over or thru the premises.

There is excepted from the above described real estate a Non-Exclusive 20 foot easement of ingress and egress along the East and South sides of the above described real estate, for the benefit of the remainder of the farm, of which the 1.88 acres was originally a part of.

BEING the same Property conveyed to Louisville Gas and Electric Company, a Kentucky corporation, by Deed dated October 11, 2012, of record in Deed Book 131, Page 720 in the Office of the Clerk of Trimble County, Kentucky.

KENTUCKY UTILITIES COMPANY

TO

THE BANK OF NEW YORK MELLON,

Trustee

**Supplemental Indenture No. 3
dated as of November 1, 2013**

**Supplemental to the Indenture
dated as of October 1, 2010**

Establishing

First Mortgage Bonds, 4.65% Series due 2043

SUPPLEMENTAL INDENTURE NO. 3

SUPPLEMENTAL INDENTURE No. 3, dated as of the 1st day of November, 2013, made and entered into by and between KENTUCKY UTILITIES COMPANY, a corporation duly organized and existing under the laws of the Commonwealths of Kentucky and Virginia, having its principal corporate offices at One Quality Street, Lexington, Kentucky 40507 (hereinafter sometimes called the "Company"), and THE BANK OF NEW YORK MELLON, a New York banking corporation, having its corporate trust office at 101 Barclay Street, 7th Floor, New York, New York 10286 and having its principal place of business at One Wall Street, New York, New York 10286 (hereinafter sometimes called the "Trustee"), as Trustee under the Indenture, dated as of October 1, 2010 (hereinafter called the "Original Indenture"), between the Company and said Trustee, as heretofore supplemented, this Supplemental Indenture No. 3 being supplemental thereto. The Original Indenture, as heretofore supplemented, and this Supplemental Indenture No. 3 are hereinafter sometimes, collectively, called the "Indenture."

Recitals of the Company

The Original Indenture was authorized, executed and delivered by the Company to provide for the issuance from time to time of its Securities (such term and all other capitalized terms used herein without definition having the meanings assigned to them in the Original Indenture), to be issued in one or more series as contemplated therein, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on such Securities.

The Company has heretofore executed and delivered supplemental indentures for the purpose of creating series of Securities as set forth in Exhibit A hereto.

The Original Indenture and Supplemental Indentures No. 1 and No. 2, and financing statements in respect thereof, have been duly recorded and filed in the various official records in the Commonwealth of Kentucky as set forth in Exhibit B hereto.

Pursuant to Article Three of the Original Indenture, the Company wishes to establish a series of Securities, such series of Securities to be hereinafter sometimes called "Securities of Series No. 5", and, pursuant to Section 1401 of the Original Indenture, the Company wishes to correct an error in each of Section 805 and Section 807 of the Original Indenture.

As contemplated in Section 301 of the Original Indenture, the Company further wishes to establish the designation and certain terms of the Securities of Series No. 5. The Company has duly authorized the execution and delivery of this Supplemental Indenture No. 3 to establish the designation and certain terms of such series of Securities and has duly authorized the issuance of such Securities; and all acts necessary to make this Supplemental Indenture No. 3 a valid agreement of the Company, and to make the Securities of Series No. 5 valid obligations of the Company, have been performed.

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE NO. 3 WITNESSETH, that, for and in consideration of the premises and of the purchase of the Securities by the Holders thereof and in order to secure the payment of the principal of and premium, if any, and interest, if any, on all Securities from time to time Outstanding and the performance of the covenants therein and in the Indenture contained, the Company hereby grants, bargains, sells, conveys, assigns, transfers, mortgages, pledges, sets over and confirms to the Trustee, and grants to the Trustee a security interest in and lien on, the real property specifically referred to in Exhibit C attached hereto and incorporated herein by reference and all right, title and interest of the Company in and to all property personal and mixed located thereon (other than Excepted Property), as and to the extent, and subject to the terms and conditions, set forth in the Original Indenture; and it is further mutually covenanted and agreed as follows:

ARTICLE ONE

SECURITIES OF SERIES NO. 5

SECTION 101. Creation of Series No. 5.

There is hereby created a series of Securities designated "First Mortgage Bonds, 4.65% Series due 2043", and the Securities of such series shall:

(a) be issued initially in the aggregate principal amount of \$250,000,000 and shall be limited to such aggregate principal amount (except as contemplated in Section 301(b) of the Original Indenture); provided, however, that, as contemplated in the last paragraph of Section 301 of the Original Indenture, additional Securities of such series may be subsequently issued from time to time, without any consent of Holders of the Securities of such series, if and to the extent that, prior to each such subsequent issuance, the aggregate principal amount of the additional Securities then to be issued shall have been set forth in a Supplemental Indenture, and, thereupon, the Securities of such series shall be limited to such aggregate principal amount as so increased (except as aforesaid and subject to further such increases);

(b) be dated November 14, 2013;

(c) have a Stated Maturity of November 15, 2043, subject to prior redemption or purchase by the Company;

(d) have such additional terms as are established in an Officer's Certificate as contemplated in Section 301 of the Original Indenture;
and

(e) be in substantially the form or forms established therefor in an Officer's Certificate, as contemplated by Section 201 of the Original Indenture.

ARTICLE TWO

COVENANT

SECTION 201. Satisfaction and Discharge.

The Company hereby agrees that, if the Company shall make any deposit of money and/or Eligible Obligations with respect to any Securities of Series No. 5, or any portion of the principal amount thereof, as contemplated by Section 901 of the Indenture, the Company shall not deliver an Officer's Certificate described in clause (z) in the first paragraph of said Section 901 unless the Company shall also deliver to the Trustee, together with such Officer's Certificate, either:

(a) an instrument wherein the Company, notwithstanding the satisfaction and discharge of its indebtedness in respect of such Securities, or portions of the principal amount thereof, shall retain the obligation (which shall be absolute and unconditional) to irrevocably deposit with the Trustee or Paying Agent such additional sums of money, if any, or additional Eligible Obligations (meeting the requirements of Section 901), if any, or any combination thereof, at such time or times, as shall be necessary, together with the money and/or Eligible Obligations theretofore so deposited, to pay when due the principal of and premium, if any, and interest due and to become due on such Securities or portions thereof, all in accordance with and subject to the provisions of said Section 901; provided, however, that such instrument may state

that the obligation of the Company to make additional deposits as aforesaid shall be subject to the delivery to the Company by the Trustee of a notice asserting the deficiency accompanied by an opinion of an independent public accountant of nationally recognized standing, selected by the Trustee, showing the calculation thereof (which opinion shall be obtained at the expense of the Company); or

(b) an Opinion of Counsel to the effect that the beneficial owners of such Securities, or portions of the principal amount thereof, will not recognize income, gain or loss for United States federal income tax purposes as a result of the satisfaction and discharge of the Company's indebtedness in respect thereof and will be subject to United States federal income tax on the same amounts, at the same times and in the same manner as if such satisfaction and discharge had not been effected.

ARTICLE THREE

CORRECTIONS

SECTION 301. Correction of Section 805.

In accordance with Section 1401(l) of the Original Indenture, Section 805 of the Original Indenture is hereby corrected by inserting the phrase "sixty-six and two-thirds percentum (66-2/3%) of" immediately following the words "equal to" in the penultimate sentence thereof.

SECTION 302. Correction of Section 807.

In accordance with Section 1401(l) of the Original Indenture, Section 807 of the Original Indenture is hereby corrected by inserting the phrase "sixty-six and two-thirds percentum (66-2/3%) of" immediately following the words "equal to" in clause (d) in the first sentence thereof.

ARTICLE FOUR

MISCELLANEOUS PROVISIONS

SECTION 401. Single Instrument.

This Supplemental Indenture No. 3 is an amendment and supplement to the Original Indenture as heretofore supplemented. As amended and supplemented by this Supplemental Indenture No. 3, the Original Indenture, as heretofore supplemented, is in all respects ratified, approved and confirmed, and the Original Indenture, as heretofore supplemented, and this Supplemental Indenture No. 3 shall together constitute the Indenture.

SECTION 402. Effect of Headings.

The Article and Section headings in this Supplemental Indenture No. 3 are for convenience only and shall not affect the construction hereof.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture No. 3 to be duly executed as of the day and year first written above.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

ATTEST:

/s/ Dorothy E. O'Brien

Name: Dorothy E. O'Brien

Title: Vice President and Deputy General Counsel,
Legal and Environmental Affairs

THE BANK OF NEW YORK MELLON, as Trustee

By: /s/ Francine Kincaid

Name: Francine Kincaid

Title: Vice President

COMMONWEALTH OF KENTUCKY)
) ss.:
COUNTY OF JEFFERSON)

On this 5th day of November, 2013, before me, a notary public, the undersigned, personally appeared Daniel K. Arbough, who acknowledged himself to be the Treasurer of KENTUCKY UTILITIES COMPANY, a corporation of the Commonwealths of Kentucky and Virginia and that he, as such Treasurer, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as Treasurer.

In witness whereof, I hereunto set my hand and official seal.

/s/ Betty L. Brinly
Betty L. Brinly
Notary Public, State at Large, KY
My Commission expires 6/21/2014

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On this 5th day of November, 2013, before me, a notary public, the undersigned, personally appeared Francine Kincaid, who acknowledged herself to be a Vice President of THE BANK OF NEW YORK MELLON, a corporation and that she, as Vice President, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by herself as Vice President.

In witness whereof, I hereunto set my hand and official seal.

By: /s/ Danny Lee
Danny Lee
Notary Public, State of New York
Notary #: 01LE6161129
Qualified in in New York County
Commission expires 2/20/2015

The Bank of New York Mellon hereby certifies that its precise name and address as Trustee hereunder are:

The Bank of New York Mellon
Global Structured Finance
101 Barclay Street, 7th Floor
New York, New York 10286
Attn: Global Americas

THE BANK OF NEW YORK MELLON, as Trustee

By: /s/ Francine Kincaid
Name: Francine Kincaid
Title: Vice President

CERTIFICATE OF PREPARER

The foregoing instrument was prepared by:

James J. Dimas, Senior Corporate Attorney
Kentucky Utilities Company
220 West Main Street
Louisville, Kentucky 40202

/s/ James J. Dimas
James J. Dimas

KENTUCKY UTILITIES COMPANY

**Bonds Issued and Outstanding
under the Indenture**

Supplemental Indenture No.	Dated as of	Series No.	Series Designation	Date of Securities	Principal Amount Issued	Principal Amount Outstanding(1)
1	October 15, 2010	1	Collateral Series 2010	October 28, 2010	\$ 350,779,405	\$ 350,779,405
2	November 1, 2010	2	1.625% Series due 2015	November 16, 2010	\$ 250,000,000	\$ 250,000,000
		3	3.250% Series due 2020	November 16, 2010	\$ 500,000,000	\$ 500,000,000
		4	5.125% Series due 2040	November 16, 2010	\$ 750,000,000	\$ 750,000,000

(1) As of November 1, 2013.

KENTUCKY UTILITIES COMPANY

**Filing and Recording
of
Indenture, dated as of October 1, 2010**

COUNTY NAME	BOOK & PAGE NUMBER
Adair	MB 297, Pg 118
Anderson	MB 453, Pg 36
Ballard	MB 48, Pg 57
Barren	MB 450, Pg 284
Bath	MB 191, Pg 1
Bell	MB 294, Pg 1
Bourbon	MB 516, Pg 1
Boyle	MB 600, Pg 194
Bracken	MB 256, Pg 288
Bullitt	MB 1342, Pg 1
Caldwell	MB 267, Pg 351
Carroll	MB 204, Pg 153
Casey	MB 212, Pg 676
Christian	MB 1236, Pg 1
Clark	MB 701, Pg 155
Clay	MB 197, Pg 527
Crittenden	MB 189, Pg 671
Estill	MB E9, Pg 1
Fayette	MB 7007, Pg 175
Fleming	MB 283, Pg 160
Franklin	MB 1184, Pg 264
Fulton	MB 168, Pg 1
Gallatin	MB 193, Pg 1
Garrard	MB 302, Pg 141
Grayson	MB 19-E, Pg 1
Green	MB 261, Pg 427
Hardin	MB 1957, Pg 637
Harlan	MB 392, Pg 521
Harrison	MB 339, Pg 1
Hart	MB 310, Pg 14
Henry	MB 296, Pg 1
Hickman	MB 101, Pg 59
Hopkins	MB 1000, Pg 1
Jessamine	MB 1029, Pg 42

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Knox	MB 374, Pg 1
Larue	MB 294, Pg 150
Laurel	MB 965, Pg 353
Lee	MB 102, Pg 1
Lincoln	MB 376, Pg 1
Livingston	MB 270, Pg 1
Lyon	MB 202, Pg 1
Madison	MB 1365, Pg 1
Marion	MB 344, Pg 1
Mason	MB 375, Pg 1
McCracken	MB 1282, Pg 1
McLean	MB 168, Pg 1
Mercer	MB 530, Pg 1
Montgomery	MB 450, Pg 606
Muhlenberg	MB 601, Pg 72
Nelson	MB 910, Pg 403
Nicholas	MB 135, Pg 1
Ohio	MB 448, Pg 173
Oldham	MB 1904, Pg 1
Owen	MB 228, Pg 1
Pendleton	MB 325, Pg 1
Pulaski	MB 1249, Pg 1
Robertson	MB 55, Pg 279
Rockcastle	MB 228, Pg 1
Rowan	MB 306, Pg 84
Russell	MB 329, Pg 22
Scott	MB 1008, Pg 1
Shelby	MB 836, Pg 1
Taylor	MB 479, Pg 302
Trimble	MB 180, Pg 191
Union	MB 381, Pg 273
Washington	MB 242, Pg 1
Webster	MB 291, Pg 381
Whitley	MB 528, Pg 1
Woodford	MB 634, Pg 329

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KENTUCKY UTILITIES COMPANY

**Filing and Recording
of
Supplemental Indenture No. 1, dated as of October 15, 2010,
to
Indenture, dated as of October 1, 2010**

COUNTY NAME	BOOK & PAGE NUMBER
Adair	MB 298, Pg 77
Anderson	MB 453, Pg 600
Ballard	MB 49, Pg 39
Barren	MB 451, Pg 570
Bath	MB 190, Pg 775
Bell	MB 294, Pg 724
Bourbon	MB 517, Pg 75
Boyle	MB 601, Pg 507
Bracken	MB 257, Pg 211
Bullitt	MB 1345, Pg 101
Caldwell	MB 268, Pg 233
Carroll	MB 204, Pg 712
Casey	MB 213, Pg 530
Christian	MB 1237, Pg 630
Clark	MB 703, Pg 549
Clay	MB 198, Pg 110
Crittenden	MB 190, Pg 482
Estill	MB E9, Pg 575
Fayette	MB 7018, Pg 386
Fleming	MB 284, Pg 78
Franklin	MB 1186, Pg 302
Fulton	MB 168, Pg 563
Gallatin	MB 193, Pg 466
Garrard	MB 302, Pg 968
Grayson	MB 19-F, Pg 73
Green	MB 263, Pg 18
Hardin	MB 1959, Pg 388
Harlan	MB 393, Pg 701
Harrison	MB 339, Pg 784
Hart	MB 310, Pg 723
Henry	MB 297, Pg 789
Hickman	MB 122, Pg 17

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Hopkins	MB 1001, Pg 615
Jessamine	MB 1031, Pg 229
Knox	MB 375, Pg 19
Larue	MB 296, Pg 58
Laurel	MB 967, Pg 99
Lee	MB 101, Pg 537
Lincoln	MB 376, Pg 781
Livingston	MB 270, Pg 599
Lyon	MB 202, Pg 466
Madison	MB 1367, Pg 489
Marion	MB 345, Pg 1
Mason	MB 376, Pg 286
McCracken	MB 1284, Pg 729
McLean	MB 168, Pg 625
Mercer	MB 531, Pg 300
Montgomery	MB 451, Pg 708
Muhlenberg	MB 602, Pg 564
Nelson	MB 913, Pg 254
Nicholas	MB 135, Pg 568
Ohio	MB 449, Pg 211
Oldham	MB 1909, Pg 267
Owen	MB 228, Pg 628
Pendleton	DB 305, Pg 359
Pulaski	MB 1251, Pg 501
Robertson	MB 56, Pg 111
Rockcastle	MB 227, Pg 525
Rowan	MB A307, Pg 71
Russell	MB 330, Pg 181
Scott	MC 33, Pg 179
Shelby	MB 838, Pg 422
Taylor	MB 480, Pg 285
Trimble	MB 181, Pg 739
Union	MB 382, Pg 165
Washington	MB 242, Pg 467
Webster	MB 292, Pg 147
Whitley	MB 529, Pg 266
Woodford	MB 635, Pg 563

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KENTUCKY UTILITIES COMPANY

**Filing and Recording
of
Supplemental Indenture No. 2, dated as of November 1, 2010,
to
Indenture, dated as of October 1, 2010**

COUNTY NAME	BOOK & PAGE NUMBER
Adair	MB 298, Pg 478
Anderson	MB 454, Pg 524
Ballard	MB 49, Pg 203
Barren	MB 452, Pg 720
Bath	MB 191, Pg 587
Bell	MB 295, Pg 126
Bourbon	MB 517, Pg 709
Boyle	MB 602, Pg 410
Bracken	MB 257, Pg 477
Bullitt	MB 1348, Pg 63
Caldwell	MB 268, Pg 418
Carroll	MB 205, Pg 107
Casey	MB 213, Pg 755
Christian	MB 1239, Pg 559
Clark	MB 704, Pg 689
Clay	MB 198, Pg 205
Crittenden	MB 190, Pg 718
Estill	MB F9, Pg 26
Fayette	MB 7033, Pg 693
Fleming	MB 284, Pg 309
Franklin	MB 1188, Pg 296
Fulton	MB 168, Pg 646
Gallatin	MB 193, Pg 609
Garrard	MB 303, Pg 410
Grayson	MB 19-F, Pg 468
Green	MB 263, Pg 293
Hardin	MB 1961, Pg 197
Harlan	MB 394, Pg 244
Harrison	MB 340, Pg 207
Hart	MB 312, Pg 39
Henry	MB 298, Pg 98
Hickman	MB 122, Pg 92

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Hopkins	MB 1003, Pg 274
Jessamine	MB 1033, Pg 316
Knox	MB 375, Pg 516
Larue	MB 296, Pg 284
Laurel	MB 968, Pg 802
Lee	MB 101, Pg 630
Lincoln	MB 377, Pg 359
Livingston	MB 271, Pg 129
Lyon	MB 202, Pg 627
Madison	MB 1369, Pg 754
Marion	MB 345, Pg 558
Mason	MB 376, Pg 660
McCracken	MB 1287, Pg 770
McLean	MB 168, Pg 778
Mercer	MB 532, Pg 337
Montgomery	MB 452, Pg 526
Muhlenberg	MB 603, Pg 465
Nelson	MB 914, Pg 755
Nicholas	MB 135, Pg 702
Ohio	MB 449, Pg 603
Oldham	MB 1914, Pg 176
Owen	MB 229, Pg 123
Pendleton	DB 305, Pg 555
Pulaski	MB 1254, Pg 122
Robertson	MB 56, Pg 221
Rockcastle	MB 227, Pg 667
Rowan	MB A307, Pg 288
Russell	MB 330, Pg 704
Scott	MB 1012, Pg 568
Shelby	MB 839, Pg 732
Taylor	MB 480, Pg 863
Trimble	MB 182, Pg 132
Union	MB 382, Pg 412
Washington	MB 242, Pg 497
Webster	MB 292, Pg 426
Whitley	MB 529, Pg 599
Woodford	MB 637, Pg 103

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KENTUCKY UTILITIES COMPANY

**UCC Filings — Kentucky Secretary of State
for
Indenture dated as of October 1, 2010,
as supplemented**

File No.	Date
2010-2481173-19.01	October 8, 2010
2010-2481173-19.02	November 11, 2010
2010-2481175-31.01	October 8, 2010
2010-2481175-31.02	November 11, 2010

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KENTUCKY UTILITIES COMPANY

Real Property

Schedule of real property owned in fee located in the Commonwealth of KentuckyHarlan County, Kentucky:

BEGINNING at an existing steel post standing in a chain link fence at the West side of the Dressin-Sunshine Road and at the Southeast corner of the store room lot; thence with the chain link fence N 84° 21' 55" W 368.93 feet to an existing steel post standing in a chain link fence at the Southwest corner of the store room lot; thence continuing with the chain link fence N 03° 01' 27" 110.15 feet to an existing steel post standing in a chain link fence at the corner of the store room lot; thence continuing with the chain link fence N 49° 15' 58" E 179.24 feet to an existing steel post standing in a chain link fence at the South side of Tarbot Lane at the intersection with Dressin-Sunshine Road; thence along the West side of Dressin-Sunshine Road toward Dressin S 32° 57' 16" E 93.91 feet to a steel pin and cap set; thence crossing the Dressin-Sunshine Road N 85° 13' 52" E passing a steel pin and cap set as a reference at 45.00 feet, a total of 74.00 feet to a corner which is not accessible; thence N 11° 09' 44" W passing a steel pin and cap set as a reference at 5.00 feet, a total distance of 65.00 feet to a steel pin and cap set at the South side of Tarbot Lane; thence along and with Tarbot Lane S 85° 28' 50" E 80.00 feet to a steel pin and cap set at the railroad right-of-way; thence along and with the railroad right-of-way S 06° 37' 35" E 135.00 feet to a steel pin and cap set at the railroad right-of-way, being also the Southeast corner of this tract, said point being located 863 feet northerly along the track from railroad mile post number 243; thence S 83° 19' 34" W 115.00 feet, crossing the Dressin-Sunshine Road to a steel pin and cap set at the West side of the road; thence S 09° 16' 07" E 85.50 feet to the point of beginning, containing 1.93 acres, as surveyed by David A. Atwell, Kentucky Registered Surveyor, License Number 2063, on February 26, 1996.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed dated June 18, 1996, of record in Deed Book 324, Page 457 in the Office of the Clerk of Harlan County, Kentucky.

Boyle County, Kentucky:

Being Tract A-1 as shown on the Minor Plat approved by the Danville-Boyle County Planning & Zoning Commission on January 16, 2013, and recorded at Plat Book 1847B, Page 1, in the Office of the Clerk of Boyle County, Kentucky and containing 4.0 acres.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by General Warranty Deed given by Dennis G. Cox and Crystal J. Cox, dated February 13, 2013 and lodged for record in Deed Book 490, Page 484, in the office of the Boyle County Clerk.

Fayette County, Kentucky:

Beginning at a point in the north property line of the Winchester Pike where it intersects the east property line of Hume Road; thence along the east property line of Hume Road for three calls N 18° 48' W 52.3 feet, S 71° 12' W 5 feet and N 18° 48' W 607.82 feet to a corner with W. S. Rogers; thence with the line of Rogers N 71° 12' E 793 feet to the line of Dr. Adam Miller; thence with Miller for four calls S 01° 45' W. 117.65 feet, S 01° 53' W 207.6 feet, N 84° 24' E 109.6 feet and S 01° 04' E 628.4 feet to the aforesaid north property line of the Winchester Pike; thence along the north property line of the Winchester Pike N 84° 21' W 647.2 feet to the beginning, and containing 13.19 acres. (*Italicized items* were omitted from legal in source deed of record in Deed Book 1437, Page 677, but included in deed of record in Deed Book 600, Page 474, both references to the Fayette County Clerk's office).

There is EXCEPTED from the foregoing conveyance a certain parcel thereof conveyed to McLean Construction Company, Inc., by deed of record in Deed Book 612, Page 236, in the Fayette County Clerk's Office; there is further excepted from the conveyance herein that certain right-of-way conveyed to the Commonwealth of Kentucky, Department of Highways, by deed dated July 6, 1962, and of record in Deed Book 748, Page 380, in the aforementioned Clerk's Office; there is further excepted certain easements and right-of-way agreements with the Southern Bell Telephone and Telegraph Company and the General Telephone Company of Kentucky, dated July 11, 1962 and June 4, 1962, recorded in Deed Book 763, Page 354, in Deed Book 742, Page 463, in the aforementioned Clerk's Office.

NOTE: The above legal description of the Property was revised pursuant to a physical survey conducted by Douglas G. Gooch, AGE Engineering Services, Inc., Ky. R.L.S. #3118, dated the 12th day of July, 2012, as follows:

BEGINNING at an iron pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments), said pin being located at the Southwest corner of the property being surveyed and being located on the North edge of Right-of-Way of US Hwy 60 (a.k.a Winchester Road) and being on the eastern edge of right-of-way of Hume Road, said right-of-way conveyed to the Commonwealth of Kentucky (D.B. 748, Pg. 380), said pin being 100' north of the centerline of US Hwy 60 and having Kentucky State Plane — North Zone Coordinates (NAD83) N=197050.07 E=1592508.00 and also being N01°07'25"W — 0.50' from the center of a damaged right-of-way marker found, said pin being located in Fayette County, Kentucky and being the POINT OF BEGINNING for this description; Thence leaving the northern edge of right-of-way of US Hwy 60 and with the eastern edge of right-of-way of Hume Road, N26°30'39"W — 161.46 feet to an iron pin set on said right-of-way, said pin being 19 feet east of centerline of Hume Road; Thence continuing with the eastern edge of right-of-way of Hume Road, and being 19 feet east of centerline, N18°39'14"W — 479.84 feet to an iron pin set on the eastern edge of said right-of-way, said pin being a three-way corner of the subject property, James Chester McLean (D.B. 637, Pg. 403) and McLean Construction Company (D.B. 612, Pg. 236); Thence leaving the corner of James Chester McLean and with the line of McLean Construction Company (D.B. 612, Pg. 236), N80°16'46"E — passing a 1" Iron Pipe Found at 0.43 feet and passing an iron witness pin set at 758.11 feet and continuing at the same bearing an additional 0.04' feet to a 3/4" Iron Pipe Found, (the total length of this line being 758.15 feet), said pipe being the Southeast corner of McLean Construction Company (D.B. 612, Pg. 236) and being on the western boundary line of Adam Miller (D.B. 589, Pg. 271); Thence leaving the line of McLean Construction Company and with the line of Miller, S02°01'24"W — passing an iron witness pin set at 193.80 feet and continuing at the same bearing an additional 3.02 feet for a total distance being 196.82 feet to an 10" Wood Post Found, N84°34'49"E — passing an iron witness pin set at 3.02 feet and at 107.97 feet and continuing an additional 0.53 feet to a 12" Wood Post Found (the overall total distance of this line is 108.50 feet), S01°07'25"E — passing an iron witness pin set at 0.50 feet and at 628.09 feet and continuing an additional 0.11 feet to a 3/4" Iron Pipe Found (the overall total distance of this line is 628.20 feet), said pipe being on the north edge of right-of-

way of US Hwy 60 and being 75 feet north of centerline of US Hwy 60 and being the Southwest corner of Adam Miller (D.B. 589, Pg. 271); Thence leaving the line of Miller and with the Northern edge of right-of-way of US Hwy 60, N84°23'58"W — 140.59 feet to an iron pin set, said pin being 75' North of centerline of US Hwy 60, N78°41'19"W — 251.25 feet to an iron pin set, said pin being 100 feet north of centerline of US Hwy 60 and N84°23'58"W — 250.00 feet to the Point of Beginning and containing 11.844 acres by survey.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, pursuant to deed dated September 21, 2012, of record in Deed Book 3101, Page 213, in the Fayette County Clerk's office.

Lyon County, Kentucky:

Lot Number Twenty-five (#25), in Sara Lane Subdivision as shown by Plat of said subdivision record in Plat Cabinet 1, Slide 88, Lyon County Clerk's Office.

BEING the same property conveyed Kentucky Utilities Company, a Kentucky corporation, by Deed dated October 16, 2013, of record in Deed Book 159, Page 260, in the Office of the County Clerk of Lyon County, Kentucky.

Carroll County, Kentucky:

BEGINNING at a ¼" x 2" Mag Nail with washer stamped "Gooch PLS# 3118" set in the centerline of Black Rock Road, said nail being a corner of the property being surveyed and being the Northwest corner of Charles Beckham (D.B. 152, Pg. 654), said nail being S81°55'30"W — 10.21 feet from the center of a Walnut tree stump, said nail also being approx. 0.61 miles east of the intersection of centerlines of Black Rock Road and Sharon Road and lying in Carroll County, Kentucky and being the Point of Beginning for this description; Thence leaving the corner of Beckham and with the centerline of Black Rock Road, N17°30'50"W — 36.11 feet to a point, N29°05'05"W — 45.18 feet to a point, N38°18'35"W — 15.87 feet to a point, and N64°19'53"W — 8.61 feet to a ¼" x 2" Mag Nail with washer stamped "Gooch PLS#3118" set in the centerline of Black Rock Road, said nail being the South east corner of Jack Schirmer (D.B. 104, Pg. 731); Thence leaving the centerline of Black Rock Road and with the line of Schirmer, N25°40'07"E — passing an iron witness pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments) at 18.71 feet and continuing at the same bearing for a total distance of 30.20 feet to the center of a Walnut Tree Stump; Thence continuing with the line Schirmer, N15°30'31"W — passing an iron witness pin set at 1.45 feet and continuing at the same bearing for a total distance of 274.15 feet to an iron pin set, N82°45'32"E — 64.79 feet to an iron pin set, N22°49'08"W — 240.66 feet to an iron pin set, and N75°47'28"E — 573.52 feet to an iron pin set, said pin being a corner of Jack Schirmer and being on the west line of Kentucky Utilities Company (D.B. 180, Pg. 253); Thence leaving the line of Schirmer (sic) and with the west line of Kentucky Utilities Company, S00°22'25"W — 470.50 feet to an iron pin found (PLS# 2251), S12°11'26"E — 524.36 feet to an iron pin found (PLS# 2251), S11°16'39"E — 324.35 feet to an iron pin found (PLS# 2251) and S11°16'39"E — 19.41 feet to a P.K. nail found in the centerline of Black Rock Road, said nail being the Southwest corner of Kentucky Utilities Company; Thence leaving the line of Kentucky Utilities Company and with the centerline of Black Rock Road, S87°43'08"W — 67.45 feet to a point, N84°56'24"W — 36.73 feet to a point, N71°19'51"W — 68.04 feet to a point, and N63°07'56"W — 58.48 feet to a ¼" x 2" Mag Nail with washer stamped "Gooch PLS# 3118" set in the centerline of Black Rock Road, said nail being the Southeast corner of Charles Beckham (D.B. 152, Pg. 654); Thence leaving the centerline of Black Rock Road and with the line of Beckham, N23°44'00"W — passing an iron witness pin set at 31.50 feet and continuing at

the same bearing for a total distance of 587.85 feet to an iron pin set at the base of fence corner post and $S81^{\circ}55'30''W$ — passing an iron witness pin set at 115.32 feet and passing the centerline of a walnut tree stump (mentioned above) at 125.07 feet and continuing at the same bearing for a total distance of 135.28 feet to the Point of Beginning for this description and containing 11.306 acres by survey.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed dated January 14, 2010, of record in Deed Book 181, Page 276, in the Office of the Clerk of Carroll County, Kentucky.

Gallatin County, Kentucky:

Parcel 1:

BEGINNING at a mag nail set (1/4" x 2" Mag Nail with washer Stamped "Gooch P.L.S. #3118", as will be typical for all Mag Nails set), said nail being a common corner of the parent tract of Scott & Brooks and being a corner of Robert Maddox and Mary L. Seiler Scott (D.B. 92, Pg. 53, Gallatin Co.; D.B. 157, Pg. 97, Carroll Co.; D.B. 45, Pg. 601, Carroll Co.; D.B. 24, Pg. 308, Gallatin Co.; hereinafter referred to as the Maddox & Seiler property), said point being approx. 0.79 miles north of the intersection of centerlines of Montgomery Road and Black Rock Road, said nail lying in the centerline of Montgomery Road, Gallatin County, Kentucky and being the Point of Beginning for this description; Thence with the centerline of Montgomery Road and the line of the Maddox & Seiler property, $N33^{\circ}08'48''W$ — 124.58 feet to a Mag nail set in the centerline of said road; Thence leaving the centerline of the road but continuing with the line Maddox & Seiler property, $N20^{\circ}03'34''W$ — 826.58 feet to an iron pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments), said pin being 46.98 feet east of the centerline of Montgomery Road, $N53^{\circ}24'33''W$ — 483.25 feet to an iron pin set, said pin being 14.32 feet east of the centerline of Montgomery Road and $N17^{\circ}06'39''W$ — 179.61 feet to a point in Montgomery Road, said point being 1.51 feet east of the centerline of Montgomery Road, said point being on the eastern line of the Maddox & Seiler property and being a corner of Mark Kearns (D.B. 106, Pg. 418, Gallatin Co.); Thence leaving the line of the Maddox & Seiler property and with the line of Kearns, $S89^{\circ}59'53''E$ — passing an iron witness pin found (PLS# 3423) at 11.48 feet and continuing at the same bearing for a total distance of 1448.41 feet to an iron pin found with no ID cap, $S00^{\circ}21'02''W$ — 151.50 feet to an iron pin found, (PLS# 3423), $S29^{\circ}54'30''W$ — 86.01 feet to an iron pin found (PLS# 3423), and $N89^{\circ}21'44''E$ — 1062.54 feet to an iron pin found (PLS# 1961), said pin being a four way corner of the parent tract, Mark Kearns, Buell and Virginia Shields (D.B. 34, Pg. 440, D.B. 33, Pg. 303), and Kevin Deaton (D.B. 47, Pg. 202, Gallatin Co.); Thence leaving the line of Kearns and Shields and with the line of Deaton, $S01^{\circ}41'53''W$ — passing pins found online at 90.99 feet, 190.02 feet, 390.04 feet, 490.02 feet, 689.92 feet and 789.87 feet all with an identification cap bearing PLS# 1961, and continuing 100.04 feet to an iron pin found (PLS# 1961) a total distance of 889.91 feet, said pin being a common corner of the parent tract and Deaton; Thence continuing with the line of Deaton $S88^{\circ}19'41''W$ — passing pins found online at 128.77 feet, 228.80 feet, 428.72 feet and 928.70 feet to an iron pin set, said pin being a total distance of 928.70 feet, said pin being a common corner of the parent tract, Deaton, and the Maddox & Seiler property (D.B. 92, Pg. 53, Gallatin Co.; D.B. 157, Pg. 97, Carroll Co.; D.B. 45, Pg. 601, Carroll Co.; D.B. 24, Pg. 308, Gallatin Co.); Thence leaving the line of Deaton and with the line of Maddox & Seiler property, $S73^{\circ}46'07''W$ — 749.80 feet to the Point of Beginning and containing 49.898 acres by survey.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed dated January 8, 2010, of record in Deed Book 108, Page 334, in the Office of the Clerk of Gallatin County, Kentucky.

Parcel 2:

COMMENCING at a ¼" x 2" Mag Nail Set in the Centerline of Montgomery Road, said Mag nail being approximately 0.46 mile north of the intersection of centerlines of Montgomery Road and Black Rock Road, and being the Southeast Corner of Kentucky Utilities Company (D.B. 108, Pg. 324 - Gallatin County and D.B. 181, Pg. 210 - Carroll County); Thence leaving the centerline of Montgomery Road and with the line of Kentucky Utilities Company, S79°59'44"W — 18.95 feet to an iron pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments) at a fence corner post, on the west edge of right-of-way of Montgomery Road, said pin being on the southern line of said Kentucky Utilities Company property and being the Northeast Corner of the property being surveyed and being the POINT OF BEGINNING for this description; Thence leaving the line of Kentucky Utilities Company and with the west edge of right-of-way of Montgomery Road, S09°33'39"E — 55.88 feet to a point, S06°15'14"E — 32.48 feet to a point, S03°50'09"E — 45.71 feet to a point, S01°44'45"W — 31.70 feet to a point, S07°35'02"W — 29.65 feet to a point, S15°45'54"W — 28.98 feet to a point, S24°01'52"W — 24.03 feet to a point, S31°53'46"W — 24.34 feet to a point, S37°29'11"W — 44.36 feet to a point, and S37°52'36"W — 51.82 feet to an iron pin found (PLS# 2119), said iron pin found being 20.74 feet west of centerline of Montgomery Road and being a corner of Kentucky Utilities Company (Parcel No. 1, D.B. 180, PG. 253 — Carroll County, D.B. 107, PG. 584 — Gallatin County); Thence leaving the west edge of right-of-way of Montgomery Rod and with the line of Kentucky Utilities Company, S66°00'56"W — 229.63 feet to an iron pin found (PLS# 2119) and N05°15'30"E — 362.43 feet to an iron pin found (PLS# 2119), said pin being the Northeastern corner of Kentucky Utilities Company (Parcel No. 1, D.B. 180, PG. 253 — Carroll County, D.B. 107, PG. 584 — Gallatin County) and being on the southern line of Kentucky Utilities Company (D.B. 108, Pg. 324 - Gallatin County and D.B. 181, Pg. 210 - Carroll County); Thence leaving the line of Kentucky Utilities Company (Parcel No. 1, D.B. 180, PG. 253 — Carroll County, D.B. 107, PG. 584 — Gallatin County) and with the line of Kentucky Utilities Company (D.B. 108, Pg. 324 - Gallatin County and D.B. 181, Pg. 210 - Carroll County), N73°59'44"E — 265.20 feet to the Point of Beginning and containing 2.032 acres by survey.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed dated March 18, 2011, of record in Deed Book 110, Page 776, and by Quitclaim Deed dated March 18, 2011, of record in Deed Book 111, Page 9, both in the Office of the Clerk of Gallatin County, Kentucky.

Parcel 3:

Tract 1:

BEING Tract No. 1 as shown on the Boundary Survey Plat of the Kevin Deaton Property prepared from a physical survey conducted by Douglas G. Gooch, AGE Engineering Services, Inc., Ky. R.L.S. #3118, dated the 29th day of March, 2011 and approved by Warsaw, Glencoe and Gallatin County Planning Commission, Docket No. PS-11-21, on June 23, 2011, of record in Plat Cabinet B, Slide 194 in the aforesaid Office.

Tract 2:

BEING Tract No. 2 as shown on the Boundary Survey Plat of the Kevin Deaton Property prepared from a physical survey conducted by Douglas G. Gooch, AGE Engineering Services, Inc., Ky. R.L.S. #3118, dated the 29th day of March, 2011 and approved by Warsaw, Glencoe and Gallatin County Planning Commission, Docket No. PS-11-21, on June 23, 2011, of record in Plat Cabinet B, Slide 194 in the aforesaid Office.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed dated and recorded on June 30, 2011, in Deed Book 111, Page 575, and by Deed dated and recorded on June 30, 2011, of record in Deed Book 111, Page 579, both in the Office of the Clerk of Gallatin County, Kentucky.

Gallatin and Carroll Counties, Kentucky:

Parcel 1:

BEGINNING at a mag nail set (1/4" x 2" Mag Nail with washer Stamped "Gooch P.L.S. #3118", as will be typical for all Mag Nails set), said nail being in the centerline of Montgomery Road and being a corner of Sandra McDole (D.B. 56, Pg. 12, Gallatin Co.) and being on the line of Kevin Deaton (D.B. 47, Pg. 202, 4th tract), said pin being approximately 0.46 miles north of the intersection of centerlines of Montgomery Road and Black Rock Road, said nail lying in Gallatin County, Kentucky being the Point of Beginning for this description; Thence leaving the centerline of Montgomery Road and leaving the line of Kevin Deaton and with the line of Sandra McDole, S73°59'44"W — passing an iron witness pin set at wood fence post at 18.95 feet and continuing for a total distance of 284.15 feet to an iron pin found (PLS# 2119), said pin being a corner of Sandra McDole and Kentucky Utilities Company (D.B. 180, Pg. 253, Carroll County); Thence leaving the line of McDole and with the line of Kentucky Utilities Company, S74°23'18"W — 796.56 feet to an iron pin found (PLS# 2119), S74°30'26"W — 354.68 feet to an iron pin found (PLS# 2251), and S74°48'55"W — 353.47 feet to an iron pin found (PLS# 2251), said pin being a corner of Jack Schirmer (D.B. 104, Pg. 731) and Kentucky Utilities Company; Thence leaving the line of Kentucky Utilities Company and with the line of Schirmer, N18°41'13"W — passing an iron pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments), online at 896.97 feet and continuing for a total distance of 1857.57 feet to an iron pin set adjacent to a wood post found adjacent to a 48" Oak Tree as called for in Kentucky Utilities Company (D.B. 122, Pg. 516) and being a corner of Kentucky Utilities Company (D.B. 122, Pg. 516, Carroll Co.); Thence leaving the line of Schirmer and with the line of Kentucky Utilities Company, N35°57'22"W — 508.19 feet to an iron pin found (PLS# 3423 and PLS# 3729), N32°39'34"W — 646.80 feet to an iron pin set adjacent to a fence corner post as called for in D.B. 122, Pg. 516, and N14°33'07"W — 297.00 feet to an iron pin set, said pin being a corner of David C. White and Lorenda White (D.B. 72, Pg. 199, Gallatin Co. and D.B. 129, Pg. 319, Carroll Co.); Thence leaving the line of Kentucky Utilities Company and with the line of White, N73°10'03"E — 396.34 feet to an iron pin set (PLS# 3423), said pin being a corner of White and being a corner of the property being claimed by Mark Kearns (No Deed Found); Thence leaving the corner of White and with property being claimed by Kearns, N75°50'04"E — 270.70 feet to an iron pin found (PLS# 3423), said pin being a corner of the property being claimed by Kearns and being corner of the Mark Kearns property (D.B. 106, Pg. 418, Gallatin Co.); Thence leaving the property being claimed by Mark Kearns (No Deed Found) and with the line of Mark Kearns (D.B. 106, Pg. 418), N75°50'04"E — 832.33 feet to an iron pin found (PLS# 3423), said pin being a corner of the property of Mark Kearns and Kentucky Utilities Company (D.B. 107, Pg. 590, Gallatin Co.); Thence leaving the line of Kearns and with the Kentucky Utilities Company Line, N75°50'04"E — passing an iron witness pin found (PLS# 3423) at 142.51 feet continuing for a total distance of 147.51 feet to an Ash Tree Found, said Ash Tree being a corner of Kentucky Utilities Company and Mark Kearns; thence leaving the line of Kentucky Utilities Company and with the line of Mark Kearns, N75°50'04"E — passing a found P.K. nail in the Montgomery Road at 15.29 feet and continuing for a total distance of 16.90 feet to a mag nail set in the centerline of Montgomery Road; Thence continuing with the first the line of Kearns and second the line of David Brooks (D.B. 47, Pg. 342 Gallatin Co. and D.B. 47, Pg. 304, Gallatin Co.), S17°06'39"E — 187.53 feet to an iron pin set, said pin being 14.32 feet east of the centerline of Montgomery Road and being a corner of David Brooks; Thence continuing with the line of Brooks, S53°24'33"E — 483.25 feet to an iron pin set, said pin being 46.98 feet east of the centerline of Montgomery Road, S20°03'34"E —

826.58 feet to a mag nail set in the centerline of Montgomery Road and $S33^{\circ}08'48''E$ — 124.58 feet to a mag nail set in the centerline of Montgomery Road; Thence leaving the centerline of Montgomery Road and continuing with the line of David Brooks $N73^{\circ}46'07''E$ — 749.80 feet to an iron pin set a fence corner post, said pin being a corner of Kevin Deaton (D.B. 47, Pg. 202, 2nd tract); Thence leaving the line of Brooks and with the line of Deaton, $S11^{\circ}38'19''E$ — 1690.61 feet to an iron pin found (PLS# 3423), said pin being in the northwestern edge of an existing gravel driveway, said pin also being the southeast corner of the parent tract and being a corner of Kevin Deaton (D.B. 47, Pg. 202, 4th tract) and being on the line of Kevin Deaton (D.B. 47, Pg. 202, 2nd tract); Thence leaving the line of Kevin Deaton (D.B. 47, Pg. 202, 2nd tract) and with the line of Kevin Deaton (D.B. 47, Pg. 202, 4th tract), the following thirteen courses: $S72^{\circ}52'10''W$ — 25.17 feet an iron pin found (PLS# 1961), $S12^{\circ}01'39''E$ — 4.82 feet to an iron pin found (PLS# 1961), $S74^{\circ}47'21''W$ — 156.29 feet to an iron pin found (PLS# 1961), $N83^{\circ}18'42''W$ — 45.40 feet to an iron pin found (PLS# 1961), $N58^{\circ}15'22''W$ — 29.75 feet to an iron pin set a fence post, $N59^{\circ}33'40''W$ — 144.87 feet to an iron pin set a fence post, $N70^{\circ}53'50''W$ — 71.88 feet to an iron pin set at a fence post, $N78^{\circ}52'05''W$ — 81.07 feet to a Mag Nail found in the centerline of Montgomery Road and continuing with the line of Deaton and with the centerline of Montgomery Road, $S36^{\circ}30'15''E$ — 34.78 feet to a point, $S30^{\circ}01'34''E$ — 26.82 feet to a point, $S22^{\circ}21'46''E$ — 47.61 feet to a point, $S18^{\circ}00'12''E$ — 94.61 feet to a point and $S13^{\circ}18'49''E$ — 50.14 feet to the Point of Beginning and containing 152.898 acres by survey.

This description prepared from a physical survey conducted by AGE Engineering, Douglas Gooch Ky. R.L.S. #3118, dated the 12th day of November, 2009.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed recorded on January 7, 2010, in Deed Book 181, Page 210, in the Office of the Clerk of Carroll County, Kentucky, and by Deed recorded on January 8, 2010, in Deed Book 108, Page 324, in the Office of the Clerk of Gallatin County, Kentucky.

Parcel 2:

Situated in the Commonwealth of Kentucky, Gallatin and Carroll County, east of the City of Ghent, being all of the remaining land heretofore conveyed to Mark E. and Ruth R. Kearns, by deed, recorded in Deed Book 106, Page 418 of the Gallatin County deed records, and being more particularly described as follows:

Beginning at an existing Ash tree on the northerly line of a tract of land heretofore conveyed to Kentucky Utilities Company by deed, recorded in Deed Book 108 Page 324 (Gallatin Co.) and Deed Book 181, Page 210 (Carroll Co.) and the southeasterly most corner of a tract of land heretofore conveyed to Kentucky Utilities Company, by deed, recorded in Deed Book 107 Page 590 of said Gallatin County deed records, and a point on the westerly right-of-way line of Montgomery Road being fifteen (15) feet from the center of said road, said tree witnessed by a found $5/8''$ iron pin stamped One Eleven #3423, $N76^{\circ}34'28''W$, 5.00 feet;

Thence along said Kentucky Utilities Company tract of land on the following three (3) courses: (1) along said westerly right-of-way line of Montgomery Road, $N24^{\circ}45'49''E$, 147.50 feet to a found iron pin and cap stamped One Eleven 3423; (2) leaving said westerly right-of-way line, $N76^{\circ}34'28''W$, 147.50 feet to a found iron pin and cap stamped One Eleven 3423; (3) $S24^{\circ}45'49''W$, 147.50 feet to a found iron pin and cap stamped One Eleven 3423 on the northerly line of said Kentucky Utilities Company tract of land;

Thence along said northerly line, $N76^{\circ}34'28''W$, passing a set iron pin and cap, at a distance of 832.50 feet, a total distance of 1103.10 feet to a set iron pin and cap at a southeasterly most corner of a tract of land heretofore conveyed to Kentucky Utilities, by deed, recorded in Deed Book 108 Page 247 and 108

Page 443 (Gallatin County) as well as Deed Book 181 Page 104 and Deed Book 181 Page 109 (Carroll County);

Thence along the lines of said Kentucky Utilities Company tract of land, on the following three (3) courses: (1) N49°25'56"E, 393.22 feet to a set iron pin and cap; (2) N06°21'30"E, 1647.79 feet to a set iron pin and cap; (3) S80°41'18"E, 1225.11 feet to a set iron pin and cap on a westerly line of a tract of land heretofore conveyed to Buell and Virginia Shields, by deeds, recorded in Deed Book 34 Page 440 and Deed Book 33 Page 303;

Thence along the lines of said Shields' tract of land on the following four (4) courses: (1) S02°40'22"E, 282.87 feet to a set iron pin and cap; (2) S06°36'57"E, 610.38 feet to a set iron pin and cap; (3) S25°24'47"W, passing a set iron pin and cap at a distance of 263.30 feet, a total distance of 268.30 feet to a found fence post; (4) S72°21'10"E, passing a set iron pin and cap at a distance of 5.00 feet, and a distance of 239.70 feet on the westerly right-of-way line of Montgomery Road, a total distance of 298.06 feet to a set mag nail in the center of Montgomery Road and a southwesterly most corner of a tract of land heretofore conveyed to Barry and Alma Shields, by deed, recorded in Deed Book 83 Page 369, of the Gallatin County Deed Records;

Thence along the southerly line of said Barry and Alma Shields' tract of land, on the following four (4) courses; (1) S70°39'09"E, 54.35 feet to a found ½" iron pin; (2) S70°39'09"E, passing a set iron pin and cap on the easterly right-of-way line of Montgomery Road, at a distance of 21.59 feet, a total distance of 1119.53 feet to a found fence post; (3) S68°41'56"E, 141.63 feet to a found fence post; (4) S66°40'41"E, passing a found iron pin and cap stamped Mylor #1961, at a southerly corner of said Buell and Virginia Shields' tract of land, a total distance of 127.44 feet to a set iron pin and cap;

Thence along said line of Buell and Virginia Shields' tract on the following two (2) courses: (1) S62°05'58"E, 811.82 feet to a fence post; (2) S29°25'17"W, 1420.15 feet to a found iron pin and cap stamped Mylor #1961 at the northwesterly most corner of a tract of land heretofore conveyed to Kevin and Lucy Deaton, by deed, recorded in Deed Book 47 page 202, and the northeasterly most corner of a tract of land heretofore conveyed to Kentucky Utilities Company by deed, recorded in Deed Book 108 Page 334 of the Gallatin County Deed Records;

Thence along the northerly line of said Kentucky Utilities Company tract of land on the following four (4) courses: (1) N63°04'43"W, 1062.48 feet to a set iron pin and cap; (2) N57°26'21"E, 86.04 feet to a set iron pin and cap; (3) N27°55'46"E, 151.59 feet to a found ½" iron pin; (4) N62°24'44"W, passing a set iron pin and cap on the westerly right-of-way line of Montgomery Road, a distance of 1436.90 feet a total distance of 1451.92 feet to a set mag nail in the center of Montgomery Road and on the easterly line of said Kentucky Utilities Company tract of land;

Thence along the lines of Kentucky Utilities Company tract of land, on the following two (2) courses: (1) along the center of Montgomery Road, N24°45'49"E, 7.15 feet to a set mag nail; (2) N76°34'28"W, 15.30 feet to the beginning. Containing 128.3422 acres of land more or less, subject to easements, conditions, covenants, restrictions, and rights-of-way of record.

Further being subject to an existing 30 feet wide right-of-way for Montgomery Road, being 15 feet on either side of the following described centerline:

Beginning at set mag nail at the northeasterly most corner of a tract of land heretofore conveyed to Kentucky Utilities Company, by deed, recorded in Deed Book 108 Page 324 of the Gallatin County Deed Records and Deed Book 181, Page 210 of the Carroll County Deed Records and being more particularly described as follows: Thence N24°45'49"E, 192.38 feet to a set mag nail; Thence N25°54'22"E, 113.79

feet to a set mag nail; Thence N25°15'06"E, 342.76 feet to a set mag nail; Thence N31°24'50"E, 87.96 feet to a set mag nail; Thence N46°04'17"E, 36.28 feet to a set mag nail; Thence N64°33'00"E, 38.84 feet to a set mag nail; Thence N73°18'02"E, 114.19 feet to a set mag nail; Thence N74°54'35"E, 64.49 feet to a set mag nail; Thence N77°56'39"E, 53.65 feet to a set mag nail; Thence N83°40'42"E, 53.30 feet to a set mag nail; Thence S86°25'53"E, 50.70 feet to a set mag nail at the southeasterly most corner of a tract of land heretofore conveyed to Barry and Alma Shields, by deed, recorded in Deed Book 83 Page 369 of the Gallatin County Deed Records; records and the terminus of the centerline description. Containing 0.7971 of an acre of land more or less, subject to easements, conditions, covenants, restrictions, and rights-of-way of record.

Iron pins called to be set are 5/8" iron pins, twenty-four inches in length, with an orange cap stamped One Eleven #3423.

The above description and bearing system is based on the Kentucky Utilities Plant Grid System. It is further based on a field survey made by One Eleven Engineering and Surveying PLLC dated October 21, 2009.

This survey prepared by One Eleven Engineering and Surveying PLLC, James J. Bertram Jr. PLS, #3423 in the Commonwealth of Kentucky, October 21, 2009 and Revised March 16, 2010.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed recorded on March 18, 2010, in Deed Book 181, Page 684, in the Office of the Clerk of Carroll County, Kentucky, and by Deed recorded on March 18, 2010, in Deed Book 108, Page 668, in the Office of the Clerk of Gallatin County, Kentucky.

Parcel 3:

Tract 1:

The following is a description of a parcel of land lying on the east side of Montgomery Ridge Road, 3.0 miles, south of US 42, in Carroll & Gallatin Counties, Kentucky, and more particularly described as follows:

Beginning at Point in the center of Montgomery Road, from which a point in the center of Montgomery Road at the Northwest corner in parent tract bears N18°50'50"E 70.76 feet; thence leaving Montgomery Road and with a new made line over the land of Adrian Owens, Deed Book 57, Page 162, S80°50'47"E 22.24 feet to an Iron Pin (set); thence S80°50'47"E 363.82 feet to an Iron Pin (set); thence S01°09'13"W 532.94 feet to an Iron Pin (set); thence N84°24'15"W 171.52 feet to an Iron Pin (set); (a small family cemetery, marked by two 36" walnut and a 36" oak, is located two feet to the north and east of this Iron Pin); thence N84°38'44"W 214.39 feet to an Iron Pin (set); thence N84°38'44"W 21.13 feet to a Point in the center of Montgomery Road; thence with the center of Montgomery Road N01°15'09"W 48.85 feet; thence N00°19'26"E 46.30 feet; thence N02°31'36"E 69.20 feet; thence N03°51'27"E 109.71 feet; thence N05°06'05"E 282.94 feet to the Point of Beginning, containing 5.000 Acres, and subject to all rights-of-ways and easements of record or in existence.

The above description is in accordance with a survey made by Joe H. Justice, Jr. R.L.S. No. 1989 on June 15, 2001.

Tract 2:

Being Tract 1 as shown on that certain Plat of Adrian Owen Property approved by Warsaw, Glencoe and

Gallatin County Planning Commission, Docket No. PS-11-06, on March 17, 2011, of record in Plat Cabinet B, Slide 188 in the aforesaid Office.

Such property also being described as follows:

This property lies partially in Carroll and Gallatin County.

BEGINNING at a Mag Nail set (1/4" x 2" Mag Nail as will be common for all Mag Nails Set) at the intersection of centerline of Black Rock Road and Montgomery Road, having Kentucky State Plane Coordinate System — North Zone Coordinates of N=445025.67 E=1427841.89 and lying in Carroll County, Kentucky, and being the POINT OF BEGINNING for this description; Thence leaving the centerline of Black Rock Road and with the centerline of Montgomery Road, N04°11'12"E — 104.87 feet to a point, N03°17'24"W — 274.82 to a mag nail found in the centerline of Montgomery Road, and N02°22'52"W — 357.79 feet to a Mag Nail set in the centerline of Montgomery road; Thence leaving the centerline of Montgomery Road and across the parent tract with three (3) new courses: S83°49'20"E — passing an iron witness pin set at 20.23 feet and continuing 388.36 for a total distance of 408.59 feet to an iron pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments), N06°30'01"W — 559.60 feet to an iron pin set and N82°59'31"W — passing an iron witness pin set at 360.81 feet and continuing 20.18 feet for a total distance of 380.99 feet to a Mag Nail set in the centerline of Montgomery Road; Thence with the centerline of Montgomery Road, N00°30'48"E — 143.72 feet to a point, N00°02'12"E — 82.74 feet to a point, N03°11'41"W — 58.58 feet to a point, N03°29'38"W — 32.42 feet to a point, N01°46'27"E — 39.12 feet to a point, N02°39'14"E — 36.02 feet to a point, N05°36'11"E — 35.32 feet to a point, N09°11'41"E — 39.18 feet to a point, N14°47'54"E — 37.80 feet to a point, N18°04'18"E — 55.15 feet to a point, N17°18'12"E — 37.94 feet to a point, N18°29'15"E — 25.69 feet to a point, N22°49'09"E — 26.39 feet to a point, N30°27'44"E — 80.46 feet to a point, N34°23'35"E — 32.71 feet to a point, N38°04'53"E — 36.86 feet to a point, N37°29'11"E — 45.44 feet to a point, N31°53'46"E — 26.69 feet to a point, N24°01'52"E — 26.85 feet to a point, N15°45'54"E — 31.86 feet to a Mag Nail Set, N07°35'02"E — 32.10 feet to a point, N01°44'45"E — 33.70 feet to a point, N03°50'09"W — 47.11 feet to a point, N06°15'14"W — 37.49 feet to a point, N09°19'37"W — 26.18 feet to a point, and N12°25'13"W — 23.01 feet to a Mag Nail Set in the centerline of Montgomery Road, said nail being the Southwest Corner of Kevin Deaton (4th Tract, D.B. 47, PG. 202 (GALLATIN CO.)); Thence leaving the centerline of Montgomery Road and with the southern line of Tract 4 of Deaton, N72°44'07"E — 25.17 feet to an iron pin found (PLS# 1961), N72°33'07"E — 422.86 feet to an iron pin set sad pin lying in the gravel roadway, and being the southwest corner of Kevin Deaton (Tract 3, D.B. 47, PG. 202) and being the Northwest corner of Kevin Deaton (D.B. 49, Pg. 215); Thence leaving the corner of Deaton (D.B. 47, Pg. 202) and with first the line of Deaton (D.B. 49, Pg. 215) following the remnants of an old fence and second with the line of Robert Furnish (D.B. 21, Pg. 419), S16°02'19"E — passing the centerline of Stephen Branch at 2211.77 feet and continuing 236.39 feet to an iron witness pin set (pin set 20' north of the centerline of Black Rock Road) and continuing 24.37 feet for an overall total distance of 2472.53 feet to a Mag Nail set in the centerline of Black Rock Road; Thence leaving the line of Furnish and with the centerline of Black Rock Road, S39°06'14"W — 60.72 feet to a point, S45°34'37"W — 31.36 feet to a point, S49°33'38"W — 83.60 feet to a point, S43°11'49"W — 50.44 feet to a point, S37°59'26"W — 70.43 feet to a point, S34°32'08"W — 108.74 feet to a point, S38°17'35"W — 39.35 feet to a point, S43°27'25"W — 68.58 feet to a point, S54°02'11"W — 57.58 feet to a point, S70°25'47"W — 42.24 feet to a point, and S87°55'24"W — 12.22 feet to a point on the centerline of Black Rock Road; Thence leaving the centerline of Black Rock Road and with (4) four new lines to the parent tract, N17°50'06"E — passing an iron witness pin set at 22.00 feet and continuing 405.08 feet for a total distance of 427.08 feet to an iron pin set, N00°37'49"E — 212.41 feet to an iron pin set, S84°53'45"W — 410.00 feet to an iron pin set, and S11°43'25"W — passing an iron pin set 503.01 feet and continuing 19.62 feet for a total distance of 522.63 feet to point on the centerline of Black Rock Road; Thence with the centerline of Black Rock Road, N83°01'17"W — 39.61 feet to a point, N79°20'25"W — 86.70 feet to a

point, N72°29'44"W — 45.02 feet to a point, N66°16'01"W — 45.39 feet to a point, N59°31'43"W — 76.64 feet to a point, N53°49'50"W — 101.04 feet to a point, N47°00'32"W — 27.42 feet to a point, and N42°15'56"W — 85.47 feet to the Point of Beginning containing 46.926 acres by survey.

This description prepared from a physical survey conducted by Douglas G. Gooch, AGE Engineering Services, Inc., Ky. R.L.S. #3118, dated the 23rd day of February, 2011.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed dated and recorded on March 18, 2011, in Deed Book 184, Page 507, and by Deed dated and recorded on March 18, 2011, of record in Deed Book 184, Page 511, both in the Office of the Clerk of Carroll County, Kentucky, and by Deed dated and recorded on March 18, 2011, in Deed Book 110, Page 770, and by Deed dated and recorded on March 18, 2011, in Deed Book 110, Page 774, both in the Office of the Clerk of Gallatin County, Kentucky.

Hart County, Kentucky:

BEGINNING at an iron pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments) on the eastern edge of right-of-way of the Norfolk Southern Railway Company (D.B. 104, PG. 271, D.B. 104, PG. 280, D.B. 104, PG. 323) and being the Northwest Corner of Frederick Dempsey (D.B. 160, Pg. 273), said pin having Kentucky State Plane Coordinate System — South Zone Coordinates of N=2166662.24, E=1936109.81 lying in Mercer County, Kentucky, said point also being S05°28'37"W — 3162.76 feet from the Southeast Corner of the Curdsville Bridge Abutment over the Norfolk Southern Railway Company and being the Point of Beginning for this description; Thence leaving the corner of Dempsey and with the eastern edge of right-of-way of the Norfolk Southern Railway Company, along a curve to the left, having a radius of 2010.10 feet, having a chord direction of N28°05'03"E and a chord length of 384.86 feet to a point, N21°36'34"E — 32.90 feet to an iron pin set, N21°36'34"E — 268.84 feet to a point N20°36'32"E — 662.38 feet to an iron pin set, N20°13'14"E — 103.35 feet to a point, N20°04'10"E — 88.92 feet to a point, N18°49'41"E — 110.75 feet to an iron pin set, along a curve to the left having a radius of 2010.10 feet having a chord direction of N01°07'03"E and a chord length of 1208.47 feet to an iron pin set, N17°06'41"W — 86.50 feet to a point, N19°02'37"W — 88.87 feet to a point, N20°01'53"W — 131.46 feet to a point and N21°11'24"W — 238.36 feet to an iron pin set, said pin being on the eastern edge of right-of-way of the Norfolk Southern Railway; Thence leaving said railroad and with a new line to the parent tract, N36°27'44"E — 39.74 — feet to an iron pin set, said pin being the Southwest Corner of Kentucky Utilities Company (D.B. 230, Pg. 201); Thence with the line of Kentucky Utilities Company (D.B. 230, Pg. 201), S52°10'06"E — crossing Hardin Heights Drive 226.73 feet to an iron pin set, S48°39'56"E — 32.12 feet to an iron pin found (KYTC), S53°10'45"E — 111.22 feet to an iron pin set, S49°16'35"E — 730.79 feet to an iron pin set, S25°44'27"E — 90.27 feet to an iron pin set, S15°06'22"E — 386.08 feet to an iron pin set S20°30'30"E — 260.47 feet to an iron pin set, S03°24'21"E — 211.52 feet to an iron pin set, S34°16'49"E — 109.16 feet to an iron pin set, S46°46'12"E — 70.01 feet to an iron pin set, S70°49'20"E — 59.42 feet to an iron pin set, N85°27'56"E — 480.51 feet to an iron pin found with no ID Cap, N84°13'12"E — 468.44 feet to an iron pin set, N02°44'33"W — 5.00 feet to an iron pin set, N84°56'26"E — 361.18 feet to an iron pin set, S67°45'29"E — 47.32 feet to an iron pin set, S52°26'28"E — 527.44 feet to an iron pin set, said pin being on the southern line of Kentucky Utilities Company and being a corner of Hardin Heights, Inc. said pin being on the western line of Hardin Heights, Inc. (D.B. 130, Pg. 147, see also Plat of Hardin Heights Camp Sites Plat Slide A-69); Thence leaving the line of Kentucky Utilities Company and crossing Hardin Heights Drive with the line of Hardin Heights, Inc., S36°08'14"W — 12.01 feet to a mag nail set (1/4" x 2" Mag Nail set as will be typical for all Mag Nails set), said nail being a new corner of the parent tract, S51°06'46"E — 35.00 feet to a Mag Nail Set, S47°51'46"E — 50.00 feet to a Mag Nail Set, S42°51'46"E — 50.00 feet to an iron pin set, S37°51'46"E — 50.00 feet to an iron pin set, S32°51'46"E — 50.00 feet to an iron pin set, S27°51'46"E —

50.00 feet to a Mag Nail Set, S22°51'46"E — 50.00 feet to a Mag Nail Set, S17°51'46"E — 50.00 feet to an iron pin set, S12°51'46"E — 50.00 feet to an iron pin set, S07°51'46"E — 50.00 feet to an iron pin set, S02°51'46"E — 50.00 feet to an iron pin set, S02°08'14"W — 50.00 feet to an iron pin set, S04°36'20"W — 338.90 feet to an iron pin found (PLS# 3816), S26°28'46"W — 98.98 feet to an iron pin found (PLS# 3816), S47°50'27"W — 170.00 feet to an iron pin found (PLS# 3816), S60°08'28"W — 172.18 feet to an iron pin found (PLS# 3816), and S23°53'27"E — 39.86 feet to a 1" Iron Pipe Found, said pipe being a corner of the Hardin Heights, Inc. (D.B. 130, Pg. 147) and the Southwest corner of Lot 1 of Hardin Heights Camp Estates; Thence leaving the line of Hardin Heights, Inc. (D.B. 130, Pg. 147) and with the line of Lot 1 of Hardin Heights Camp Estates, S23°38'19"E — 204.33 feet to an iron pin set at elevation 760, said pin being N23°38'19"W — 5.11 feet from a found 1" Pipe; Thence leaving Lot 1 of Hardin Heights Camp Estates and with the line of Kentucky Utilities Company (D.B. 104, Pg. 318) and 760 elevation line, S79°31'40"W — 457.41 feet to an iron pin found (PLS# 3816), S58°56'55"W — 83.56 feet to an iron pin found (PLS# 3816), S51°40'58"W — 58.42 feet to an iron pin found (PLS# 3816), S47°50'51"W — 22.05 feet to an iron pin found (PLS# 3816), S45°47'52"W — 138.57 feet to an iron pin found (PLS# 3816), S75°05'26"W — 95.47 feet to an iron pin found (PLS# 3816), S81°32'53"W — 488.43 feet to an iron pin found (PLS# 3816), S88°28'56"W — 209.89 feet to an iron pin found (PLS# 3816), S86°18'39"W — 122.17 feet to an iron pin found (PLS# 3816), and N83°26'18"W — 76.85 feet to an iron pin found (PLS# 3816), said pin being at the 760 Elevation and being a corner of Fredrick Dempsey (D.B. 160, Pg. 273); Thence leaving the 760 Elevation and with the line of Dempsey, N67°55'13"W — 61.50 feet to an iron pin found (PLS# 3816) in the centerline of the Creek, N30°57'02"W — 250.95 feet to an iron pin set, N16°11'02"W — 120.12 feet to an iron pin found (PLS# 3816), N48°20'38"W — 124.02 feet to an iron pin found (PLS# 3816), N38°06'58"W — 98.94 feet to an iron pin found (PLS# 3816) at the base of a fence corner post and S87°38'08"W — with said fence line passing an iron pin found (PLS# 3816) at 1449.80 feet and continuing 2.82 feet for a overall total distance of 1452.62 feet to the POINT OF BEGINNING and containing 152.976 acres by survey.

This description prepared from a physical survey conducted by Douglas G. Gooch, AGE Engineering Services, Inc., Ky. R.L.S. #3118, dated the 9th day of May, 2011.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed dated November 11, 2011, of record in Deed Book 311, Page 567, in the Office of the Clerk of Hart County, Kentucky.

Laurel County, Kentucky:

Begin at a stake in the controlled fence row right of way of Daniel Boone Parkway on the north side of the dead end of Lovelace Road; thence N 68.00 W. 170 feet to a stake; thence N. 22.00 E. 547 feet to a stake in the south right of way of Kentucky Utility right of way; thence S. 38.30 E 254.2 feet with the right of way to a post; thence N. 55.30 E. 343 feet to a post; thence S. 39.00 E. 190 feet to a stake; thence same course S. 39.00 E. 45 feet to a point; thence S. 82.31 E. 235 feet to a stake in the original outside line; thence S. 3.30 W. 240 feet along the original line to a brace post in the controlled fence row of Daniel Boone Parkway; thence with the fence row of Daniel Boone Parkway 893.5 feet as it meanders, to the point of beginning containing 8.15 acres the same to be more or less.

THERE IS EXCEPTED AND NOT CONVEYED HEREIN that certain tract of land and the easement conveyed to Gene Nicholson and Judith Nicholson, husband and wife by deed dated the 8th day of November, 1980 of record in Deed Book 293, at page 163, records of the Laurel County Court Clerk's Office, and being more particularly described as follows:

Beginning at a pull post in the R/W fence of the Daniel Boone Parkway, also a corner to the C.T. Massey property, thence leaving the fence and with the Massey line, N 06.02 E. 181.0 feet to a 36" black oak, thence leaving the Massey line, N. 73.54 W. 174.8 feet to a 3" hickory, thence N. 57.00 W. 68.0 feet to a twin white oak & chestnut oak, thence S 45.46 W. 89.0 feet to a stake 20 feet from the C/L of an old road, thence S. 43.54 W. 317.5 feet to a stake in the R/W fence, thence with the R/W fence N. 86.54 E. 490.8 feet to the beginning corner. Containing 2.0 acres more or less by survey of Green L. Keith, Registered Land Surveyor No. 1901.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed dated December 22, 2010, of record in Deed Book 667, Page 229, in the Office of the Clerk of Laurel County, Kentucky.

Franklin County, Kentucky:

Beginning at an Iron pin on the right-of-way of U.S. Highway #460, corner to the National Distillers and running with said right-of-way line south 71 degrees 50 minutes west, a distance of 486 feet to a point opposite utility pole number 9834; thence north 25 degrees 30 minutes east 527 feet to a point on Elkhorn Creek, corner to National Distillers; thence south 17 degrees 00 minutes east 480 feet to the point of beginning, containing approximately two acres.

There is excepted therefrom however that portion of said property conveyed by Joe Pat Gaines, et al to Commonwealth of Kentucky by deed dated April 17, 1987 and of record in Deed Book 346, page 471, in the office of the Clerk of Franklin County, Kentucky.

Said property is more recently and particularly described as follows:

BEGINNING at an iron pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments), on the northern edge of right-of-way of US Hwy 460, said pin being 73.57 feet north of centerline and being the southwest corner of the James B. Beam Distilling Co. (D.B. 346, Pg. 350), having Kentucky State Plane Coordinate System — North Zone Coordinates of N=259632.36, E=1479432.22, said pin also being approximately 333 feet northeast of the intersection of centerlines of Raven Crest Apartments Road and US Hwy 460, said iron pin set also being S74°24'43"W — 631.91 feet from a Damaged Right of Way monument found, said iron pin set being the POINT OF BEGINNING for this description; Thence leaving the line of the James B. Beam Distilling Co., (D.B. 346, Pg. 350) and with the north edge of right-of-way of US Hwy 460, S72°00'25"W — 5.76 feet to an iron pin set, said pin being 73.80 feet north of the centerline, S72°00'59"W — 29.93 feet to an iron pin set, said pin being 75.00 feet north of centerline and S74°39'44"W — 408.57 feet to an iron pin set, said pin being 95.75 feet north of the centerline of US Hwy 460 and being a common corner of JAN, LLC (D.B. 479, Pg. 640); Thence leaving the right-of-way of US Hwy 460 and with the line of JAN, LLC, N36°07'11"E — 559.43 feet to an iron pin set on the bank of Elkhorn Creek, said point being a common corner of the James B. Beam Distilling Co. (D.B. 346, Pg. 350) and JAN, LLC and being the northern most corner of the property being surveyed; Thence leaving the line of JAN, LLC and with the line of the James B. Beam Distilling Co., S16°26'23"E — 346.99 feet to the Point of Beginning and containing 1.777 acres by survey.

This description prepared from a physical survey conducted by AGE Engineering, Douglas G. Gooch Ky. R.L.S.#3118, dated the 6th day of October, 2010.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed dated December 28, 2010, of record in Deed Book 524, Page 376, in the Office of the Clerk of Franklin County, Kentucky.

Mercer County, Kentucky:

BEGINNING at an iron pin set (5/8" x 18" rebar with aluminum cap bearing PLS-3118, as will be typical for all set corner monuments) on the eastern edge of right-of-way of the Norfolk Southern Railway Company (D.B. 104, PG. 271, D.B. 104, PG. 280, D.B. 104, PG. 323) and being the Northwest Corner of Frederick Dempsey (D.B. 160, Pg. 273), said pin having Kentucky State Plane Coordinate System — South Zone Coordinates of N=2166662.24, E=1936109.81 lying in Mercer County, Kentucky, said point also being S05°28'37"W — 3162.76 feet from the Southeast Corner of the Curdsville Bridge Abutment over the Norfolk Southern Railway Company and being the Point of Beginning for this description; Thence leaving the corner of Dempsey and with the eastern edge of right-of-way of the Norfolk Southern Railway Company, along a curve to the left, having a radius of 2010.10 feet, having a chord direction of N28°05'03"E and a chord length of 384.86 feet to a point, N21°36'34"E — 32.90 feet to an iron pin set, N21°36'34"E — 268.84 feet to a point N20°36'32"E - 662.38 feet to an iron pin set, N20°13'14"E — 103.35 feet to a point N20°04'10"E — 88.92 feet to a point, N18°49'41"E — 110.75 feet to an iron pin set, along a curve to the left having a radius of 2010.10 feet having a chord direction of N01°07'03"E and a chord length of 1208.47 feet to an iron pin set, N17°06'41"W — 86.50 feet to a point, N19°02'37"W — 88.87 feet to a point, N20°01'53"W — 131.46 feet to a point and N21°11'24"W — 238.36 feet to an iron pin set, said pin being on the eastern edge of right-of-way of the Norfolk Southern Railway; Thence leaving said railroad and with a new line to the parent tract, N36°27'44"E — 39.74 — feet to an iron pin set, said pin being the Southwest Corner of Kentucky Utilities Company (D.B. 230, Pg. 201); Thence with the line of Kentucky Utilities Company (D.B. 230, Pg. 201), S52°10'06"E — crossing Hardin Heights Drive 226.73 feet to an iron pin set, S48°39'56"E — 32.12 feet to an iron pin found (KYTC), S53°10'45"E — 111.22 feet to an iron pin set, S49°16'35"E — 730.79 feet to an iron pin set, S25°44'27"E — 90.27 feet to an iron pin set, S15°06'22"E — 386.08 feet to an iron pin set, S20°30'30"E — 260.47 feet to an iron pin set, S03°24'21"E — 211.52 feet to an iron pin set, S34°16'49"E — 109.16 feet to an iron pin set, S46°46'12"E — 70.01 feet to an iron pin set, S70°49'20"E — 59.42 feet to an iron pin set, N85°27'56"E — 480.51 feet to an iron pin found with no ID Cap, N84°13'12"E — 468.44 feet to an iron pin set, N02°44'33"W — 5.00 feet to an iron pin set, N84°56'26"E — 361.18 feet to an iron pin set, S67°45'29"E — 47.32 feet to an iron pin set, S52°26'28"E — 527.44 feet to an iron pin set, said pin being on the southern line of Kentucky Utilities Company and being a corner of Hardin Heights, Inc. said pin being on the western line of Hardin Heights, Inc. (D.B. 130, Pg. 147, see also Plat of Hardin Heights Camp Sites Plat Slide A-69); Thence leaving the line of Kentucky Utilities Company and crossing Hardin Heights Drive with the line of Hardin Heights, Inc., S36°08'14"W — 12.01 feet to a mag nail set (1/4" x 2" Mag Nail set as will be typical for all Mag Nails set), said nail being a new corner of the parent tract, S51°06'46"E — 35.00 feet to a Mag Nail Set, S47°51'46"E — 50.00 feet to a Mag Nail Set, S42°51'46"E — 50.00 feet to an iron pin set, S37°51'46"E — 50.00 feet to an iron pin set, S32°51'46"E — 50.00 feet to an iron pin set, S27°51'46"E — 50.00 feet to a Mag Nail Set, S22°51'46"E — 50.00 feet to a Mag Nail Set, S17°51'46"E — 50.00 feet to an iron pin set, S12°51'46"E — 50.00 feet to an iron pin set, S07°51'46"E — 50.00 feet to an iron pin set, S02°51'46"E — 50.00 feet to an iron pin set, S02°08'14"W — 50.00 feet to an iron pin set, S04°36'20"W — 338.90 feet to an iron pin found (PLS# 3816), S26°28'46"W — 98.98 feet to an iron pin found (PLS# 3816), S47°50'27"W — 170.00 feet to an iron pin found (PLS# 3816), S60°08'28"W — 172.18 feet to an iron pin found (PLS# 3816), and S23°53'27"E — 39.86 feet to a 1" Iron Pipe Found, said pipe being a corner of the Hardin Heights, Inc. (D.B. 130, Pg. 147) and the Southwest corner of Lot 1 of Hardin Heights Camp Estates; Thence leaving the line of Hardin Heights, Inc. (D.B. 130, Pg. 147) and with the line of Lot 1 of Hardin Heights Camp Estates, S23°38'19"E — 204.33 feet to an iron pin set at elevation 760, said pin being N23°38'19"W — 5.11 feet from a found 1" Pipe; Thence leaving Lot 1 of Hardin Heights Camp Estates and with the line of Kentucky Utilities Company (D.B. 104, Pg. 318) and 760 elevation line, S79°31'40"W — 457.41 feet to an iron pin found (PLS# 3816), S58°56'55"W — 83.56 feet to an iron pin found (PLS# 3816), S51°40'58"W — 58.42 feet to an iron pin found (PLS# 3816),

S47°50'51"W — 22.05 feet to an iron pin found (PLS# 3816), S45°47'52"W — 138.57 feet to an iron pin found (PLS# 3816), S75°05'26"W — 95.47 feet to an iron pin found (PLS# 3816), S81°32'53"W — 488.43 feet to an iron pin found (PLS# 3816), S88°28'56"W — 209.89 feet to an iron pin found (PLS# 3816), S86°18'39"W — 122.17 feet to an iron pin found (PLS# 3816), and N83°26'18"W — 76.85 feet to an iron pin found (PLS# 3816), said pin being at the 760 Elevation and being a corner of Fredrick Dempsey (D.B. 160, Pg. 273); Thence leaving the 760 Elevation and with the line of Dempsey, N67°55'13"W — 61.50 feet to an iron pin found (PLS# 3816) in the centerline of the Creek, N30°57'02"W — 250.95 feet to an iron pin set, N16°11'02"W — 120.12 feet to an iron pin found (PLS# 3816), N48°20'38"W — 124.02 feet to an iron pin found (PLS# 3816), N38°06'58"W — 98.94 feet to an iron pin found (PLS# 3816) at the base of a fence corner post and S87°38'08"W — with said fence line passing an iron pin found (PLS# 3816) at 1449.80 feet and continuing 2.82 feet for a overall total distance of 1452.62 feet to the POINT OF BEGINNING and containing 152.976 acres by survey.

This description prepared from a physical survey conducted by Douglas G. Gooch, AGE Engineering Services, Inc., Ky. R.L.S.#3118, dated the 9th day of May, 2011.

Being the same property conveyed to Kentucky Utilities Company, a Kentucky corporation, by Deed dated June 23, 2011, of record in Deed Book 328, Page 7, in the Office of the Clerk of Mercer County, Kentucky.

LOUISVILLE GAS AND ELECTRIC COMPANY

OFFICER'S CERTIFICATE

(under Sections 201 and 301 of the Indenture, dated as of October 1, 2010)

**Establishing the Form and Certain Terms of the
First Mortgage Bonds, 4.65% Series due 2043**

The undersigned Daniel K. Arbough, the Treasurer of LOUISVILLE GAS AND ELECTRIC COMPANY (the "Company"), in accordance with Sections 201 and 301 of the Indenture, dated as of October 1, 2010 (the "Original Indenture"), as amended and supplemented by various instruments including Supplemental Indenture No. 3, dated as of November 1, 2013 (as so amended and supplemented, the "Indenture"), of the Company to The Bank of New York Mellon, trustee (the "Trustee"), does hereby establish, for the Securities of Series No. 4, established in Supplemental Indenture No. 3, the terms and characteristics set forth in this Officer's Certificate (capitalized terms used herein and not defined herein having the meanings specified in the Original Indenture).

PART I

Set forth below in this Part I are the terms and characteristics of the aforesaid series of Securities referred to in clauses (a) through (u) in the third paragraph of Section 301 of the Indenture (the lettered clauses set forth herein corresponding to such clauses in said Section 301):

- (a) the title of the Securities of such series shall be "First Mortgage Bonds, 4.65% Series due 2043" (the "Bonds"), and the date of the Bonds shall be November 14, 2013;
 - (b) the aggregate principal amount of Bonds which may be authenticated and delivered under the Indenture shall be limited as and to the extent set forth in Supplemental Indenture No. 3 and any subsequent supplemental indenture relating thereto;
 - (c) interest on the Bonds shall be payable to the Person or Persons in whose names the Bonds are registered at the close of business on the Regular Record Date for such interest, except as otherwise expressly provided in the form of Bond attached hereto and hereby authorized and approved;
 - (d) the principal of the Bonds shall be due and payable on November 15, 2043; and the Company shall not have the right to extend the Maturity of the Bonds as contemplated in Section 301(d) of the Indenture;
 - (e) the Bonds shall bear interest at a fixed rate of 4.65% per annum; interest on the Bonds shall accrue from the date or dates specified in the form of Bond attached hereto as Exhibit A; the Interest Payment Dates for the Bonds shall be May 15 and November 15 of each year, commencing May 15, 2014; the Regular Record Date for the interest payable on any Interest Payment Date with respect to the Bonds shall be the May 1 or November 1 (whether or not a Business Day) immediately preceding such Interest Payment Date; and the Company shall not have any right to extend any interest payment periods for the Bonds as contemplated in Sections 301(e) and 312 of the Indenture;
 - (f) the Corporate Trust Office of the Trustee in New York, New York shall be the office or agency of the Company at which the principal of and any premium and interest on the
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Bonds at Maturity shall be payable, at which registration of transfers and exchanges of the Bonds may be effected and at which notices and demands to or upon the Company in respect of the Bonds and the Indenture may be served; and the Trustee will initially be the Security Registrar and the Paying Agent for the Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such office or agency and such agent;

- (g) the Bonds shall be redeemable, in whole or in part, at the option of the Company as and to the extent provided, and at the price or prices set forth, in Exhibit A hereto;
- (h) inapplicable;
- (i) the Bonds shall be issuable in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof;
- (j) inapplicable;
- (k) inapplicable;
- (l) inapplicable;
- (m) inapplicable;
- (n) inapplicable;
- (o) inapplicable;
- (p) the only obligations or instruments which shall be considered Eligible Obligations in respect of the Bonds shall be Government Obligations; and the provisions of Section 901 of the Original Indenture and Section 201 of Supplemental Indenture No. 3 shall apply to the Bonds;
- (q) reference is made to Part II of this Officer's Certificate;
- (r) reference is made to clause (q) above; no service charge shall be made for the registration of transfer or exchange of the Bonds; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange or transfer;
- (s) inapplicable;
- (t) inapplicable; and
- (u) except as otherwise determined by the proper officers of the Company and established in one or more Officer's Certificates supplemental to this Officer's Certificate, the Bonds shall be substantially in the form of the form of Bond attached hereto as Exhibit A, which form is hereby authorized and approved, and shall have such further terms as are set forth in such form.

PART II

Section 1. Definitions.

For all purposes of this Officer's Certificate, the terms listed below shall have the meanings indicated, unless otherwise expressly provided or unless the context otherwise requires:

"*Certificated Bond*" means a certificated Bond registered in the name of the registered holder thereof, substantially in the form of Exhibit A hereto except that such Bond shall not bear the Global Bond Legend.

"*Custodian*" means the Trustee, in its capacity as custodian for the Depository with respect to the Bonds in global form, or any successor entity thereto.

"*Depository*" means the person designated or acting as a securities depository for the Bonds.

"*DTC*" means The Depository Trust Company.

"*Global Bond*" means a Bond substantially in the form of Exhibit A hereto and bearing the Global Bond Legend.

"*Global Bond Legend*" means the legend as to the global nature of a Bond as set forth in Exhibit B hereto, which is required to be placed on all Global Bonds.

Section 2. Global Bonds.

(a) *General.* The Bonds are initially to be issued and delivered in global, fully registered form, registered in the name of Cede & Co., as nominee for DTC, which is hereby designated as the Depository. Such Global Bonds shall not be transferable, nor shall any purported transfer be registered, except as follows:

(i) Global Bonds may be transferred in whole, and appropriate registration of transfer effected, by the Depository to a nominee thereof, or by any nominee of the Depository to any other nominee thereof, or by the Depository or any nominee thereof to any Depository or any nominee thereof; and

(ii) Global Bonds may be transferred in whole, with appropriate registration of transfer effected and Certificated Bonds issued and delivered, to the beneficial holders of the Global Bonds if:

(A) The Depository shall have notified the Company and the Trustee that (A) it is unwilling or unable to continue to act as securities depository with respect to such bonds or (B) it is no longer a clearing agency registered under the Securities Exchange Act of 1934, as amended, and, in either case, the Trustee shall not have been notified by the Company within one hundred twenty (120) days of the receipt of such notice from the Depository of the identity of a successor Depository; or

(B) the Company shall have delivered to the Trustee a written order to the effect that, on and after a date specified therein, the Bonds are no longer to be held in global form by a Depository (subject to the procedures of the Depository).

In the event of a transfer of Global Bonds as contemplated in clause (ii) above, the Company will execute, and the Trustee, upon receipt of a Company Order for the authentication and delivery of Certificated Bonds and upon surrender of such Global Bonds, will authenticate and deliver, Certificated Bonds in an aggregate principal amount equal to the principal amount of such Global Bonds, such Certificated Bonds to be registered in the names provided by the Depositary.

(b) *Principal Amount of Global Bonds.* Each Global Bond shall represent such of the outstanding Bonds as shall be specified therein, and the aggregate principal amount of outstanding Bonds represented thereby may from time to time be reduced to reflect redemptions thereof. Any notation on a Global Bond to reflect the amount of any decrease in the aggregate principal amount of outstanding Bonds represented thereby resulting from such redemption shall be made by the Trustee or the Custodian, at the direction of the Trustee, in accordance with instructions given by or on behalf of the registered holder thereof and with the applicable procedures of the Depositary.

(c) *Disclaimers.* Neither the Company nor the Trustee shall have any responsibility or obligation to any beneficial owner of a Global Bond, any participant in the Depositary or any other Person with respect to the accuracy of, or for maintaining, supervising or reviewing, the records of the Depositary or its nominee or of any participant therein or member thereof, with respect to any ownership interest in the Global Bonds or with respect to the delivery to any participant, member, beneficial owner or other Person (other than the Depositary) of any notice (including any notice of redemption) or the payment of any amount, on or with respect to such Global Bonds. All notices and communications required to be given to the Holders and all payments on Global Bonds required to be made to Holders shall be given or made only to or upon the order of the registered Holders (which shall be the Depositary or its nominee in the case of a Global Bond). The rights of beneficial owners in any Global Bond shall be exercised only through the Depositary subject to the applicable rules and procedures of the Depositary. The Company and the Trustee may rely conclusively and shall be fully protected in relying upon information furnished by the Depositary with respect to its members, participants and any beneficial owners. The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under the Indenture or under applicable law with respect to any transfer of any interest in any Global Bond (including any transfers between or among Depositary participants, members or beneficial owners in any Global Bond) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of the Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

IN WITNESS WHEREOF, I have executed this Officer's Certificate this 14th day of November, 2013.

/s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

/s/ Dorothy E. O'Brien

Name: Dorothy E. O'Brien

Title: Vice President and Deputy General Counsel,
Legal and Environmental Affairs

[FORM OF BOND]

No.

CUSIP No.

Principal Amount of \$

LOUISVILLE GAS AND ELECTRIC COMPANY
FIRST MORTGAGE BOND, 4.65% SERIES DUE 2043

LOUISVILLE GAS AND ELECTRIC COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein referred to as the "Company", which term includes any Successor Corporation under the Indenture referred to below), for value received, hereby promises to pay to

or to its registered assigns, the principal sum of

MILLION (\$) Dollars

on November 15, 2043 (the "Stated Maturity Date"), and to pay interest on said principal sum semi-annually in arrears on May 15 and November 15 of each year (each, an "Interest Payment Date"), at the rate of 4.65% per annum until the principal hereof is paid or made available for payment. The first Interest Payment Date for the Securities of this series shall be May 15, 2014, and interest on the Securities of this series will accrue from and including November 14, 2013, to and excluding the first Interest Payment Date, and thereafter will accrue from and including the last Interest Payment Date to which interest on the Securities of this series has been paid or duly provided for. No interest will accrue on the Securities of this series with respect to the day on which the Securities are paid.

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication:

, as Trustee

By: _____

Authorized Signatory

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In the event that any Interest Payment Date is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of such delay) with the same force and effect as if made on the Interest Payment Date. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the May 1 or November 1, whether or not a Business Day (each such date, a "Regular Record Date"), immediately preceding such Interest Payment Date, except that interest payable at Maturity will be payable to the Person to whom principal shall be paid. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture referred to herein. Interest on this Security will be computed on the basis of a 360-day year of twelve 30-day months.

Payment of the principal of and premium, if any, and interest at Maturity on this Security shall be made upon presentation of this Security at the corporate trust office of The Bank of New York Mellon in New York, New York, or at such other office or agency as may be designated for such purpose by the Company from time to time, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts, and payment of interest, if any, on this Security (other than interest payable at Maturity) shall be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register, provided that if such Person is a securities depository, such payment may be made by such other means in lieu of check as shall be agreed upon by the Company, the Trustee and such Person.

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under an Indenture, dated as of October 1, 2010 (herein called the "Original Indenture" and, together with any amendments or supplements thereto and the Officer's Certificate establishing the terms of the Securities of this series, the "Indenture," which term shall have the meaning assigned to it in the Original Indenture), between the Company and The Bank of New York Mellon, as Trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture, including Supplemental Indenture No. 3 thereto, for a statement of the property mortgaged, pledged and held in trust, the nature and extent of the security, the conditions upon which the lien of the Indenture may be released and the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. The acceptance of this Security by the Holder hereof shall be deemed to constitute the consent and agreement by such Holder to all of the terms and provisions of the Indenture. This Security is one of the series designated on the face hereof.

Prior to May 15, 2043, this Security is subject to redemption at the option of the Company, in whole at any time or in part from time to time, at a redemption price equal to the greater of:

- (a) 100% of the principal amount of this Security to be so redeemed; and
- (b) as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest on the principal amount of this Security to be so redeemed (not including any portion of such payments of interest accrued to the

date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate, plus 15 basis points,

plus, in either of the above cases, accrued and unpaid interest to the date of redemption.

Promptly after the calculation thereof, the Company shall give the Trustee written notice of the redemption price for the foregoing redemption. The Trustee shall have no responsibility for any such calculation.

On or after May 15, 2043, this Security is subject to redemption at the option of the Company, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of this Security to be so redeemed, plus accrued and unpaid interest to the date of redemption.

As used herein:

“*Adjusted Treasury Rate*” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date.

“*Comparable Treasury Issue*” means the United States Treasury security selected by the Quotation Agent as having an actual or interpolated maturity comparable to the remaining term to the Stated Maturity Date of this Security that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of this Security.

“*Comparable Treasury Price*” means, with respect to any redemption date:

- a) the average of five Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or
- b) if the Quotation Agent obtains fewer than five Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations so received.

“*Quotation Agent*” means one of the Reference Treasury Dealers appointed by the Company.

“*Reference Treasury Dealer*” means:

- a) each of Citigroup Global Markets Inc. and RBS Securities Inc. (or their respective affiliates that are Primary Treasury Dealers, as defined below), a Primary Treasury Dealer selected by SunTrust Robinson Humphrey, Inc. and a Primary Treasury Dealer selected by US Bancorp Investments, Inc., or their respective successors, unless any of them ceases to be a primary U.S. Government securities dealer in the United States (a “Primary Treasury Dealer”), in which case the Company shall substitute another Primary Treasury Dealer; and

b) any other Primary Treasury Dealer selected by the Company (after consultation with the Quotation Agent).

“*Reference Treasury Dealer Quotations*” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount), as provided to the Quotation Agent by that Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

Notice of redemption shall be given by mail to Holders of Securities, not less than 30 days nor more than 60 days prior to the date fixed for redemption, all as provided in the Indenture. As provided in the Indenture, notice of redemption at the election of the Company as aforesaid may state that such redemption shall be conditional upon the receipt by the applicable Paying Agent or Agents of money sufficient to pay the principal of and premium, if any, and interest, on this Security on or prior to the date fixed for such redemption; a notice of redemption so conditioned shall be of no force or effect if such money is not so received and, in such event, the Company shall not be required to redeem this Security.

In the event of redemption of this Security in part only, a new Security or Securities of this series of like tenor representing the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the cancellation hereof.

If an Event of Default with respect to the Securities of this series shall occur and be continuing, the principal of this Security may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security upon compliance with certain conditions set forth in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of all series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of all series affected at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless (a) such Holder shall have previously given the Trustee written notice of a continuing Event of Default; (b) the Holders of 25% in aggregate principal amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity; (c) the Trustee shall not have received from the Holders of a majority in aggregate principal amount of the Outstanding Securities a direction inconsistent with such request; and (d) shall have failed to institute any such proceeding for 60 days after receipt of such notice, request and offer of indemnity. The foregoing

shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

The Securities of this series are issuable only in registered form without coupons, and in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company for such purpose, duly endorsed by, or accompanied by a written instrument or transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and Tranche, of authorized denominations and of like tenor and aggregate principal amount, shall be issued to the designated transferee or transferees.

As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series and Tranche are exchangeable for a like aggregate principal amount of Securities of the same series and Tranche of any authorized denominations, as requested by the Holder surrendering the same, and of like tenor upon surrender of the Security or Securities to be exchanged at the office or agency of the Company for such purpose.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Company shall not be required to execute and the Security Registrar shall not be required to register the transfer of or exchange of (a) Securities of this series during a period of 15 days immediately preceding the date notice is given identifying the serial numbers of the Securities of this series called for redemption or (b) any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the absolute owner hereof for all purposes (subject to Sections 305 and 307 of the Indenture), whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Indenture and this Security shall be governed by and construed in accordance with the laws of the State of New York (including, without limitation, Section 5-1401 of the New York General Obligations Law or any successor to such statute), except to the extent that the Trust Indenture Act shall be applicable and except to the extent that the law of the any other jurisdiction shall mandatorily govern.

As used herein, "Business Day," means any day, other than a Saturday or Sunday, that is not a day on which banking institutions or trust companies in The City of New York, New York, or other city in which a paying agent for this Security is located, are generally authorized or required by law, regulation or executive order to remain closed. All other terms used in this Security that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

As provided in the Indenture, no recourse shall be had for the payment of the principal of or premium, if any, or interest on any Securities, or any part thereof, or for any claim based thereon or otherwise in respect thereof, or of the indebtedness represented thereby, or upon any obligation, covenant or agreement under the Indenture, against, and no personal liability whatsoever shall attach to, or be incurred by, any incorporator, stockholder, member, officer or director, as such, past, present or future of the Company or of any predecessor or successor corporation (either directly or through the Company or a predecessor or successor corporation), whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture and all the Securities are solely corporate obligations and that any such personal liability is hereby expressly waived and released as a condition of, and as part of the consideration for, the execution of the Indenture and the issuance of the Securities.

Unless the certificate of authentication hereon has been executed by the Trustee referred to herein by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Date of Security:

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

Name:
Title:

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ASSIGNMENT FORM

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

[please insert social security or other identifying number of assignee]

[please print or typewrite name and address of assignee]

the within Security of LOUISVILLE GAS AND ELECTRIC COMPANY and does hereby irrevocably constitute and appoint _____, Attorney, to transfer said Security on the books of the within-mentioned Company, with full power of substitution in the premises.

Dated: _____

[signature of assignee]

Notice: The signature to this assignment must correspond with the name as written upon the face of the Security in every particular without alteration or enlargement or any change whatsoever.

SIGNATURE GUARANTEE

(Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Security Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Security Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.)

GLOBAL BOND LEGEND

“THIS IS A GLOBAL BOND HELD BY OR ON BEHALF OF THE DEPOSITARY (AS DEFINED IN THE INDENTURE GOVERNING THIS BOND) OR ITS NOMINEE IN CUSTODY FOR THE BENEFIT OF THE BENEFICIAL OWNERS HEREOF, AND IS NOT TRANSFERABLE TO ANY PERSON UNDER ANY CIRCUMSTANCES EXCEPT THAT (I) THE TRUSTEE MAY MAKE SUCH NOTATIONS HEREON AS MAY BE REQUIRED PURSUANT TO THE INDENTURE, (II) THIS GLOBAL BOND MAY BE TRANSFERRED IN WHOLE BUT NOT IN PART PURSUANT TO SECTION 2(a) OF PART II OF THE OFFICER’S CERTIFICATE ESTABLISHING THIS SERIES OF BONDS UNDER THE INDENTURE AND (III) THIS GLOBAL BOND MAY BE DELIVERED TO THE TRUSTEE FOR CANCELLATION PURSUANT TO SECTION 309 OF THE INDENTURE.”

In addition, if the Depository shall be DTC, each Global Bond shall bear the following legend:

“UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO A PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.”

KENTUCKY UTILITIES COMPANY**OFFICER'S CERTIFICATE**

(under Sections 201 and 301 of the Indenture, dated as of October 1, 2010)

**Establishing the Form and Certain Terms of the
First Mortgage Bonds, 4.65% Series due 2043**

The undersigned Daniel K. Arbough, the Treasurer of KENTUCKY UTILITIES COMPANY (the "Company"), in accordance with Sections 201 and 301 of the Indenture, dated as of October 1, 2010 (the "Original Indenture"), as amended and supplemented by various instruments including Supplemental Indenture No. 3, dated as of November 1, 2013 (as so amended and supplemented, the "Indenture"), of the Company to The Bank of New York Mellon, trustee (the "Trustee"), does hereby establish, for the Securities of Series No. 5, established in Supplemental Indenture No. 3, the terms and characteristics set forth in this Officer's Certificate (capitalized terms used herein and not defined herein having the meanings specified in the Original Indenture).

PART I

Set forth below in this Part I are the terms and characteristics of the aforesaid series of Securities referred to in clauses (a) through (u) in the third paragraph of Section 301 of the Indenture (the lettered clauses set forth herein corresponding to such clauses in said Section 301):

- (a) the title of the Securities of such series shall be "First Mortgage Bonds, 4.65% Series due 2043" (the "Bonds"), and the date of the Bonds shall be November 14, 2013;
 - (b) the aggregate principal amount of Bonds which may be authenticated and delivered under the Indenture shall be limited as and to the extent set forth in Supplemental Indenture No. 3 and any subsequent supplemental indenture relating thereto;
 - (c) interest on the Bonds shall be payable to the Person or Persons in whose names the Bonds are registered at the close of business on the Regular Record Date for such interest, except as otherwise expressly provided in the form of Bond attached hereto and hereby authorized and approved;
 - (d) the principal of the Bonds shall be due and payable on November 15, 2043; and the Company shall not have the right to extend the Maturity of the Bonds as contemplated in Section 301(d) of the Indenture;
 - (e) the Bonds shall bear interest at a fixed rate of 4.65% per annum; interest on the Bonds shall accrue from the date or dates specified in the form of Bond attached hereto as Exhibit A; the Interest Payment Dates for the Bonds shall be May 15 and November 15 of each year, commencing May 15, 2014; the Regular Record Date for the interest payable on any Interest Payment Date with respect to the Bonds shall be the May 1 or November 1 (whether or not a Business Day) immediately preceding such Interest Payment Date; and the Company shall not have any right to extend any interest payment periods for the Bonds as contemplated in Sections 301(e) and 312 of the Indenture;
 - (f) the Corporate Trust Office of the Trustee in New York, New York shall be the office or agency of the Company at which the principal of and any premium and interest on the
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Bonds at Maturity shall be payable, at which registration of transfers and exchanges of the Bonds may be effected and at which notices and demands to or upon the Company in respect of the Bonds and the Indenture may be served; and the Trustee will initially be the Security Registrar and the Paying Agent for the Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such office or agency and such agent;

- (g) the Bonds shall be redeemable, in whole or in part, at the option of the Company as and to the extent provided, and at the price or prices set forth, in Exhibit A hereto;
- (h) inapplicable;
- (i) the Bonds shall be issuable in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof;
- (j) inapplicable;
- (k) inapplicable;
- (l) inapplicable;
- (m) inapplicable;
- (n) inapplicable;
- (o) inapplicable;
- (p) the only obligations or instruments which shall be considered Eligible Obligations in respect of the Bonds shall be Government Obligations; and the provisions of Section 901 of the Original Indenture and Section 201 of Supplemental Indenture No. 3 shall apply to the Bonds;
- (q) reference is made to Part II of this Officer's Certificate;
- (r) reference is made to clause (q) above; no service charge shall be made for the registration of transfer or exchange of the Bonds; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange or transfer;
- (s) inapplicable;
- (t) inapplicable; and
- (u) except as otherwise determined by the proper officers of the Company and established in one or more Officer's Certificates supplemental to this Officer's Certificate, the Bonds shall be substantially in the form of the form of Bond attached hereto as Exhibit A, which form is hereby authorized and approved, and shall have such further terms as are set forth in such form.

PART II

Section 1. Definitions.

For all purposes of this Officer's Certificate, the terms listed below shall have the meanings indicated, unless otherwise expressly provided or unless the context otherwise requires:

"*Certificated Bond*" means a certificated Bond registered in the name of the registered holder thereof, substantially in the form of Exhibit A hereto except that such Bond shall not bear the Global Bond Legend.

"*Custodian*" means the Trustee, in its capacity as custodian for the Depository with respect to the Bonds in global form, or any successor entity thereto.

"*Depository*" means the person designated or acting as a securities depository for the Bonds.

"*DTC*" means The Depository Trust Company.

"*Global Bond*" means a Bond substantially in the form of Exhibit A hereto and bearing the Global Bond Legend.

"*Global Bond Legend*" means the legend as to the global nature of a Bond as set forth in Exhibit B hereto, which is required to be placed on all Global Bonds.

Section 2. Global Bonds.

(a) *General.* The Bonds are initially to be issued and delivered in global, fully registered form, registered in the name of Cede & Co., as nominee for DTC, which is hereby designated as the Depository. Such Global Bonds shall not be transferable, nor shall any purported transfer be registered, except as follows:

(i) Global Bonds may be transferred in whole, and appropriate registration of transfer effected, by the Depository to a nominee thereof, or by any nominee of the Depository to any other nominee thereof, or by the Depository or any nominee thereof to any Depository or any nominee thereof; and

(ii) Global Bonds may be transferred in whole, with appropriate registration of transfer effected and Certificated Bonds issued and delivered, to the beneficial holders of the Global Bonds if:

(A) The Depository shall have notified the Company and the Trustee that (A) it is unwilling or unable to continue to act as securities depository with respect to such bonds or (B) it is no longer a clearing agency registered under the Securities Exchange Act of 1934, as amended, and, in either case, the Trustee shall not have been notified by the Company within one hundred twenty (120) days of the receipt of such notice from the Depository of the identity of a successor Depository; or

(B) the Company shall have delivered to the Trustee a written order to the effect that, on and after a date specified therein, the Bonds are no longer to be held in global form by a Depository (subject to the procedures of the Depository).

In the event of a transfer of Global Bonds as contemplated in clause (ii) above, the Company will execute, and the Trustee, upon receipt of a Company Order for the authentication and delivery of Certificated Bonds and upon surrender of such Global Bonds, will authenticate and deliver, Certificated Bonds in an aggregate principal amount equal to the principal amount of such Global Bonds, such Certificated Bonds to be registered in the names provided by the Depositary.

(b) *Principal Amount of Global Bonds.* Each Global Bond shall represent such of the outstanding Bonds as shall be specified therein, and the aggregate principal amount of outstanding Bonds represented thereby may from time to time be reduced to reflect redemptions thereof. Any notation on a Global Bond to reflect the amount of any decrease in the aggregate principal amount of outstanding Bonds represented thereby resulting from such redemption shall be made by the Trustee or the Custodian, at the direction of the Trustee, in accordance with instructions given by or on behalf of the registered holder thereof and with the applicable procedures of the Depositary.

(c) *Disclaimers.* Neither the Company nor the Trustee shall have any responsibility or obligation to any beneficial owner of a Global Bond, any participant in the Depositary or any other Person with respect to the accuracy of, or for maintaining, supervising or reviewing, the records of the Depositary or its nominee or of any participant therein or member thereof, with respect to any ownership interest in the Global Bonds or with respect to the delivery to any participant, member, beneficial owner or other Person (other than the Depositary) of any notice (including any notice of redemption) or the payment of any amount, on or with respect to such Global Bonds. All notices and communications required to be given to the Holders and all payments on Global Bonds required to be made to Holders shall be given or made only to or upon the order of the registered Holders (which shall be the Depositary or its nominee in the case of a Global Bond). The rights of beneficial owners in any Global Bond shall be exercised only through the Depositary subject to the applicable rules and procedures of the Depositary. The Company and the Trustee may rely conclusively and shall be fully protected in relying upon information furnished by the Depositary with respect to its members, participants and any beneficial owners. The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under the Indenture or under applicable law with respect to any transfer of any interest in any Global Bond (including any transfers between or among Depositary participants, members or beneficial owners in any Global Bond) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of the Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

IN WITNESS WHEREOF, I have executed this Officer's Certificate this 14th day of November, 2013.

/s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

/s/ Dorothy E. O'Brien

Name: Dorothy E. O'Brien

Title: Vice President and Deputy General Counsel,
Legal and Environmental Affairs

[FORM OF BOND]

No.

CUSIP No.

Principal Amount of \$

KENTUCKY UTILITIES COMPANY

FIRST MORTGAGE BOND, 4.65% SERIES DUE 2043

KENTUCKY UTILITIES COMPANY, a corporation duly organized and existing under the laws of the Commonwealths of Kentucky and Virginia (herein referred to as the "Company", which term includes any Successor Corporation under the Indenture referred to below), for value received, hereby promises to pay to

or to its registered assigns, the principal sum of

MILLION (\$) Dollars

on November 15, 2043 (the "Stated Maturity Date"), and to pay interest on said principal sum semi-annually in arrears on May 15 and November 15 of each year (each, an "Interest Payment Date"), at the rate of 4.65% per annum until the principal hereof is paid or made available for payment. The first Interest Payment Date for the Securities of this series shall be May 15, 2014, and interest on the Securities of this series will accrue from and including November 14, 2013, to and excluding the first Interest Payment Date, and thereafter will accrue from and including the last Interest Payment Date to which interest on the Securities of this series has been paid or duly provided for. No interest will accrue on the Securities of this series with respect to the day on which the Securities are paid.

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication:

, as Trustee

By:

Authorized Signatory

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In the event that any Interest Payment Date is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of such delay) with the same force and effect as if made on the Interest Payment Date. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the May 1 or November 1, whether or not a Business Day (each such date, a "Regular Record Date"), immediately preceding such Interest Payment Date, except that interest payable at Maturity will be payable to the Person to whom principal shall be paid. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture referred to herein. Interest on this Security will be computed on the basis of a 360-day year of twelve 30-day months.

Payment of the principal of and premium, if any, and interest at Maturity on this Security shall be made upon presentation of this Security at the corporate trust office of The Bank of New York Mellon in New York, New York, or at such other office or agency as may be designated for such purpose by the Company from time to time, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts, and payment of interest, if any, on this Security (other than interest payable at Maturity) shall be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register, provided that if such Person is a securities depository, such payment may be made by such other means in lieu of check as shall be agreed upon by the Company, the Trustee and such Person.

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under an Indenture, dated as of October 1, 2010 (herein called the "Original Indenture" and, together with any amendments or supplements thereto and the Officer's Certificate establishing the terms of the Securities of this series, the "Indenture," which term shall have the meaning assigned to it in the Original Indenture), between the Company and The Bank of New York Mellon, as Trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture, including Supplemental Indenture No. 3 thereto, for a statement of the property mortgaged, pledged and held in trust, the nature and extent of the security, the conditions upon which the lien of the Indenture may be released and the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. The acceptance of this Security by the Holder hereof shall be deemed to constitute the consent and agreement by such Holder to all of the terms and provisions of the Indenture. This Security is one of the series designated on the face hereof.

Prior to May 15, 2043, this Security is subject to redemption at the option of the Company, in whole at any time or in part from time to time, at a redemption price equal to the greater of:

- (a) 100% of the principal amount of this Security to be so redeemed; and
- (b) as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest on the principal amount of this Security to be so redeemed (not including any portion of such payments of interest accrued to the

date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate, plus 15 basis points,

plus, in either of the above cases, accrued and unpaid interest to the date of redemption.

Promptly after the calculation thereof, the Company shall give the Trustee written notice of the redemption price for the foregoing redemption. The Trustee shall have no responsibility for any such calculation.

On or after May 15, 2043, this Security is subject to redemption at the option of the Company, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of this Security to be so redeemed, plus accrued and unpaid interest to the date of redemption.

As used herein:

“*Adjusted Treasury Rate*” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date.

“*Comparable Treasury Issue*” means the United States Treasury security selected by the Quotation Agent as having an actual or interpolated maturity comparable to the remaining term to the Stated Maturity Date of this Security that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of this Security.

“*Comparable Treasury Price*” means, with respect to any redemption date:

- a) the average of five Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or
- b) if the Quotation Agent obtains fewer than five Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations so received.

“*Quotation Agent*” means one of the Reference Treasury Dealers appointed by the Company.

“*Reference Treasury Dealer*” means:

- a) each of BNP Paribas Securities Corp., Citigroup Global Markets Inc. and Goldman Sachs & Co. (or their respective affiliates that are Primary Treasury Dealers, as defined below) and a Primary Treasury Dealer selected by Mitsubishi UFJ Securities (USA), Inc., or their respective successors, unless any of them ceases to be a primary U.S. Government securities dealer in the United States (a “Primary Treasury Dealer”), in which case the Company shall substitute another Primary Treasury Dealer; and

b) any other Primary Treasury Dealer selected by the Company (after consultation with the Quotation Agent).

“*Reference Treasury Dealer Quotations*” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount), as provided to the Quotation Agent by that Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

Notice of redemption shall be given by mail to Holders of Securities, not less than 30 days nor more than 60 days prior to the date fixed for redemption, all as provided in the Indenture. As provided in the Indenture, notice of redemption at the election of the Company as aforesaid may state that such redemption shall be conditional upon the receipt by the applicable Paying Agent or Agents of money sufficient to pay the principal of and premium, if any, and interest, on this Security on or prior to the date fixed for such redemption; a notice of redemption so conditioned shall be of no force or effect if such money is not so received and, in such event, the Company shall not be required to redeem this Security.

In the event of redemption of this Security in part only, a new Security or Securities of this series of like tenor representing the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the cancellation hereof.

If an Event of Default with respect to the Securities of this series shall occur and be continuing, the principal of this Security may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security upon compliance with certain conditions set forth in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of all series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of all series affected at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless (a) such Holder shall have previously given the Trustee written notice of a continuing Event of Default; (b) the Holders of 25% in aggregate principal amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity; (c) the Trustee shall not have received from the Holders of a majority in aggregate principal amount of the Outstanding Securities a direction inconsistent with such request; and (d) shall have failed to institute any such proceeding for 60 days after receipt of such notice, request and offer of indemnity. The foregoing

shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

The Securities of this series are issuable only in registered form without coupons, and in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company for such purpose, duly endorsed by, or accompanied by a written instrument or transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and Tranche, of authorized denominations and of like tenor and aggregate principal amount, shall be issued to the designated transferee or transferees.

As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series and Tranche are exchangeable for a like aggregate principal amount of Securities of the same series and Tranche of any authorized denominations, as requested by the Holder surrendering the same, and of like tenor upon surrender of the Security or Securities to be exchanged at the office or agency of the Company for such purpose.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Company shall not be required to execute and the Security Registrar shall not be required to register the transfer of or exchange of (a) Securities of this series during a period of 15 days immediately preceding the date notice is given identifying the serial numbers of the Securities of this series called for redemption or (b) any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the absolute owner hereof for all purposes (subject to Sections 305 and 307 of the Indenture), whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Indenture and this Security shall be governed by and construed in accordance with the laws of the State of New York (including, without limitation, Section 5-1401 of the New York General Obligations Law or any successor to such statute), except to the extent that the Trust Indenture Act shall be applicable and except to the extent that the law of the any other jurisdiction shall mandatorily govern.

As used herein, "Business Day," means any day, other than a Saturday or Sunday, that is not a day on which banking institutions or trust companies in The City of New York, New York, or other city in which a paying agent for this Security is located, are generally authorized or required by law, regulation or executive order to remain closed. All other terms used in this Security that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

As provided in the Indenture, no recourse shall be had for the payment of the principal of or premium, if any, or interest on any Securities, or any part thereof, or for any claim based thereon or otherwise in respect thereof, or of the indebtedness represented thereby, or upon any obligation, covenant or agreement under the Indenture, against, and no personal liability whatsoever shall attach to, or be incurred by, any incorporator, stockholder, member, officer or director, as such, past, present or future of the Company or of any predecessor or successor corporation (either directly or through the Company or a predecessor or successor corporation), whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture and all the Securities are solely corporate obligations and that any such personal liability is hereby expressly waived and released as a condition of, and as part of the consideration for, the execution of the Indenture and the issuance of the Securities.

Unless the certificate of authentication hereon has been executed by the Trustee referred to herein by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Date of Security:

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:

Name:
Title:

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ASSIGNMENT FORM

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

[please insert social security or other identifying number of assignee]

[please print or typewrite name and address of assignee]

the within Security of KENTUCKY UTILITIES COMPANY and does hereby irrevocably constitute and appoint _____, Attorney, to transfer said Security on the books of the within-mentioned Company, with full power of substitution in the premises.

Dated: _____

[signature of assignee]

Notice: The signature to this assignment must correspond with the name as written upon the face of the Security in every particular without alteration or enlargement or any change whatsoever.

SIGNATURE GUARANTEE

(Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Security Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Security Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.)

GLOBAL BOND LEGEND

“THIS IS A GLOBAL BOND HELD BY OR ON BEHALF OF THE DEPOSITARY (AS DEFINED IN THE INDENTURE GOVERNING THIS BOND) OR ITS NOMINEE IN CUSTODY FOR THE BENEFIT OF THE BENEFICIAL OWNERS HEREOF, AND IS NOT TRANSFERABLE TO ANY PERSON UNDER ANY CIRCUMSTANCES EXCEPT THAT (I) THE TRUSTEE MAY MAKE SUCH NOTATIONS HEREON AS MAY BE REQUIRED PURSUANT TO THE INDENTURE, (II) THIS GLOBAL BOND MAY BE TRANSFERRED IN WHOLE BUT NOT IN PART PURSUANT TO SECTION 2(a) OF PART II OF THE OFFICER’S CERTIFICATE ESTABLISHING THIS SERIES OF BONDS UNDER THE INDENTURE AND (III) THIS GLOBAL BOND MAY BE DELIVERED TO THE TRUSTEE FOR CANCELLATION PURSUANT TO SECTION 309 OF THE INDENTURE.”

In addition, if the Depository shall be DTC, each Global Bond shall bear the following legend:

“UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO A PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.”

[LG&E Letterhead]

November 14, 2013

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

Ladies and Gentlemen:

I am Vice President and Deputy General Counsel, Legal and Environmental Affairs of Louisville Gas and Electric Company, a Kentucky corporation (the "Company"). In this capacity, I have acted as counsel to the Company in connection with the issuance and sale of \$250,000,000 in aggregate principal amount of the Company's First Mortgage Bonds, 4.65% Series due 2043 (the "Bonds"). The Bonds are covered by the Registration Statement on Form S-3 (Registration No. 333-180410-01, the "Registration Statement"), filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933 (the "Act"), and related prospectus, dated March 28, 2012, as supplemented by the prospectus supplement dated November 6, 2013, relating to the offer and sale of the Bonds (as so supplemented, the "Prospectus").

The Bonds are being issued under an Indenture, dated as of October 1, 2010, of the Company to The Bank of New York Mellon, as trustee (the "Trustee"), as heretofore amended and supplemented and as further supplemented by Supplemental Indenture No. 3 (the "Supplemental Indenture"), dated as of November 1, 2013, providing for the Bonds (such Indenture, as so supplemented, being referred to herein as the "Indenture"). The Bonds are being sold pursuant to the Underwriting Agreement, dated November 6, 2013 (the "Underwriting Agreement"), among the Company and Citigroup Global Markets Inc., RBS Securities Inc., SunTrust Robinson Humphrey, Inc. and U.S. Bancorp Investments, Inc., as representatives of the several underwriters named therein.

In connection with such issuance and sale, I, or Company attorneys under my supervision, have examined:

- (a) The Indenture, including the Supplemental Indenture and the Officer's Certificate pursuant to Section 301 of the Indenture, establishing certain terms of the Bonds;
 - (b) The Bonds;
-

- (c) The Amended and Restated Articles of Incorporation and the Bylaws of the Company, in each case as in effect on the date hereof;
- (d) The resolutions of the Board of Directors of the Company, adopted by unanimous written consent, dated March 28, 2012 and June 5, 2012;
- (e) The steps and proceedings in connection with the authorization of the Indenture, the Supplemental Indenture and the Bonds;
- (f) The Underwriting Agreement;
- (g) The Order of the Public Service Commission of Kentucky dated August 3, 2012, in connection with the issuance of the Bonds; and
- (h) The Registration Statement and the Prospectus.

In such examination, I have assumed the accuracy and completeness of all agreements, documents, records, certificates and other materials submitted to me, the conformity with the originals of all such materials submitted to me as copies (whether or not certified and including facsimiles), the authenticity of the originals of such materials and all materials submitted to me as originals, the genuineness of all signatures and the legal capacity of all natural persons.

Based upon such examination and representations made to me by Company attorneys under my supervision, upon my familiarity with the Company, and upon an examination of such other documents and questions of law as I have deemed appropriate for purposes of this opinion, I am of the opinion that the Bonds have been duly authorized by the Company and that, when the Bonds have been executed and delivered by the Company and authenticated and delivered by the Trustee in the manner provided for in the Indenture, and have been delivered against payment therefor as contemplated in the Underwriting Agreement, the Bonds will be valid and binding obligations of the Company, except to the extent limited by bankruptcy, insolvency, fraudulent conveyance, reorganization or moratorium laws or by other laws now or hereafter in effect relating to or affecting the enforcement of mortgagees' and other creditors' rights and by general equitable principles (regardless of whether considered in a proceeding in equity or at law), an implied covenant of good faith and fair dealing and consideration of public policy, and federal or state security law limitations on indemnification and contribution.

The opinions expressed herein are limited to the laws of the Commonwealth of Kentucky. Insofar as the opinions set forth in this letter relate to or are dependent upon matters governed by the laws of the State of New York, I have relied exclusively upon the opinion of even date herewith of Pillsbury Winthrop Shaw Pittman LLP, special counsel for the Company. In rendering its opinion to you of even date herewith, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters of Kentucky law addressed or encompassed herein upon this letter as if it were addressed directly to it.

I express no opinion as to matters of compliance with the “blue sky” laws or similar laws relating to the sale or distribution of the Bonds by any underwriters or agents.

I hereby consent to the filing of this opinion letter as Exhibit 5(a) to the Company’s Current Report on Form 8-K to be filed by the Company with the Commission and the incorporation thereof by reference into the Registration Statement and to the use of my name under the caption “Validity of the Bonds” in the Prospectus. In giving this consent, I do not thereby admit that I am within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission promulgated thereunder.

Very truly yours,

/s/ Dorothy E. O’Brien

Dorothy E. O’Brien

[KU Letterhead]

November 14, 2013

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507

Ladies and Gentlemen:

I am Vice President and Deputy General Counsel, Legal and Environmental Affairs of Kentucky Utilities Company, a Kentucky and Virginia corporation (the "Company"). In this capacity, I have acted as counsel to the Company in connection with the issuance and sale of \$250,000,000 in aggregate principal amount of the Company's First Mortgage Bonds, 4.65% Series due 2043 (the "Bonds"). The Bonds are covered by the Registration Statement on Form S-3 (Registration No. 333-180410-02, the "Registration Statement"), filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933 (the "Act"), and related prospectus, dated March 28, 2012, as supplemented by the prospectus supplement dated November 6, 2013, relating to the offer and sale of the Bonds (as so supplemented, the "Prospectus").

The Bonds are being issued under an Indenture, dated as of October 1, 2010, of the Company to The Bank of New York Mellon, as trustee (the "Trustee"), as heretofore amended and supplemented and as further supplemented by Supplemental Indenture No. 3 (the "Supplemental Indenture"), dated as of November 1, 2013, providing for the Bonds (such Indenture, as so supplemented, being referred to herein as the "Indenture"). The Bonds are being sold pursuant to the Underwriting Agreement, dated November 6, 2013 (the "Underwriting Agreement"), among the Company and BNP Paribas Securities Corp., Citigroup Global Markets Inc., Goldman, Sachs & Co., and Mitsubishi UFJ Securities (USA) Inc., as representatives of the several underwriters named therein.

In connection with such issuance and sale, I, or Company attorneys under my supervision, have examined:

- (a) The Indenture, including the Supplemental Indenture and the Officer's Certificate pursuant to Section 301 of the Indenture, establishing certain terms of the Bonds;
 - (b) The Bonds;
-

- (c) The Amended and Restated Articles of Incorporation and the Bylaws of the Company, in each case as in effect on the date hereof;
- (d) The resolutions of the Board of Directors of the Company, adopted by unanimous written consent, dated March 28, 2012 and June 5, 2012;
- (e) The steps and proceedings in connection with the authorization of the Indenture, the Supplemental Indenture and the Bonds;
- (f) The Underwriting Agreement;
- (g) The Orders of the Public Service Commission of Kentucky dated August 3, 2012, the State Corporation Commission of Virginia dated July 27, 2012 and the Amended Order of Tennessee Regulatory Authority dated September 27, 2012, in connection with the issuance of the Bonds; and
- (h) The Registration Statement and the Prospectus.

In such examination, I have assumed the accuracy and completeness of all agreements, documents, records, certificates and other materials submitted to me, the conformity with the originals of all such materials submitted to me as copies (whether or not certified and including facsimiles), the authenticity of the originals of such materials and all materials submitted to me as originals, the genuineness of all signatures and the legal capacity of all natural persons.

Based upon such examination and representations made to me by Company attorneys under my supervision, upon my familiarity with the Company, and upon an examination of such other documents and questions of law as I have deemed appropriate for purposes of this opinion, I am of the opinion that the Bonds have been duly authorized by the Company and that, when the Bonds have been executed and delivered by the Company and authenticated and delivered by the Trustee in the manner provided for in the Indenture, and have been delivered against payment therefor as contemplated in the Underwriting Agreement, the Bonds will be valid and binding obligations of the Company, except to the extent limited by bankruptcy, insolvency, fraudulent conveyance, reorganization or moratorium laws or by other laws now or hereafter in effect relating to or affecting the enforcement of mortgagees' and other creditors' rights and by general equitable principles (regardless of whether considered in a proceeding in equity or at law), an implied covenant of good faith and fair dealing and consideration of public policy, and federal or state security law limitations on indemnification and contribution.

The opinions expressed herein are limited to the laws of the Commonwealth of Kentucky. Insofar as the opinions set forth in this letter relate to or are dependent upon matters governed by the laws of the Commonwealth of Virginia and the State of Tennessee, I have relied exclusively on the opinion of even date herewith of Stoll Keenon Ogden PLLC, special Kentucky counsel of the Company. Insofar as the opinions set forth in this letter relate to or are dependent upon matters governed by the laws of the State of New York, I have relied exclusively

upon the opinion of even date herewith of Pillsbury Winthrop Shaw Pittman LLP, special counsel for the Company. In rendering their opinions to you of even date herewith, Pillsbury Winthrop Shaw Pittman LLP and Stoll Keenon Ogden PLLC may rely as to matters of Kentucky law addressed or encompassed herein upon this letter as if it were addressed directly to them.

I express no opinion as to matters of compliance with the “blue sky” laws or similar laws relating to the sale or distribution of the Bonds by any underwriters or agents.

I hereby consent to the filing of this opinion letter as Exhibit 5(b) to the Company’s Current Report on Form 8-K to be filed by the Company with the Commission and the incorporation thereof by reference into the Registration Statement and to the use of my name under the caption “Validity of the Bonds” in the Prospectus. In giving this consent, I do not thereby admit that I am within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission promulgated thereunder.

Very truly yours,

/s/ Dorothy E. O’Brien

Dorothy E. O’Brien

[LETTERHEAD OF PILLSBURY WINTHROP SHAW PITTMAN LLP]

November 14, 2012

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

Ladies and Gentlemen:

We have acted as special counsel to Louisville Gas and Electric Company (the "Company") in connection with the issuance and sale by the Company of \$250,000,000 in aggregate principal amount of its First Mortgage Bonds, 4.65% Series due 2043 (the "Bonds"). The Bonds are covered by the Registration Statement on Form S-3 (Registration No. 333-180410-01, the "Registration Statement"), filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933 (the "Act"), and related prospectus, dated March 28, 2012, as supplemented by the prospectus supplement dated November 6, 2013 relating to the offer and sale of the Bonds (as so supplemented, the "Prospectus").

The Bonds are being issued under an Indenture, dated as of October 1, 2010, of the Company to The Bank of New York Mellon, as trustee (the "Trustee"), as heretofore amended and supplemented and as further supplemented by Supplemental Indenture No. 3 thereto, (the "Supplemental Indenture"), dated as of November 1, 2013, providing for the Bonds (such Indenture, as so supplemented, being referred to herein as the "Indenture"). The Bonds are being sold pursuant to the Underwriting Agreement, dated November 6, 2013 (the "Underwriting Agreement"), among the Company and Citigroup Global Markets Inc., RBS Securities Inc., Inc., SunTrust Robinson Humphrey, Inc. and U.S. Bancorp Investments, Inc., as representatives of the several underwriters named therein.

We have reviewed and are familiar with the Registration Statement, the Prospectus, the Indenture (including the Supplemental Indenture and the Officer's Certificate pursuant to Section 301 of the Indenture, establishing certain terms of the Bonds, and the form of Bond), the Underwriting Agreement and such other documents, corporate proceedings and other matters as we have considered relevant or necessary as a basis for the opinions in this letter. In such review, we have assumed the accuracy and completeness of all agreements, documents, records, certificates and other materials submitted to us, the conformity with the originals of all such materials submitted to us as copies (whether or not certified and including facsimiles), the authenticity of the originals of such materials and all materials submitted to us as originals, the genuineness of all signatures and the legal capacity of all natural persons. We understand that the Registration Statement has become effective under the Act and we assume that such effectiveness has not been terminated or rescinded.

On the basis of the assumptions and subject to the qualifications and limitations set forth herein, we are of the opinion that, when the Bonds have been executed and delivered by the Company and authenticated and delivered by the Trustee in the manner provided for in the Indenture, and have been delivered against payment therefor as contemplated in the Underwriting Agreement, the Bonds will be valid and legally binding obligations of the Company, except as may be subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance and transfer, receivership, conservatorship, arrangement, reorganization, moratorium and other similar laws affecting or relating to the rights of creditors and mortgagees generally, (b) general equitable principles (whether considered in a proceeding in equity or at law), and (c) requirements of reasonableness, good faith, materiality and fair dealing and the discretion of the court before which any matter may be brought.

We express no opinion herein as to titles to property, franchises, or the validity and priority of the lien purported to be created by the Indenture or the security provided thereby, or any recordation, filing or perfection of such lien, the Indenture or any related financing statements.

Our opinions set forth in this letter are limited to the law of the State of New York, as in effect on the date hereof. Insofar as the opinions set forth in this letter relate to or are dependent upon matters governed by the law of the Commonwealth of Kentucky, we have relied exclusively upon the opinions expressed or otherwise encompassed in the letter of even date herewith addressed to you by Dorothy E. O'Brien, Vice President and Deputy General Counsel, Legal and Environmental Affairs, of the Company, subject to the assumptions, limitations and qualifications set forth therein. In rendering her opinion to you, Ms. O'Brien may rely as to matters of New York law addressed herein upon this letter as if it were addressed directly to her.

We hereby consent to the filing of this opinion letter as Exhibit 5(c) to the Company's Current Report on Form 8-K to be filed by the Company with the Commission and the incorporation thereof by reference into the Registration Statement and to the use of our name under the caption "Validity of the Bonds" in the Prospectus. In giving this consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission promulgated thereunder.

Very truly yours,

/s/ Pillsbury Winthrop Shaw Pittman LLP

[LETTERHEAD OF PILLSBURY WINTHROP SHAW PITTMAN LLP]

November 14, 2012

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507

Ladies and Gentlemen:

We have acted as special counsel to Kentucky Utilities Company (the "Company") in connection with the issuance and sale by the Company of \$250,000,000 in aggregate principal amount of its First Mortgage Bonds, 4.65% Series due 2043 (the "Bonds"). The Bonds are covered by the Registration Statement on Form S-3 (Registration No. 333-180410-02, the "Registration Statement"), filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933 (the "Act"), and related prospectus, dated March 28, 2012, as supplemented by the prospectus supplement dated November 6, 2013 relating to the offer and sale of the Bonds (as so supplemented, the "Prospectus").

The Bonds are being issued under an Indenture, dated as of October 1, 2010, of the Company to The Bank of New York Mellon, as trustee (the "Trustee"), as heretofore amended and supplemented and as further supplemented by Supplemental Indenture No. 3 thereto, (the "Supplemental Indenture"), dated as of November 1, 2013, providing for the Bonds (such Indenture, as so supplemented, being referred to herein as the "Indenture"). The Bonds are being sold pursuant to the Underwriting Agreement, dated November 6, 2013 (the "Underwriting Agreement"), among the Company and BNP Paribas Securities Corp., Citigroup Global Markets Inc., Goldman, Sachs & Co., and Mitsubishi UFJ Securities (USA), Inc., as representatives of the several underwriters named therein.

We have reviewed and are familiar with the Registration Statement, the Prospectus, the Indenture (including the Supplemental Indenture and the Officer's Certificate pursuant to Section 301 of the Indenture, establishing certain terms of the Bonds, and the form of Bond), the Underwriting Agreement and such other documents, corporate proceedings and other matters as we have considered relevant or necessary as a basis for the opinions in this letter. In such review, we have assumed the accuracy and completeness of all agreements, documents, records, certificates and other materials submitted to us, the conformity with the originals of all such materials submitted to us as copies (whether or not certified and including facsimiles), the authenticity of the originals of such materials and all materials submitted to us as originals, the genuineness of all signatures and the legal capacity of all natural persons. We understand that the Registration Statement has become effective under the Act and we assume that such effectiveness has not been terminated or rescinded.

On the basis of the assumptions and subject to the qualifications and limitations set forth herein, we are of the opinion that, when the Bonds have been executed and delivered by the Company and authenticated and delivered by the Trustee in the manner provided for in the Indenture, and have been delivered against payment therefor as contemplated in the Underwriting Agreement, the Bonds will be valid and legally binding obligations of the Company, except as may be subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance and transfer, receivership, conservatorship, arrangement, reorganization, moratorium and other similar laws affecting or relating to the rights of creditors and mortgagees generally, (b) general equitable principles (whether considered in a proceeding in equity or at law), and (c) requirements of reasonableness, good faith, materiality and fair dealing and the discretion of the court before which any matter may be brought.

We express no opinion herein as to titles to property, franchises, or the validity and priority of the lien purported to be created by the Indenture or the security provided thereby, or any recordation, filing or perfection of such lien, the Indenture or any related financing statements.

Our opinions set forth in this letter are limited to the law of the State of New York, as in effect on the date hereof. Insofar as the opinions set forth in this letter relate to or are dependent upon matters governed by the laws of the Commonwealths of Kentucky and Virginia and the State of Tennessee, we have relied exclusively upon the opinions expressed or otherwise encompassed in the letters of even date herewith addressed to you by Dorothy E. O'Brien, Vice President and Deputy General Counsel, Legal and Environmental Affairs, of the Company and Stoll Keenon Ogden PLLC, special Kentucky counsel of the Company, subject to the assumptions, limitations and qualifications set forth therein. In rendering their opinions to you, Ms. O'Brien and Stoll Keenon Ogden PLLC may rely as to matters of New York law addressed herein upon this letter as if it were addressed directly to them.

We hereby consent to the filing of this opinion letter as Exhibit 5(d) to the Company's Current Report on Form 8-K to be filed by the Company with the Commission and the incorporation thereof by reference into the Registration Statement and to the use of our name under the caption "Validity of the Bonds" in the Prospectus. In giving this consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission promulgated thereunder.

Very truly yours,

/s/ Pillsbury Winthrop Shaw Pittman LLP

[LETTERHEAD OF STOLL KEENON OGDEN PLLC]

November 14, 2013

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507

Ladies and Gentlemen:

We are acting as special counsel to Kentucky Utilities Company (the “**Company**”) in connection with the issuance and sale by the Company of \$250,000,000 of the Company’s 4.65% First Mortgage Bonds due 2043 (the “**Bonds**”). The Bonds are covered by the Registration Statement on Form S-3 (Registration No. 333-18410-02)(the “**Registration Statement**”) filed by the Company with the Securities and Exchange Commission (the “**SEC**”) under the Securities Act of 1933, as amended (the “**Securities Act**”), the Bonds and related prospectus, dated March 28, 2012, as supplemented by the prospectus supplement dated November 6, 2013 relating to the offer and sale of the Bonds (as so supplemented, the “**Prospectus**”). The Bonds are being issued under the Company’s Indenture dated as of October 1, 2010, as supplemented (the “**Indenture**”), to The Bank of New York Mellon, as Trustee.

We have reviewed the Indenture, an Officer’s Certificate of the Company dated November 12, 2013, pursuant to Sections 201 and 301 of the Indenture, establishing the terms and characteristics of the Bonds, and the records of various corporate and other actions taken by the Company in connection with the issuance of the Bonds. As to various questions of fact relevant to the opinions set forth below, we have relied upon certificates and other oral and written assurances of public officials and officers or other employees of the Company, its subsidiaries and its affiliates. In addition, we have reviewed such other documents and satisfied ourselves as to such other matters as we have deemed appropriate in order to render this opinion. We understand the Registration Statement has become effective under the Securities Act and we assume that at the time of issuance of the Bonds, such effectiveness shall not have been terminated or rescinded and that there shall not have been any change in law or any authorization affecting the legality or validity of the Bonds.

Based on the foregoing and, to the extent indicated below, in reliance upon the opinion of other counsel hereinafter mentioned, we are of the opinion that the Bonds, when issued and delivered by the Company and authenticated by the Trustee in accordance with the Indenture and as contemplated in the Registration Statement, will be legally issued and binding obligations of the Company.

Our opinion as to the legal and binding nature of the Company’s obligations is subject to laws relating to or affecting generally the enforcement of creditors’ and mortgagees’ rights, including, without limitation, bankruptcy, insolvency or reorganization laws and general principles of

equity and by requirements of reasonableness, good faith and fair dealing. We express no opinion with respect to the lien of the Indenture.

This opinion is limited to the law of the Commonwealths of Kentucky and Virginia and the State of Tennessee. We express no opinion whatsoever as to the securities laws of any jurisdiction, including the federal securities laws. Insofar as the opinions set forth herein are dependent upon or affected by matters governed by the laws of the State of New York, we have relied upon the opinion of even date herewith of Pillsbury Winthrop Shaw, Pittman LLP. In rendering their opinions to you of even date herewith, Pillsbury Winthrop Shaw, Pittman LLP and Dorothy O'Brien may rely as to matters governed by the law of the Commonwealths of Kentucky and Virginia and the State of Tennessee upon this letter as if it were addressed directly to them.

We hereby authorize and consent to the use of this opinion as Exhibit 5(e) to the Company's Current Report on Form 8-K to be filed by the Company with the Commission and the incorporation thereof by reference into the Registration Statement and to the use of our name under the caption "Validity of the Bonds" in the Prospectus. In giving this consent, we do not hereby concede that we come within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the SEC thereunder.

Very truly yours,

STOLL KEENON OGDEN PLLC

/s/ Anthony Schnell

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FORM 10-K

KENTUCKY UTILITIES CO - PPL

Filed: February 24, 2014 (period: December 31, 2013)

Annual report with a comprehensive overview of the company

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	PPL Energy Supply, LLC (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, Kentucky 40507-1462 (502) 627-2000	61-0247570

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock of PPL Corporation	New York Stock Exchange
2011 Corporate Units of PPL Corporation	New York Stock Exchange
Junior Subordinated Notes of PPL Capital Funding, Inc. 2007 Series A due 2067	New York Stock Exchange
2013 Series B due 2073	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common Stock of PPL Electric Utilities Corporation

Indicate by check mark whether the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

PPL Corporation	Yes <u>X</u>	No ___
PPL Energy Supply, LLC	Yes ___	No <u>X</u>
PPL Electric Utilities Corporation	Yes ___	No <u>X</u>
LG&E and KU Energy LLC	Yes ___	No <u>X</u>
Louisville Gas and Electric Company	Yes ___	No <u>X</u>
Kentucky Utilities Company	Yes ___	No <u>X</u>

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

PPL Corporation	Yes ___	No <u>X</u>
PPL Energy Supply, LLC	Yes ___	No <u>X</u>
PPL Electric Utilities Corporation	Yes ___	No <u>X</u>
LG&E and KU Energy LLC	Yes ___	No <u>X</u>
Louisville Gas and Electric Company	Yes ___	No <u>X</u>
Kentucky Utilities Company	Yes ___	No <u>X</u>

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <u>X</u>	No ___
PPL Energy Supply, LLC	Yes <u>X</u>	No ___
PPL Electric Utilities Corporation	Yes <u>X</u>	No ___
LG&E and KU Energy LLC	Yes <u>X</u>	No ___
Louisville Gas and Electric Company	Yes <u>X</u>	No ___
Kentucky Utilities Company	Yes <u>X</u>	No ___

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <u>X</u>	No ___
PPL Energy Supply, LLC	Yes <u>X</u>	No ___
PPL Electric Utilities Corporation	Yes <u>X</u>	No ___
LG&E and KU Energy LLC	Yes <u>X</u>	No ___
Louisville Gas and Electric Company	Yes <u>X</u>	No ___
Kentucky Utilities Company	Yes <u>X</u>	No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

PPL Corporation	<input checked="" type="checkbox"/>
PPL Energy Supply, LLC	<input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	<input checked="" type="checkbox"/>
LG&E and KU Energy LLC	<input checked="" type="checkbox"/>
Louisville Gas and Electric Company	<input checked="" type="checkbox"/>
Kentucky Utilities Company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Act).

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

As of June 28, 2013, PPL Corporation had 591,622,064 shares of its \$.01 par value Common Stock outstanding. The aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was \$17,902,483,657. As of January 31, 2014, PPL Corporation had 630,716,792 shares of its \$.01 par value Common Stock outstanding.

As of January 31, 2014, PPL Corporation held all 66,368,056 outstanding common shares, no par value, of PPL Electric Utilities Corporation.

PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.

PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.

As of January 31, 2014, LG&E and KU Energy LLC held all 21,294,223 outstanding common shares, no par value, of Louisville Gas and Electric Company.

As of January 31, 2014, LG&E and KU Energy LLC held all 37,817,878 outstanding common shares, no par value, of Kentucky Utilities Company.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format.

Documents incorporated by reference:

PPL Corporation has incorporated herein by reference certain sections of PPL Corporation's 2014 Notice of Annual Meeting and Proxy Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2013. Such Statements will provide the information required by Part III of this Report.

**PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

FORM 10-K ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2013

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This combined Form 10-K is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants' financial statements in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

Central Networks - collectively Central Networks East plc, Central Networks Limited and certain other related assets and liabilities. On April 1, 2011, PPL WEM Holdings plc purchased all of the outstanding ordinary share capital of these companies from E.ON AG subsidiaries. Central Networks West plc (subsequently renamed Western Power Distribution (West Midlands) plc), wholly owned by Central Networks Limited (subsequently renamed WPD Midlands Holdings Limited), and Central Networks East plc (subsequently renamed Western Power Distribution (East Midlands) plc) are British regional electricity distribution utility companies.

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Brunner Island - PPL Brunner Island, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Energy Supply, PPL Global and other subsidiaries.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interests of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K. In January 2011, PPL Energy Supply, PPL Global's former parent, distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to its parent, PPL Energy Funding.

PPL Holtwood - PPL Holtwood, LLC, a subsidiary of PPL Generation that owns hydroelectric generating operations in Pennsylvania.

PPL Ironwood - PPL Ironwood LLC, an indirect subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Montour - PPL Montour, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides services to PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, a subsidiary of PPL Generation that owns a nuclear-powered generating station.

PPL WEM - PPL WEM Holdings Limited (formerly PPL WEM Holdings plc), an indirect U.K. subsidiary of PPL Global. PPL WEM indirectly owns both WPD (East Midlands) and WPD (West Midlands).

PPL WW - PPL WW Holdings Limited, an indirect U.K. subsidiary of PPL Global. PPL WW Holdings indirectly owns WPD (South Wales) and WPD (South West).

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Subsidiary Registrant(s) - Registrants that are direct or indirect wholly owned subsidiaries of PPL: PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company. The company (formerly Central Networks East plc) was acquired and renamed in April 2011.

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company. The company (formerly Central Networks West plc) was acquired and renamed in April 2011.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

1945 First Mortgage Bond - PPL Electric's Mortgage and Deed of Trust, dated as of October 1, 1945, to Deutsche Bank Trust Company Americas, as trustee, as supplemented.

2001 Mortgage Indenture - PPL Electric's Indenture, dated as of August 1, 2001, to The Bank of New York Mellon (as successor to JPMorgan Chase Bank), as trustee, as supplemented.

2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Purchases Contract(s) - a contract that is a component of a 2010 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2011 Bridge Facility - the £3.6 billion Senior Bridge Term Loan Credit Agreement between PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, and lenders party thereto, used to fund the April 1, 2011 acquisition of Central Networks, as amended by Amendment No. 1 thereto dated April 15, 2011.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to May 1, 2014.

401(h) account - A sub-account established within a qualified pension trust to provide for the payment of retiree medical costs.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and changes to the AEPS.

AEPS - Alternative Energy Portfolio Standard.

AFUDC - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Baseload generation - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

Bcf - billion cubic feet.

Black Lung Trust - a trust account maintained under federal and state Black Lung legislation for the payment of claims related to disability or death due to pneumoconiosis.

BREC - Big Rivers Electric Corporation, a power-generating rural electric cooperative in western Kentucky.

Cane Run Unit 7 - a natural gas combined-cycle unit under construction in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 640 MW (141 MW and 499 MW to LG&E and KU) in 2015.

CAIR - the EPA's Clean Air Interstate Rule.

CCR - Coal Combustion Residuals. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

COLA - license application for a combined construction permit and operating license from the NRC for a nuclear plant.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public.

CSAPR - Cross-State Air Pollution Rule.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

DDCP - Directors Deferred Compensation Plan.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

DNO - Distribution Network Operator.

Dodd-Frank Act - the Dodd-Frank Wall Street Reform and Consumer Protection Act that was signed into law in July 2010.

DOE - Department of Energy, a U.S. government agency.

DPCR4 - Distribution Price Control Review 4, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2005.

DPCR5 - Distribution Price Control Review 5, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2010.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - the Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of costs and revenues lost by implementing DSM programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

DUoS - Distribution Use of System. This forms the majority of WPD's revenues and is the charge to electricity suppliers who are WPD's customers and use WPD's network to distribute electricity.

EBPB - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

Economic Stimulus Package - The American Recovery and Reinvestment Act of 2009, generally referred to as the federal economic stimulus package, which was signed into law in February 2009.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and by-products from the production of energy from coal.

EEL - Electric Energy, Inc., owns and operates a coal-fired plant and a natural gas facility in southern Illinois. KU's 20% ownership interest in EEL is accounted for as an equity method investment.

E.ON AG - a German corporation and the parent of E.ON UK plc, the former parent of Central Networks, and the indirect parent of E.ON US Investments Corp., the former parent of LKE.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ESOP - Employee Stock Ownership Plan.

EWG - exempt wholesale generator.

E.W. Brown - a generating station in Kentucky with capacity of 1,594 MW.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

Fitch - Fitch, Inc., a credit rating agency.

FTR(s) - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations, known as source and sink.

Fundamental Change - as it relates to the terms of the 2011 and 2010 Equity Units, will be deemed to have occurred if any of the following occurs with respect to PPL, subject to certain exceptions: (i) a change of control; (ii) a consolidation with or merger into any other entity; (iii) the common stock ceases to be listed or quoted; or (iv) a liquidation, dissolution or termination.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved LG&E's recovery of costs associated with gas service lines, gas risers, leak mitigation, and gas main replacements. Rate recovery became effective January 1, 2013.

Green River Unit 5 - a natural gas combined-cycle unit proposed to be built in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 700MW (280 MW and 420 MW to LG&E and KU) in 2018.

GWh - gigawatt-hour, one million kilowatt-hours.

HMRC - Her Majesty's Revenue & Customs. The tax authority in the U.K., formerly known as Inland Revenue.

IBEW - International Brotherhood of Electrical Workers.

ICP - Incentive Compensation Plan.

ICPKE - Incentive Compensation Plan for Key Employees.

If-Converted Method - A method applied to calculate diluted EPS for a company with outstanding convertible debt. The method is applied as follows: Interest charges (after-tax) applicable to the convertible debt are added back to net income and the convertible debt is assumed to have been converted to equity at the beginning of the period, and the resulting common shares are treated as outstanding shares. Both adjustments are made only for purposes of calculating diluted EPS. This method was applied in 2013 to PPL's Equity Units prior to settlement.

Intermediate and peaking generation - includes the output provided by PPL's oil- and natural gas-fired units.

Ironwood Acquisition - In April 2012, PPL Ironwood Holdings, LLC, an indirect, wholly owned subsidiary of PPL Energy Supply, completed the acquisition from a subsidiary of The AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which together own and operate, a natural gas combined-cycle unit in Lebanon, Pennsylvania.

Ironwood Facility - a natural gas combined-cycle unit in Lebanon, Pennsylvania with a summer rating of 662 MW.

IRS - Internal Revenue Service, a U.S. government agency.

ISO - Independent System Operator.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

KU 2010 Mortgage Indenture - KU's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as trustee, as supplemented.

kV - Kilovolt.

kVA - kilovolt ampere.

kWh - kilowatt-hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

LG&E 2010 Mortgage Indenture - LG&E's indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as trustee, as supplemented.

LIBOR - London Interbank Offered Rate.

LTIP - Long Term Infrastructure Improvement Plan.

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle turbine.

NorthWestern - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

NRC - Nuclear Regulatory Commission, the U.S. federal agency that regulates nuclear power facilities.

NUGs - non-utility generators, generating plants not owned by public utilities, whose electrical output must be purchased by utilities under the PURPA if the plant meets certain criteria.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

Opacity - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity of power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined summer rating capacities of 2,120 MW.

PADEP - the Pennsylvania Department of Environmental Protection, a state government agency.

PEDFA - Pennsylvania Economic Development Financing Authority.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts, which are components of the 2010 and 2011 Equity Units.

PURPA - Public Utility Regulatory Policies Act of 1978, legislation passed by the U.S. Congress to encourage energy conservation, efficient use of resources and equitable rates.

PURTA - The Pennsylvania Public Utility Realty Tax Act.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index in order to allow for the effects of inflation. Since the beginning of DPCR5 in April 2010, RAV additions have been based on a percentage of annual total expenditures.

RECs - renewable energy credits.

Regional Transmission Line Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies changes and additions to the grid necessary to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects assigned to them by the PJM Board.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RIIO-ED1 - RIIO represents "Revenues = Incentive + Innovation + Outputs - Electricity Distribution." RIIO-ED1 refers to the initial eight-year rate review period applicable to WPD commencing April 1, 2015.

RMC - Risk Management Committee.

RTO - Regional Transmission Organization.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

SCR - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

SIP - PPL Corporation's 2012 Stock Incentive Plan.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

SMGT - Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus that was terminated effective April 1, 2012.

SNCR - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

Spark Spread - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2, or 549 MW of the capacity.

Tolling agreement - agreement whereby the owner of an electricity generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

Total shareowner return - change in market value of a share of the Company's common stock plus the value of all dividends paid on a share of the common stock during the applicable performance period, divided by the price of the common stock as of the beginning of the performance period.

TRA - Tennessee Regulatory Authority, the state agency that has jurisdiction over the regulation of rates and service of utilities in Tennessee.

Treasury Stock Method - A method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

VEBA - Voluntary Employee Benefit Association Trust, accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

VIE - variable interest entity.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

VWAP - as it relates to the 2011 and 2010 Equity Units issued by PPL, the per share volume-weighted-average price as displayed under the heading Bloomberg VWAP on Bloomberg page "PPL <EQUITY> AQR" (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading on the relevant trading day until the scheduled close of trading on the relevant trading day (or if such volume-weighted-average price is unavailable, the market price of one share of PPL common stock on such trading day determined, using a volume-weighted-average method, by a nationally recognized independent investment banking firm retained for this purpose by PPL).

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FORWARD-LOOKING INFORMATION

Statements contained in this Annual Report concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" and in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical, nuclear decommissioning liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery or revenue filings by PPL Electric, LG&E, KU or WPD;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions and our ability to successfully operate acquired businesses and realize expected benefits from business acquisitions.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I

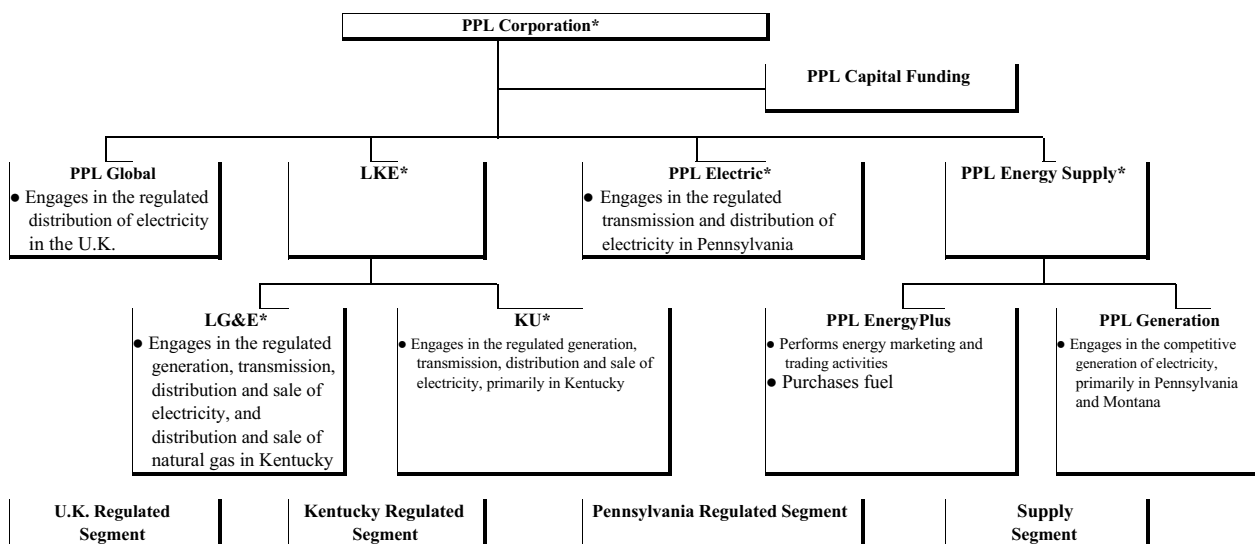
ITEM 1. BUSINESS

General

(All Registrants)

PPL Corporation, headquartered in Allentown, Pennsylvania, is an energy and utility holding company that was incorporated in 1994. Through subsidiaries, PPL delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; generates electricity from power plants in the northeastern, northwestern and southeastern U.S.; and markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S. Beginning in 2010, PPL has expanded the rate regulated portion of its business, principally through the 2010 acquisition of LKE and the 2011 acquisition of WPD Midlands, such that it projects nearly all of its 2014 earnings will come from rate-regulated businesses. See "Acquisitions and Divestitures" below for more information on the acquisitions of regulated businesses.

PPL's principal subsidiaries at December 31, 2013 are shown below (* denotes a Registrant).



In addition to PPL Corporation, the other Registrants included in this filing are:

PPL Energy Supply, LLC, headquartered in Allentown, Pennsylvania, is an indirect wholly owned subsidiary of PPL formed in 2000 and is an energy company that through its principal subsidiaries is primarily engaged in the competitive generation and marketing of electricity in two key markets - the northeastern and northwestern U.S. PPL Energy Supply's principal subsidiaries are PPL EnergyPlus, its marketing and trading subsidiary, and PPL Generation, the owner of its generating facilities in Pennsylvania and Montana.

PPL Electric Utilities Corporation, headquartered in Allentown, Pennsylvania, is a direct wholly owned subsidiary of PPL incorporated in Pennsylvania in 1920 and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania.

LG&E and KU Energy LLC, headquartered in Louisville, Kentucky, is a holding company and a wholly owned subsidiary of PPL since 2010. LKE owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

Louisville Gas and Electric Company, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E was incorporated in 1913. LG&E is a wholly owned subsidiary of LKE.

Kentucky Utilities Company, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU was incorporated in Kentucky in 1912 and in Virginia in 1991. KU serves its Virginia customers under the Old Dominion Power name while its Kentucky and Tennessee customers are served under the KU name. KU is a wholly owned subsidiary of LKE.

Acquisitions and Divestitures

(PPL, LKE, LG&E and KU)

In September, 2010, the KPSC approved a settlement agreement among PPL and all of the intervening parties to PPL's joint application to the KPSC for approval to acquire LKE. In October 2010, both the VSCC and the TRA also approved the transfer of control of LKE to PPL. The orders and the settlement agreement approved by the KPSC contained certain commitments by LG&E and KU with regard to operations, workforce, community involvement and other matters.

Also in October 2010, the FERC approved the application for the transfer of control of LG&E and KU to PPL. The approval included various conditional commitments, such as a continuation of certain existing undertakings with intervenors in prior cases, coordination with intervenors in certain pending matters and an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that LG&E and KU have agreed to exclude such costs from retail customer rates.

On November 1, 2010, PPL acquired all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC.

(PPL)

In April 2011, PPL, through an indirect, wholly owned subsidiary, PPL WEM, acquired all the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. WPD Midlands operates two regulated distribution networks in the Midlands area of England and is included in the U.K. Regulated segment. See Note 10 to the Financial Statements for additional information.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its entire membership interest in PPL Global to its parent, PPL Energy Funding (the parent holding company of PPL Energy Supply and PPL Global with no other material operations), to better align PPL's organizational structure with the manner in which it manages these businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. See Note 9 to the Financial Statements for additional information.

(PPL and PPL Energy Supply)

In September 2013, PPL Montana executed a definitive agreement to sell 633 MW of hydroelectric facilities to NorthWestern for \$900 million in cash, subject to certain adjustments. The sale, which is subject to certain regulatory approvals and not expected to close before the second half of 2014, includes 11 hydroelectric power facilities and related assets. See Note 8 to the Financial Statements for additional information on the sale and the related Colstrip operating lease termination and subsequent purchase of the undivided interests in the Colstrip units.

Segment Information

(PPL)

PPL is organized into four reportable segments as depicted in the chart above: U.K. Regulated, Kentucky Regulated, Pennsylvania Regulated and Supply. PPL's reportable segments primarily reflect the activities of its related Subsidiary Registrant(s), except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable Subsidiary Registrant(s). The U.K. Regulated segment does not have a related Subsidiary Registrant.

A comparison of PPL's three regulated segments is shown below:

	<u>U.K. Regulated</u>	<u>KY Regulated</u>	<u>PA Regulated</u>
For the year ended December 31, 2013:			
Operating Revenues (in billions)	\$2.4	\$3.0	\$1.9
Net Income Attributable to PPL Shareowners (in millions)	\$922	\$307	\$209
Electric energy delivered (GWh)	78,219	31,088	36,760
At December 31, 2013:			
Regulatory Asset Base (in billions) (a)	\$9.5	\$7.6	\$4.2
Service area (in square miles)	21,400	9,400	10,000
End-users (in millions)	7.7	1.3	1.4

(a) Represents RAV for U.K. Regulated, capitalization for KY Regulated and rate base for PA Regulated.

See Note 2 to the Financial Statements for additional financial information about the segments.

(All Registrants except PPL)

PPL Energy Supply, PPL Electric, LKE, LG&E and KU each operate within a single reportable segment.

- **U.K. Regulated Segment** (PPL)

Consists of PPL Global which primarily includes WPD's regulated electricity distribution operations and certain costs, such as U.S. income taxes, administrative costs and allocated financing costs.

WPD, through indirect wholly owned subsidiaries, operates four of the 15 regulated distribution networks providing electricity service in the U.K. With the April 2011 acquisition of WPD Midlands, the number of end-users served by WPD has more than doubled, totaling 7.7 million across 21,400 square miles in Wales and southwest and central England. See Note 10 to the Financial Statements for additional information on the acquisition.

Details of revenue by category for the years ended December 31 are shown below.

	<u>2013</u>		<u>2012</u>		<u>2011</u>	
	<u>Revenue</u>	<u>% of Revenue</u>	<u>Revenue</u>	<u>% of Revenue</u>	<u>Revenue</u>	<u>% of Revenue</u>
Utility revenues (a)	\$ 2,359	98	\$ 2,289	98	\$ 1,618	98
Energy-related businesses	44	2	47	2	35	2
Total	<u>\$ 2,403</u>	<u>100</u>	<u>\$ 2,336</u>	<u>100</u>	<u>\$ 1,653</u>	<u>100</u>

(a) Amounts for 2011 are not comparable with 2012 or 2013 as WPD Midlands was acquired in April 2011. 2011 includes eight months of activity as WPD Midlands' results are recorded on a one-month lag. Amounts for 2013 and 2012 are comparable as each period includes a full year of WPD Midlands' results.

WPD's energy-related business revenues include ancillary activities that support the distribution business, including telecommunication revenues from the rental of fiber optic cables primarily attached to WPD's overhead electricity distribution network, real estate and meter services to businesses across the U.K.

Franchise and Licenses

WPD is authorized by Ofgem to provide electricity distribution services within its concession areas and service territories, subject to certain conditions and obligations. For instance, WPD is subject to Ofgem regulation with respect to the regulated revenue it can earn and the quality of service it must provide, and WPD can be fined or have its licenses revoked if it does not meet the mandated standard of service.

Ofgem has formal powers to propose modifications to each distribution license. In January 2014, Ofgem changed the licenses to include a reduction in customer bills to be recovered in subsequent periods. WPD is not currently aware of any further planned modification to any of its U.K. regulated businesses' distribution licenses that would result in a material adverse change to the U.K. regulated businesses. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - Distribution Revenue Reduction" for additional information.

A failure by WPD to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem. Ofgem has the power to levy fines of up to 10% of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Unless terminated in the circumstances mentioned above, a distribution license continues indefinitely until revoked by Ofgem following no less than 25 years' written notice.

Competition

Although WPD operates in non-exclusive concession areas in the U.K., it currently faces little competition with respect to end-users connected to its network. WPD's four distribution businesses, WPD (South West), WPD (South Wales), WPD (West Midlands) and WPD (East Midlands) are, therefore, regulated monopolies which operate under regulatory price controls.

Revenue and Regulation

The operations of WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands) are regulated by Ofgem under the direction of the Gas and Electricity Markets Authority. The Electricity Act 1989 provides the fundamental framework of electricity companies and established licenses that required each of the DNOs to develop, maintain and operate efficient distribution networks. Ofgem has established a price control mechanism that provides the amount of revenue that a regulated business can earn and provides for an increase or reduction in revenues based on incentives or penalties for exceeding or underperforming relative to pre-established targets.

This regulatory structure is an incentive-based structure in contrast to the typical U.S. regulatory structure which operates on a cost-recovery based model. Under the UK regulatory structure, electricity distribution revenues are currently set every five years, but will be extended to eight years in the next price control period beginning in April 2015. The revenue that DNOs can earn in each price control period is the sum of: i) the regulator's determination of efficient operating costs, ii) a return on capital from RAV plus an annual adjustment for inflation as determined by Retail Price Index (RPI) for the prior year, iii) a return of capital from RAV (i.e. depreciation), and iv) certain pass-through costs over which the DNO has no control. Additionally, incentives are provided for a range of activities including exceeding certain reliability and customer service targets.

WPD is currently operating under DPCR5 which is effective for the period from April 1, 2010 through March 31, 2015. Ofgem allowed an average increase in total revenues, before inflationary adjustments in each of the five years of DPCR5 of 6.9% for WPD (South West) and WPD (South Wales) and 4.5% for WPD Midlands. The revenue increases include reimbursement for higher operating and capital costs that would be incurred from additional regulatory requirements. In DPCR5, Ofgem decoupled WPD's allowed revenue from volume delivered over the five-year price control period. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a particular period. Under-recovered amounts are recovered in the next regulatory year.

In addition to providing a base regulated revenue allowance, Ofgem has established incentive mechanisms to provide significant opportunities to enhance overall returns by improving network efficiency, reliability and customer service. Some of the more significant incentive mechanisms under DPCR5 include:

- Interruptions Incentive Scheme (IIS) - This incentive has two major components: 1) Customer interruptions and 2) Customer minutes lost, and both are designed to incentivize the DNOs to invest and operate their networks to manage and reduce both the frequency and duration of power outages. The target for each DNO is based on a benchmark of data from the last four years of the prior price control period.

Effective April 1, 2012, an additional customer satisfaction incentive mechanism was implemented that includes a customer satisfaction survey, a complaints metric and a measure of stakeholder engagement. This incentive replaced the customer response telephone performance incentive that was effective April 1, 2010.

- Information Quality Incentive (IQI) - The IQI is designed to incentivize the DNOs to provide good quality information in the business plans they submit to Ofgem during the price control review process and to execute the plan as submitted. The IQI eliminates the distinction between capital expenditure and operating expense and instead focuses on total expenditure. Total expenditure is allocated 85% to RAV and currently recovered over 20 years through the regulatory depreciation of RAV and 15% to certain expenses which is recovered during the current price control review period, and includes all corporate and non-network capital expenditures. The IQI provides for incentives or penalties at the end of DPCR5 based on the ratio of actual expenditures to the expenditures submitted to Ofgem that were the basis for the revenues allowed for the five-year price control period.

At the beginning of DPCR5, WPD was awarded \$301 million in IQI revenue of which \$222 million will be included in revenue throughout the current price control period with the balance recovered over subsequent price control periods. The following table shows the amount of further incentive revenue, primarily from IIS, that WPD has earned since the beginning of DPCR5:

Regulatory Year Ended	Incentive Earned (in millions)	Regulatory Year Ended Incentive Included in Revenue
March 2011	\$ 30	March 2013
March 2012	83	March 2014
March 2013	104	March 2015

In October 2010, Ofgem announced changes to the regulatory framework that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to:

- encourage DNOs to deliver safe, reliable and sustainable network service at long-term value to customers;
- enable DNOs to finance the required investment in a timely and efficient way; and
- remunerate DNOs according to their delivery for customers.

Ofgem published a strategy decision document in March 2013 providing the policies that will apply in RIIO-ED1. Key components included:

- an extension of the price review period to eight years;
- increased emphasis on outputs and incentives;
- enhanced stakeholder engagement including network customers;
- a stronger incentive framework to encourage more efficient investment and innovation;
- replacement of the current Low Carbon Network Fund to continue to stimulate innovation;
- capital return comprised of a 10 year trailing average debt allowance and an equity allowance to be determined by Ofgem with a debt to equity ratio of 65:35; and
- depreciation of RAV for additions after April 1, 2015 will be extended from 20 years to 45 years, although transitional arrangements will be considered by Ofgem.

In July 2013, WPD filed its business plans with Ofgem for its four DNOs for RIIO-ED1. In November 2013, Ofgem determined that the 8-year business plans of all four of WPD's DNOs were suitable for accelerated consideration or "fast tracking" and as a result, subject to a final Ofgem determination, merit early settlement of their price controls for the 8-year period starting April 1, 2015. Fast tracking affords several benefits to the WPD DNOs, including the ability to collect additional revenue equivalent to 2.5% of total annual expenditures during the 8-year price control period (approximately \$35 million annually), greater revenue certainty and a higher level of cost savings retention.

In February 2014, Ofgem announced its decision on the consultation related to the cost of equity to be used during the RIIO-ED1 period. The resulting real cost of equity for WPD was 6.4%, compared to 6.7% proposed in WPD's business plan submittals. WPD elected to accept this change and remain in the fast-track process. The change in the cost of equity is not expected to have a significant impact on the results of operations for PPL. Ofgem expects to announce its fast track final determination in late February 2014.

See "Item 1A. Risk Factors - Risks Related to U.K. Regulated Segment" for additional information on the risks associated with RIIO-ED1.

Customers

The majority of WPD's revenue is known as DUoS and is derived from charging energy suppliers for the delivery of electricity to end-users. Therefore, WPD's customers are energy suppliers. Ofgem requires that all licensed electricity distributors and suppliers become parties to the Distribution Connection and Use of System Agreement. This agreement specifies how creditworthiness will be determined and, as a result, whether the supplier needs to collateralize for its payment obligations.

- **Kentucky Regulated Segment (PPL)**

Consists of the operations of LKE, which owns and operates regulated public utilities engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas, representing primarily the activities of LG&E and KU. In addition, certain financing costs are allocated to the Kentucky Regulated segment.

(PPL, LKE, LG&E and KU)

LKE became a wholly owned subsidiary of PPL on November 1, 2010. LG&E and KU are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 397,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 321,000 customers in its electric service area and eight additional counties in Kentucky. KU provides electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, approximately 29,000 customers in five counties in southwestern Virginia, and fewer than ten customers in Tennessee, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to 12 municipalities in Kentucky under load following contracts. In Virginia, KU operates under the name Old Dominion Power Company.

Details of operating revenues by customer class for the years ended December 31 are shown below.

	2013		2012		2011	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
<u>LKE</u>						
Commercial	\$ 770	26	\$ 723	26	\$ 719	26
Industrial	587	20	551	20	533	19
Residential	1,205	40	1,071	39	1,087	39
Retail - other	260	9	270	10	269	9
Wholesale - municipal	110	4	102	4	104	4
Wholesale - other (a)	44	1	42	1	81	3
Total	\$ 2,976	100	\$ 2,759	100	\$ 2,793	100
<u>LG&E</u>						
Commercial	\$ 405	29	\$ 374	28	\$ 372	27
Industrial	186	13	170	13	152	11
Residential	614	44	548	41	561	41
Retail - other	119	8	131	10	130	10
Wholesale - other (a) (b)	86	6	101	8	149	11
Total	\$ 1,410	100	\$ 1,324	100	\$ 1,364	100
<u>KU</u>						
Commercial	\$ 365	22	\$ 349	23	\$ 347	22
Industrial	401	25	381	25	381	25
Residential	591	36	523	34	526	34
Retail - other	141	9	139	9	139	9
Wholesale - municipal	110	7	102	7	104	7
Wholesale - other (a) (b)	27	1	30	2	51	3
Total	\$ 1,635	100	\$ 1,524	100	\$ 1,548	100

(a) Includes wholesale power and transmission revenues.

(b) Includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

Franchises and Licenses

LG&E and KU provide electricity delivery service, and LG&E provides natural gas distribution service, in their respective service territories pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

Competition

There are currently no other electric public utilities operating within the electric service areas of LKE. From time to time, bills are introduced into the Kentucky General Assembly which seek to authorize, promote or mandate increased distributed generation, customer choice or other developments. Neither the Kentucky General Assembly nor the KPSC has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of any legislative or regulatory actions regarding industry restructuring and their impact on LKE, which may be significant, cannot currently be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation that implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

Alternative energy sources such as electricity, oil, propane and other fuels provide indirect competition for natural gas revenues of LKE. Marketers may also compete to sell natural gas to certain large end-users. LG&E's natural gas tariffs include gas price pass-through mechanisms relating to its sale of natural gas as a commodity; therefore, customer natural gas purchases from alternative suppliers do not generally impact profitability. However, some large industrial and commercial customers may physically bypass LG&E's facilities and seek delivery service directly from interstate pipelines or other natural gas distribution systems.

Power Supply

At December 31, 2013, LKE owned, controlled or had a minority ownership interest in generating capacity (summer rating) of 8,079 MW, of which 3,340 MW related to LG&E and 4,739 MW related to KU, in Kentucky, Indiana, and Ohio. See "Item 2. Properties - Kentucky Regulated Segment" for a complete list of LKE's generating facilities.

The system capacity of LKE's owned or controlled generation is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances.

During 2013, LKE's Kentucky power plants generated the following amounts of electricity.

Fuel Source	GWh		
	LKE	LG&E	KU
Coal (a)	34,336	14,568	19,768
Oil / Gas	503	176	327
Hydro	300	193	107
Total (b)	35,139	14,937	20,202

(a) Includes 854 GWh of power generated by and purchased from OVEC for LKE, 591 GWh for LG&E and 263 GWh for KU.

(b) This generation represents a 2.1% increase for LKE, a 5% decrease for LG&E and a 8.1% increase for KU from 2012 output.

A significant portion of LG&E's and KU's generated electricity was used to supply its retail and municipal customer base.

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail and municipal customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail and municipal customers and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU.

See "Item 2. Properties - Kentucky Regulated Segment" for additional information regarding LG&E's and KU's Cane Run Unit 7 which is currently under construction. In January 2014, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to construct a NGCC generating unit at KU's Green River generating site (Green River Unit 5) and a solar generating facility at the E. W. Brown generating site. As a result of environmental requirements, LG&E and KU anticipate retiring five older coal-fired electric generating units at the Cane Run and Green River plants, which have a combined summer capacity rating of 724 MW. In addition, KU retired a 12 MW unit at the Haefling plant in December 2013 and the remaining 71 MW unit at the Tyrone plant in February 2013.

Fuel Supply

Coal is expected to be the predominant fuel used by LG&E and KU for baseload generation for the foreseeable future. However, natural gas will play a more significant role starting in 2015 when Cane Run Unit 7 is expected to be placed into operation, and in 2018 when the NGCC generating unit at Green River generating site is expected to be placed into operation. These units are expected to be used for baseload generation. The natural gas for these generating units will be contracted from suppliers separately from LG&E's natural gas customers. Natural gas and oil will continue to be used for intermediate and peaking capacity and flame stabilization in coal-fired boilers.

Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties. To enhance the reliability of natural gas supply, LG&E and KU have secured long-term pipeline capacity on the interstate pipeline serving the new NGCC unit at Cane Run and six simple cycle combustion turbine units.

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2017 and normally augment their coal supply agreements with spot market purchases, as needed.

For their existing units, LG&E and KU expect for the foreseeable future to purchase most of their coal from western Kentucky, southern Indiana and southern Illinois. In 2014 and beyond, LG&E and KU may purchase certain quantities of ultra-low sulfur content coal from Wyoming for blending at TC2. Coal is delivered to the generating plants by barge, truck and rail.

(PPL, LKE and LG&E)

Natural Gas Distribution Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to LG&E's firm sales customers. By using natural gas storage facilities, LG&E avoids the costs typically associated with more expensive pipeline transportation capacity to serve peak winter heating loads. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services are typically at their highest. Several suppliers under contracts of varying duration provide competitively priced natural gas. At December 31, 2013, LG&E had 12 Bcf of natural gas stored underground with a carrying value of \$48 million.

LG&E has a portfolio of supply arrangements of varying terms with a number of suppliers designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2015 and 2018. Total winter capacity under these contracts is 194,900 MMBtu/day and summer capacity is 88,000 MMBtu/day. LG&E has a contract with another pipeline that expires in October 2018. Total winter and summer capacity under this contract is 20,000 MMBtu/day during both seasons.

LG&E expects to purchase most of its natural gas distribution supplies from onshore producing regions in South Texas, East Texas, North Louisiana, and Arkansas, as well as gas delivered to its pipeline transporters in Ohio.

(PPL, LKE, LG&E and KU)

Rates and Regulation

LG&E is subject to the jurisdiction of the KPSC and the FERC, and KU is subject to the jurisdiction of the KPSC, the FERC, the VSCC and the TRA. LG&E and KU operate under a FERC-approved open access transmission tariff. LG&E and KU contract with the Tennessee Valley Authority to act as their transmission reliability coordinator. LG&E and KU contract with TransServ International, Inc. to act as their independent transmission operator.

In February 2013, LG&E and KU submitted a compliance filing to the FERC reflecting their participation with other utilities in the Southeastern Regional Transmission Planning relating to certain FERC Order 1000 requirements. FERC Order 1000, issued in July 2011, establishes certain procedural and substantive requirements relating to participation, cost allocation and non-incumbent developer aspects of regional and inter-regional electric transmission planning activities.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including adjustments for certain net investments and costs recovered separately through other means. As such, LG&E and KU generally earn a return on regulatory assets.

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates; therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates; therefore, no return is earned on the related assets.

See Note 6 to the Financial Statements for additional information on cost recovery mechanisms.

Rate Cases

See "Regulatory Matters - Kentucky Activities" in Note 6 to the Financial Statements for information on rate cases.

- **Pennsylvania Regulated Segment (PPL)**

Includes the regulated electricity delivery operations of PPL Electric. In addition, certain financing costs are allocated to the Pennsylvania Regulated segment.

(PPL and PPL Electric)

PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties of eastern and central Pennsylvania. PPL Electric also provides electricity supply to retail customers in this area as a PLR under the Customer Choice Act.

Details of revenues by customer class for the years ended December 31 are shown below.

	2013		2012		2011	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Distribution						
Residential	\$ 1,215	65	\$ 1,108	63	\$ 1,266	67
Industrial	52	3	53	3	62	3
Commercial	363	19	366	21	431	23
Other (a) (b)	(11)		26	1	(47)	(3)
Transmission	251	13	210	12	180	10
Total	\$ 1,870	100	\$ 1,763	100	\$ 1,892	100

(a) Includes regulatory over- or under-recovery reconciliation mechanisms, pole attachment revenues, and street lighting.

(b) Included in these amounts for 2013, 2012 and 2011 are \$4 million, \$3 million and \$11 million of retail and wholesale electric to affiliate revenue which is eliminated in consolidation for PPL.

Franchise, Licenses and Other Regulations

PPL Electric is authorized to provide electric public utility service throughout its service area as a result of grants by the Commonwealth of Pennsylvania in corporate charters to PPL Electric and companies which it has succeeded and as a result of certification by the PUC. PPL Electric is granted the right to enter the streets and highways by the Commonwealth subject to certain conditions. In general, such conditions have been met by ordinance, resolution, permit, acquiescence or other action by an appropriate local political subdivision or agency of the Commonwealth.

Competition

Pursuant to authorizations from the Commonwealth of Pennsylvania and the PUC, PPL Electric operates a regulated distribution monopoly in its service area. Accordingly, PPL Electric does not face competition in its electricity distribution business. Pursuant to the Customer Choice Act, generation of electricity is a competitive business in Pennsylvania.

The PPL Electric transmission business, operating under a FERC-approved PJM Open Access Transmission Tariff, is subject to competition pursuant to FERC Order 1000 from entities that are not incumbent PJM transmission owners with respect to the construction and ownership of transmission facilities within PJM.

Rates and Regulation

Transmission

PPL Electric's transmission facilities are within PJM, which operates the electricity transmission network and electric energy market in the Mid-Atlantic and Midwest regions of the U.S.

PJM serves as a FERC-approved RTO to promote greater participation and competition in the region it serves. In addition to operating the electricity transmission network, PJM also administers regional markets for energy, capacity and ancillary services. A primary objective of any RTO is to separate the operation of, and access to, the transmission grid from market participants that buy or sell electricity in the same markets. Electric utilities continue to own the transmission assets and to receive their share of transmission revenues, but the RTO directs the control and operation of the transmission facilities.

As a transmission owner, PPL Electric's transmission revenues are recovered through PJM in accordance with a FERC approved tariff that allows recovery of incurred transmission costs, a return on transmission-related plant and an automatic annual update based on a formula rate mechanism. As a PLR, PPL Electric also purchases transmission services from PJM. See "PLR" below.

In July 2011, FERC issued a Final Rule on Order 1000 directing that Transmission Providers such as PJM, remove from FERC approved tariffs, any provision that grants federal right of first refusal for facilities selected in a regional transmission plan and requiring subsequent compliance filings. PJM tariff changes are currently under review by the FERC.

See Note 6 to the Financial Statements for additional information on rate mechanisms.

Distribution

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). All regulatory assets and liabilities are excluded from the return on rate base; therefore, no return is earned on the related assets unless specifically provided for by the PUC. Currently, PPL Electric's Smart Meter rider is the only regulatory asset earning a return. Certain operating expenses are also included in PPL Electric's distribution base rates including wages and benefits, other operation and maintenance expenses, depreciation, and taxes.

Pennsylvania's AEPS requires electricity distribution companies and electricity generation suppliers to obtain a portion of the electricity sold to retail customers in Pennsylvania from alternative energy sources. Under the default service procurement plans approved by the PUC, PPL Electric purchases all of the alternative energy generation supply it needs to comply with the AEPS.

Act 129 created an energy efficiency and conservation program, a demand side management program, smart metering technology requirements, new PLR generation supply procurement rules, remedies for market misconduct, and changes to the existing AEPS.

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system. In January 2013, PPL Electric filed a petition requesting permission to establish a DSIC. In May 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four technical recovery calculation issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. The case remains pending before the PUC.

See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information regarding Act 129, Act 11 and other legislative and regulatory impacts.

PLR

The Customer Choice Act requires Electric Distribution Companies (EDCs), including PPL Electric, or an alternative supplier approved by the PUC to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to regulations established by the PUC. As of December 31, 2013, the following percentages of PPL Electric's customer load were provided by competitive suppliers: 51% of residential, 84% of small commercial and industrial and 99% of large commercial and industrial customers. The PUC continues to be interested in expanding the competitive market for electricity. See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information.

PPL Electric's cost of electricity generation is based on a competitive solicitation process. The PUC approved PPL Electric's default service plan for the period June 2013 through May 2015, which includes 4 solicitations for electricity supply held in April and October, annually. Pursuant to this plan, PPL Electric contracts for all of the electricity supply for residential, small commercial and small industrial customers, large commercial and large industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of 12- and 9-month fixed-price load-following contracts for residential, small commercial and small industrial customers, and 12-month real-time pricing contracts for large commercial and large industrial customers to fulfill PPL Electric's obligation to provide customer electricity supply as a PLR.

Numerous alternative suppliers have offered to provide generation supply in PPL Electric's service territory. Whether its customers purchase electricity supply from these alternative suppliers or from PPL Electric as a PLR, the purchase of such supply has no impact on the financial results of PPL Electric. The costs to purchase PLR supply, including charges paid to PJM for related transmission services, are passed directly by PPL Electric to its PLR customers without markup. See "Energy Purchase Commitments" in Note 15 to the Financial Statements for additional information regarding PPL Electric's solicitations.

Rate Cases

See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information on rate cases and the proposed Storm Damage Expense Rider.

- **Supply Segment (PPL)**

Consists primarily of the activities of PPL Energy Supply's subsidiaries, PPL Generation and PPL EnergyPlus. PPL Generation owns and operates competitive domestic power plants to generate electricity and acquires and develops competitive domestic generation projects. PPL EnergyPlus markets and trades electricity, natural gas, and other energy-related products in competitive wholesale and retail markets. In addition, certain financing and other costs are allocated to the Supply segment.

(PPL and PPL Energy Supply)

PPL Energy Supply's generation assets are located in the northeastern and northwestern U.S. markets. The northeastern generating capacity is located primarily in Pennsylvania within PJM and northwestern generating capacity is located in Montana. PPL Energy Supply enters into energy and energy-related contracts to hedge the variability of expected cash flows associated with its generating units and marketing activities, as well as for trading purposes. PPL EnergyPlus sells the electricity produced by PPL Energy Supply's generation plants based on prevailing market rates. PPL Energy Supply's total expected generation in 2014 is anticipated to be used to meet its committed contractual sales. PPL Energy Supply has also entered into commitments of varying quantities and terms for 2015 and beyond.

Details of revenue by category for the years ended December 31, are shown below.

	2013		2012		2011	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Energy						
Unregulated wholesale energy (a)	\$ 3,095	67	\$ 4,204	76	\$ 5,238	82
Unregulated retail energy	1,031	22	848	16	727	11
Total energy	4,126	89	5,052	92	5,965	93
Energy-related businesses (b)	527	11	448	8	464	7
Total	\$ 4,653	100	\$ 5,500	100	\$ 6,429	100

- (a) Included in these amounts for 2013, 2012, and 2011 are \$51 million, \$78 million and \$26 million of wholesale electricity sales to an affiliate, PPL Electric, which are eliminated in consolidation for PPL.
- (b) Energy-related businesses primarily support the generation, marketing and trading businesses of PPL Energy Supply. Their activities include developing renewable energy projects and providing energy-related products and services to commercial and industrial customers through their mechanical contracting and services subsidiaries. Energy-related businesses for PPL's Supply segment had additional revenues not related to PPL Energy Supply of \$13 million and \$8 million for 2012 and 2011, which are not included in this table.

Power Supply

PPL Energy Supply owned or controlled generating capacity (summer rating) of 10,678 MW at December 31, 2013. Generating capacity controlled by PPL Generation and other PPL Energy Supply subsidiaries includes power obtained through PPL EnergyPlus' power purchase agreements. See "Item 2. Properties - Supply Segment" for details of PPL Energy Supply's generating capacity.

During 2013, PPL Energy Supply owned or controlled power plants that generated the following amounts of electricity.

Fuel Source	GWh		
	Northeastern	Northwestern	Total
Nuclear	17,018		17,018
Oil / Gas	9,516		9,516
Coal	17,150	4,409	21,559
Hydro	662	3,252	3,914
Renewables (a)	348		348
Total	44,694	7,661	52,355

- (a) PPL Energy Supply subsidiaries own or control renewable energy projects located in Pennsylvania, New Jersey, Vermont and New Hampshire with a generating capacity (summer rating) of 42 MW. PPL EnergyPlus sells the energy, capacity and RECs produced by these plants into the wholesale market as well as to commercial and industrial customers.

PPL Energy Supply's generation subsidiaries are EWGs that sell electricity into wholesale markets. EWGs are subject to regulation by the FERC, which has authorized these EWGs to sell the electricity generated at market-based prices. This electricity is sold to PPL EnergyPlus under FERC-jurisdictional power purchase agreements. PPL Susquehanna is subject to the jurisdiction of the NRC in connection with the operation of the Susquehanna nuclear units. Certain of PPL Energy Supply's other subsidiaries are subject to the jurisdiction of the NRC in connection with the operation of their fossil plants with respect to certain level and density monitoring devices. Certain operations of PPL Generation's subsidiaries are also subject to OSHA and comparable state statutes.

See Note 9 to the Financial Statements for information on the 2011 sale of certain non-core generation facilities.

Fuel Supply

Coal

Pennsylvania

PPL EnergyPlus actively manages PPL Energy Supply's coal requirements by purchasing coal principally from mines located in northern Appalachia.

During 2013, PPL Generation purchased 5.7 million tons of coal required for its wholly owned Pennsylvania plants. Coal inventory is maintained at levels estimated to be necessary to avoid operational disruptions at coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties. PPL Generation, by and through its agent PPL EnergyPlus, has agreements in place that will provide more than 17 million tons of PPL Generation's projected coal needs for the Pennsylvania power plants from 2014 through 2018 and augments its coal supply agreements with spot market purchases, as needed.

A PPL Generation subsidiary owns a 12.34% interest in the Keystone plant and a 16.25% interest in the Conemaugh plant. PPL Generation owns a 12.34% interest in Keystone Fuels, LLC and a 16.25% interest in Conemaugh Fuels, LLC. The Keystone plant contracts with Keystone Fuels, LLC for its coal requirements, which provided 4.2 million tons of coal to the Keystone plant in 2013. The Conemaugh plant requirements are purchased under contract from Conemaugh Fuels, LLC, which provided 4.3 million tons of coal to the Conemaugh plant in 2013.

All wholly owned PPL Generation coal plants within Pennsylvania are equipped with scrubbers, which use limestone in their operations. Acting as agent for PPL Generation, PPL EnergyPlus has entered into limestone contracts with suppliers that will provide for those plants' requirements through 2014. During 2013, 405,000 tons of limestone were delivered to Brunner Island and Montour under these contracts. Annual limestone requirements range from approximately 400,000-500,000 tons.

Montana

PPL Montana owns a 30% interest in Colstrip Unit 3 and NorthWestern owns a 30% interest in Colstrip Unit 4. PPL Montana and NorthWestern have a sharing agreement that governs each party's responsibilities and rights relating to the operation of Colstrip Units 3 and 4. Under the terms of that agreement, each party is responsible for 15% of the total non-coal operating and construction costs of Colstrip Units 3 and 4, regardless of whether a particular cost is specific to Colstrip Unit 3 or 4 and is entitled to take up to 15% of the available generation from Units 3 and 4. Each party is responsible for its own coal costs. PPL Montana, with the other Colstrip owners, is party to contracts to purchase 100% of its coal requirements with defined coal quality characteristics and specifications. PPL Montana, with the other Colstrip Units 1 and 2 owner, has a long-term purchase and supply agreement with the current supplier for Units 1 and 2, which provides these units 100% of their coal requirements through December 2014, and at least 85% of such requirements from January 2015 through December 2019. PPL Montana, with the other Colstrip Units 3 and 4 owners, has a long-term coal supply contract for Units 3 and 4, which provides these units 100% of their coal requirements through December 2019.

These units were originally built with scrubbers and PPL Montana has entered into a long-term contract to purchase the limestone requirements for these units. The contract extends through December 2030.

Coal supply contracts are in place to purchase low-sulfur coal with defined quality characteristics and specifications for PPL Montana's Corette plant. The contracts covered 100% of the plant's coal requirements in 2013 and similar contracts are in place to supply 100% of the expected coal requirements through 2014. In the third quarter of 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with MATS.

Oil and Natural Gas

Pennsylvania

PPL Generation's Martins Creek Units 3 and 4 burn both oil and natural gas. During 2013, 100% of the physical gas requirements for the Martins Creek units were purchased on the spot market and oil requirements were supplied from inventory. At December 31, 2013, there were no long-term agreements for oil or natural gas for these units.

Short-term and long-term gas transportation contracts are in place for approximately 38% of the maximum daily requirements of the Lower Mt. Bethel combined-cycle facility. During 2013, 100% of the physical gas requirements were purchased on the spot market.

For PPL's Ironwood facility, PPL EnergyPlus has long-term transportation contracts that can deliver up to approximately 25% of Ironwood's maximum daily gas requirements. Daily gas requirements can also be met through a combination of short-term transportation capacity release transactions coupled with upstream supply. PPL EnergyPlus currently has no long-term physical gas contracts for this facility. During 2013, 100% of the physical gas requirements were purchased on the spot market.

Nuclear

The nuclear fuel cycle consists of several material and service components: the mining and milling of uranium ore to produce uranium concentrates; the conversion of these concentrates into uranium hexafluoride, a gas component; the enrichment of the hexafluoride gas; the fabrication of fuel assemblies for insertion and use in the reactor core; and the temporary storage and final disposal of spent nuclear fuel.

PPL Susquehanna has a portfolio of supply contracts, with varying expiration dates, for nuclear fuel materials and services. These contracts are expected to provide sufficient fuel to permit Unit 1 to operate into the first quarter of 2018 and Unit 2 to operate into the first quarter of 2019. PPL Susquehanna anticipates entering into additional contracts to ensure continued operation of the nuclear units.

Federal law requires the U.S. government to provide for the permanent disposal of commercial spent nuclear fuel, but there is no definitive date by which a repository will be operational. As a result, it was necessary to expand Susquehanna's on-site spent fuel storage capacity. To support this expansion, PPL Susquehanna contracted for the design and construction of a spent fuel storage facility employing dry cask fuel storage technology. The facility is modular, so that additional storage capacity can be added as needed. The facility began receiving spent nuclear fuel in 1999. PPL Susquehanna estimates, under current operating conditions, that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site spent fuel storage facility at Susquehanna to accommodate spent fuel discharged through approximately 2017. If necessary, the on-site spent fuel storage facility can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facility will accommodate all of the spent fuel expected to be discharged through the current licensed life of the plant.

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits totaling \$56 million to "Fuel" on the Statement of Income in 2011 to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. The amounts recorded through September 2011 cover costs incurred from 1998 through December 2010. PPL Susquehanna is eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred through December 31, 2013. In exchange, PPL Susquehanna has waived any claims against the United States government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013. In January 2014, PPL Susquehanna entered into a new agreement with the Department of Energy to extend the settlement agreement on the same terms as the prior agreement for an additional three years to the end of 2016.

Energy Marketing

PPL EnergyPlus sells the capacity and electricity produced by PPL Generation subsidiaries, and buys and sells purchased power, capacity, ancillary services, FTRs, natural gas, oil, uranium, emission allowances and RECs in competitive wholesale and competitive retail markets.

PPL EnergyPlus transacts in competitive retail energy markets, and buys and sells electricity and natural gas supply, to meet the diverse needs of business customers. PPL EnergyPlus sells retail electricity supply to business customers in Delaware, the District of Columbia, Maryland, Montana, New Jersey, Ohio and Pennsylvania and sells retail natural gas supply to business customers in Delaware, Maryland, New Jersey, and Pennsylvania. The company also offers electricity supply to select residential customers in Pennsylvania. An affiliate of PPL EnergyPlus sells petroleum products to wholesalers and distributors in Delaware, Maryland, New Jersey, Pennsylvania and Virginia. Although retail energy revenues continue to grow, the net margins related to these activities are not currently a significant component of PPL Energy Supply's margins.

Within the constraints of its hedging policy, PPL EnergyPlus actively manages its portfolios of energy and energy-related products to optimize their value and to limit exposure to price fluctuations. See Note 19 to the Financial Statements for more information.

Competition

Since the early 1990s, there has been increased competition in U.S. energy markets because of federal and state competitive market initiatives. Although some states, such as Pennsylvania and Montana, have created a competitive market for electricity generation, other states continue to consider different types of regulatory initiatives concerning competition in the

power and gas industries. Some states that were considering creating competitive markets have slowed their plans or postponed further consideration. In addition, states that have created competitive markets have, from time to time, considered new market rules and re-regulation measures that could result in more limited opportunities for competitive energy suppliers. Interest in re-regulation, however, has slowed due to recent declining power prices. As such, the markets in which PPL Energy Supply participates are highly competitive.

PPL Energy Supply faces competition in wholesale markets for available energy, capacity and ancillary services. Competition is impacted by electricity and fuel prices, congestion along the power grid, subsidies provided by state and federal governments for new generation facilities, new market entrants, construction of new generating assets, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. PPL Energy Supply primarily competes with other electricity suppliers based on its ability to aggregate generation supply at competitive prices from different sources and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities and ISOs. Competitors in wholesale power markets include regulated utilities, industrial companies, NUGs, competitive subsidiaries of regulated utilities and other energy marketers. See "Item 1A. Risk Factors - Risks Related to Supply Segment", "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" and Notes 15 and 19 to the Financial Statements for more information concerning the risks faced with respect to competitive energy markets.

Franchise and Licenses

See "Energy Marketing" above for a discussion of PPL EnergyPlus' licenses in various states. PPL EnergyPlus also has an export license from the DOE to sell capacity and/or energy to electric utilities in Canada.

PPL Susquehanna operates Units 1 and 2 pursuant to NRC operating licenses that expire in 2042 for Unit 1 and in 2044 for Unit 2.

In 2008, a PPL Energy Supply subsidiary, PPL Bell Bend, LLC, submitted a COLA to the NRC for a new nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. Also in 2008, the COLA was formally docketed and accepted for review by the NRC. PPL Bell Bend, LLC does not expect to complete the COLA review process with the NRC prior to 2016. See Note 8 to Financial Statements for additional information.

PPL Holtwood operates the Holtwood hydroelectric generating plant pursuant to a FERC-granted license that expires in 2030. In 2013, a 125 MW expansion project was placed in service. See Note 8 to the Financial Statements for additional information. PPL Holtwood operates the Wallenpaupack hydroelectric generating plant pursuant to a FERC-granted license that expires in 2044.

PPL Montana's 11 hydroelectric facilities and one storage reservoir in Montana are licensed by the FERC. The Thompson Falls and Kerr licenses expire in 2025 and 2035, the licenses for the nine Missouri-Madison facilities expire in 2040, and the license for the Mystic facility expires in 2050. See Note 8 to the Financial Statements for additional information on the September 2013 agreement for the sale of the Montana hydroelectric facilities. Also see Note 11 for information on a pending arbitration related to the conveyance price for the Kerr Dam.

In connection with the relicensing of these generating facilities, applicable law permits the FERC to relicense the original licensee or license a new licensee or allow the U.S. government to take over the facility. If the original licensee is not relicensed, it is compensated for its net investment in the facility, not to exceed the fair value of the property taken, plus reasonable damages to other property affected by the lack of relicensing. See Note 15 to the Financial Statements for additional information on the Kerr Dam license.

- **Other Corporate Functions** (PPL)

PPL Services provides corporate functions such as financial, legal, supply chain, human resources and information technology services. Most of PPL Services' costs are charged directly to the respective PPL subsidiaries for the services provided or indirectly charged to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees.

PPL Capital Funding, PPL's financing subsidiary, provides financing for the operations of PPL and certain subsidiaries. PPL's growth in rate-regulated businesses provides the organization with an enhanced corporate level financing alternative, through PPL Capital Funding, that further enables PPL to cost effectively support targeted credit profiles across all of PPL's rated companies. As a result, PPL plans to further utilize PPL Capital Funding in future financings, in addition to continued direct financing by the operating companies.

Unlike PPL Services, PPL Capital Funding's costs are not generally charged to any PPL subsidiaries. Costs are charged directly to PPL. However, PPL Capital Funding participated significantly in the financing for the acquisitions of LKE and WPD Midlands and certain associated financing costs were charged directly to the Kentucky and U.K. Regulated segments. The associated financing costs, as well as the financing costs associated with prior issuances of certain other PPL Capital Funding securities, have been and will continue to be assigned to the appropriate segments for purposes of PPL management's assessment of segment performance. The financing costs associated primarily with PPL Capital Funding's securities issuances in 2013 and beyond, with certain exceptions including the remarketing of the debt component of the Equity Units, have not been directly assigned or allocated to any segment.

(All Registrants)

SEASONALITY

The demand for and market prices of electricity and natural gas are affected by weather. As a result, the Registrants' operating results in the future may fluctuate substantially on a seasonal basis, especially when more severe weather conditions such as heat waves or extreme winter weather make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities owned, the retail load served and the terms of contracts to purchase or sell electricity. See "Financial Condition - Environmental Matters" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information regarding climate change.

FINANCIAL CONDITION

See "Financial Condition" in Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for this information.

CAPITAL EXPENDITURE REQUIREMENTS

See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information concerning projected capital expenditure requirements for 2014 through 2018. See Note 15 to the Financial Statements for additional information concerning the potential impact on capital expenditures from environmental matters.

ENVIRONMENTAL MATTERS

The Registrants are subject to certain existing and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. The EPA is in the process of proposing and finalizing an unprecedented number of environmental regulations that will directly affect the electricity industry. These initiatives cover air, water and waste. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" on projected environmental capital expenditures for the years 2014-2018. Also, see "Environmental Matters" in Note 15 to the Financial Statements for additional information. To comply with primarily air-related environmental requirements, PPL's forecast for environmental capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections are \$2.4 billion for PPL, including \$2.2 billion for LKE (\$1.1 billion each for LG&E and KU), and \$279 million for PPL Energy Supply. Actual costs (including capital, emission allowance purchases and operational modifications) may be significantly lower or higher depending on the final compliance requirements and market conditions. PPL's and LKE's subsidiaries may also incur capital expenditures and operating expenses, which are not now determinable, but could be significant. Most environmental compliance costs incurred by LG&E and KU are subject to recovery through a rate recovery mechanism. See Note 6 to the Financial Statements for additional information.

EMPLOYEE RELATIONS

At December 31, 2013, PPL and its subsidiaries had the following full-time employees.

PPL Energy Supply (a)	4,912
PPL Electric	2,239
LKE	
KU	945
LG&E	999
LKS	1,446
Total LKE	3,390
PPL Global (primarily WPD)	6,309
PPL Services and other	1,258
Total PPL	18,108

(a) Includes labor union employees of mechanical contracting subsidiaries, whose numbers tend to fluctuate due to the nature of this business.

At December 31, 2013, the breakdown of the total workforce that is represented by labor unions was:

	<u>Number of Employees</u>	<u>Percent of Total Workforce</u>
PPL	9,713	54%
PPL Energy Supply	3,063	62%
PPL Electric	1,419	63%
LKE	843	25%
LG&E	701	70%
KU	142	15%

There are 4,016 employees of WPD who are members of labor unions (or 64% of PPL's U.K. workforce). WPD recognizes four unions, the largest of which represents 40% of its union workforce. WPD's Electricity Business Agreement, which covers 3,941 union employees, may be amended by agreement between WPD and the unions and can be terminated with 12 months' notice by either side.

AVAILABLE INFORMATION

PPL's Internet website is www.pplweb.com. Under the Investor heading of that website, PPL provides access to all SEC filings of the Registrants (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d)) free of charge, as soon as reasonably practicable after filing with the SEC. Additionally, the Registrants' filings are available at the SEC's website (www.sec.gov) and at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, or by calling 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

The Registrants face various risks associated with their businesses. Our businesses, financial condition, cash flows or results of operations could be materially adversely affected by any of these risks. In addition, this report also contains forward-looking and other statements about our businesses that are subject to numerous risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 15 to the Financial Statements for more information concerning the risks described below and for other risks, uncertainties and factors that could impact our businesses and financial results.

As used in this Item 1A., the terms "we," "our" and "us" generally refer to PPL and its consolidated subsidiaries taken as a whole, or to PPL Energy Supply and its consolidated subsidiaries taken as a whole within the Supply segment discussions, or PPL Electric and its consolidated subsidiaries taken as a whole within the Pennsylvania Regulated segment discussion, or LKE and its consolidated subsidiaries taken as a whole within the Kentucky Regulated segment discussion.

Risks Related to All Segments

(All Registrants)

We plan to selectively pursue growth of transmission and distribution capacity, and to optimize our merchant and regulated generation operations, which involves a number of uncertainties and may not achieve the desired financial results.

We plan to pursue expansion of our transmission and distribution capacity over the next several years and to optimize our merchant and regulated generation operations. We plan to do this through the potential construction or acquisition of transmission and distribution projects and capital investments to upgrade transmission and distribution infrastructure, and power uprates at certain of our existing power plants, the construction of new power plants or modification of existing power plants, and the potential closure of certain existing plants. These types of projects involve numerous risks. Any planned power uprates could result in cost overruns, reduced plant efficiency and higher operating and other costs. With respect to the construction of new plants or modification of existing plants, or the construction or acquisition of transmission and distribution projects, we may be required to expend significant sums for preliminary engineering, permitting, resource exploration, legal and other expenses before it can be established whether a project is feasible, economically attractive or capable of being financed. Expansion in our regulated businesses is dependent on future load or service requirements and subject to applicable regulatory processes. The success of both a new or acquired project would likely be contingent, among other things, upon the negotiation of satisfactory operating contracts, obtaining acceptable financing and maintaining acceptable credit ratings, as well as receipt of required and appropriate governmental approvals. If we were unable to complete construction or expansion of a project, we may not be able to recover our investment in the project. Furthermore, we might be unable to operate any new or modified plants as efficiently as projected, which could result in higher than projected operating and other costs and reduced earnings.

Adverse economic conditions could adversely affect our financial condition and results of operations.

Declines in wholesale energy prices, partially resulting from adverse economic conditions, have significantly impacted our earnings. The breadth and depth of these negative economic conditions had a wide-ranging impact on the U.S. and U.K. business environment, including our businesses, and demand for energy commodities has declined significantly. This reduced demand continues to impact the key domestic wholesale energy markets we serve (such as PJM) and our Pennsylvania and Kentucky utility businesses. The combination of lower demand for power and increased supply of natural gas has put downward price pressure on wholesale energy markets in general, further impacting our energy marketing results. In general, economic and commodity market conditions will continue to challenge predictability regarding our unhedged future energy margins, utility profits, liquidity and overall financial condition.

Disruption in financial markets could adversely affect our financial condition and results of operations.

Our businesses are heavily dependent on credit and capital, among other things, for capital expenditures and providing collateral to support hedging in our energy marketing business. Regulations being implemented under the Dodd-Frank Act and Basel III in Europe may impose costly additional requirements on our businesses and the businesses of others with whom we contract, such as banks or other counterparties, or simply result in increased costs to conduct our business or access sources of capital and liquidity upon which the conduct of our businesses is dependent.

We could be negatively affected by rising interest rates, downgrades to our bond credit ratings, adverse credit market conditions or other negative developments in our ability to access capital markets.

In the ordinary course of business, we are reliant upon adequate long-term and short-term financing to fund our significant capital expenditures, debt service and operating needs. As a capital-intensive business, we are sensitive to developments in interest rates; credit rating considerations; insurance, security or collateral requirements; market liquidity and credit availability and refinancing opportunities necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased availability of credit.

A downgrade in our credit ratings could negatively affect our ability to access capital and increase the cost of maintaining our credit facilities and any new debt.

Credit ratings assigned by Moody's, Fitch and S&P to our businesses and their financial obligations have a significant impact on the cost of capital incurred by our businesses. A ratings downgrade could increase our short-term borrowing costs and negatively affect our ability to fund liquidity needs and access new long-term debt at acceptable interest rates. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Ratings Triggers" for additional information on the financial impact of a downgrade in our credit ratings.

Our operating revenues could fluctuate on a seasonal basis, especially as a result of extreme weather conditions.

Our businesses are subject to seasonal demand cycles. For example, in some markets demand for, and market prices of, electricity peak during hot summer months, while in other markets such peaks occur in cold winter months. As a result, our overall operating results in the future may fluctuate substantially on a seasonal basis if weather conditions such as heat waves, extreme cold, unseasonably mild weather or severe storms occur. The patterns of these fluctuations may change depending on the type and location of our facilities and the terms of our contracts to sell electricity.

Operating expenses could be affected by weather conditions, including storms, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.

Weather and these other factors can significantly affect our profitability or operations by causing outages, damaging infrastructure and requiring significant repair costs. Storm outages and damage often directly decrease revenues and increase expenses, due to reduced usage and restoration costs.

The operation of our businesses is subject to cyber-based security and integrity risk.

Numerous functions affecting the efficient operation of our businesses are dependent on the secure and reliable storage, processing and communication of electronic data and the use of sophisticated computer hardware and software systems. The operation of our generation plants, including the Susquehanna nuclear plant, and of our energy and fuel trading businesses, as well as our transmission and distribution operations are all reliant on cyber-based technologies and, therefore, subject to the risk that such systems could be the target of disruptive actions, principally by terrorists or vandals, or otherwise be compromised by unintentional events. As a result, operations could be interrupted, property could be damaged and customer information lost or stolen, causing us to incur significant losses of revenues, other substantial liabilities and damages and costs to replace or repair damaged equipment.

Our businesses are subject to physical, market and economic risks relating to potential effects of climate change.

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation levels, and thus may impact consumer demand for electricity. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs. Greenhouse gas regulation could increase the cost of electricity, particularly power generated by fossil fuels, and such increases could have a depressive effect on regional economies. Reduced economic and consumer activity in our service areas -- both generally and specific to certain industries and consumers accustomed to previously lower cost power -- could reduce demand for the power we generate, market and deliver. Also, demand for our energy-related services could be similarly lowered should consumers' preferences or market factors move toward favoring energy efficiency, low-carbon power sources or reduced electricity usage.

We cannot predict the outcome of the legal proceedings and investigations currently being conducted with respect to our current and past business activities. An adverse determination could have a material adverse effect on our financial condition, results of operations or cash flows.

We are involved in legal proceedings, claims and litigation and subject to ongoing state and federal investigations arising out of our business operations, the most significant of which are summarized in "Federal Matters" in Note 6 and "Legal Matters," "Regulatory Issues" and "Environmental Matters - Domestic" in Note 15 to the Financial Statements. We cannot predict the ultimate outcome of these matters, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

Significant increases in our operation and maintenance expenses, including health care and pension costs, could adversely affect our future earnings and liquidity.

We continually focus on limiting and reducing our operation and maintenance expenses. However, we expect to continue to face increased cost pressures in our operations. Increased costs of materials and labor may result from general inflation, increased regulatory requirements (especially in respect of environmental regulations), the need for higher-cost expertise in the workforce or other factors. In addition, pursuant to collective bargaining agreements, we are contractually committed to provide specified levels of health care and pension benefits to certain current employees and retirees. We provide a similar level of benefits to our management employees. These benefits give rise to significant expenses. Due to general inflation with respect to such costs, the aging demographics of our workforce and other factors, we have experienced significant health care cost inflation in recent years, and we expect our health care costs, including prescription drug coverage, to continue to increase despite measures that we have taken and expect to take to require employees and retirees to bear a higher portion of the costs of their health care benefits. In addition, we expect to continue to incur significant costs with respect to the defined benefit pension plans for our employees and retirees. The measurement of our expected future health care and pension obligations, costs and liabilities is highly dependent on a variety of assumptions, most of which relate to factors beyond our control. These assumptions include investment returns, interest rates, health care cost trends, inflation rates, benefit improvements, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs and cash contribution requirements to fund these benefits could increase significantly.

We may be required to record impairment charges in the future for certain of our investments, which could adversely affect our earnings.

Under GAAP, we are required to test our recorded goodwill for impairment on an annual basis, or more frequently if events or circumstances indicate that these assets may be impaired. Although no goodwill impairments were recorded based on our annual review in the fourth quarter of 2013, we are unable to predict whether future impairment charges may be necessary.

We also review our long-lived assets, including equity investments, for impairment when events or circumstances indicate that the carrying value of these assets may not be recoverable. See Notes 1, 9 and 18 to the Financial Statements for additional information on impairment charges taken and analysis performed during the reporting periods. We are unable to predict whether impairment charges, or other losses on sales of other assets or businesses, may occur in future years.

We may incur liabilities in connection with discontinued operations.

In connection with various divestitures, and certain other transactions, we have indemnified or guaranteed parties against certain liabilities. These indemnities and guarantees relate, among other things, to liabilities which may arise with respect to the period during which we or our subsidiaries operated a divested business, and to certain ongoing contractual relationships and entitlements with respect to which we or our subsidiaries made commitments in connection with the divestiture. See "Guarantees and Other Assurances" in Note 15 to the Financial Statements.

We are subject to liability risks relating to our generation, transmission and distribution operations.

The conduct of our physical and commercial operations subjects us to many risks, including risks of potential physical injury, property damage or other financial liability, caused to or by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

Our facilities may not operate as planned, which may increase our expenses and decrease our revenues and have an adverse effect on our financial performance.

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects us to a variety of risks, including the breakdown or failure of equipment, accidents, security breaches, viruses or outages affecting information technology systems, labor disputes, obsolescence, delivery/transportation problems and disruptions of fuel supply and performance below expected levels. These events may impact our ability to conduct our businesses efficiently and lead to increased costs, expenses or losses. Operation of our delivery systems below our expectations may result in lost revenue and increased expense, including higher maintenance costs which may not be recoverable from customers. Planned and unplanned outages at our power plants may require us to purchase power at then-current market prices to satisfy our commitments or, in the alternative, pay penalties and damages for failure to satisfy them.

Although we maintain customary insurance coverage for certain of these risks, no assurance can be given that such insurance coverage will be sufficient to compensate us fully in the event losses occur.

We are subject to risks associated with federal and state tax laws and regulations.

Changes in tax law as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations. We are required to make judgments in order to estimate our obligations to taxing authorities. These tax obligations include income, property, gross receipts and franchise, sales and use, employment-related and other taxes. We also estimate our ability to utilize tax benefits and tax credits. Due to the revenue needs of the jurisdictions in which our businesses operate, various tax and fee increases may be proposed or considered. We cannot predict whether such tax legislation or regulation will be introduced or enacted or the effect of any such changes on our businesses. If enacted, any changes could increase tax expense and could have a significant negative impact on our results of operations and cash flows.

We are subject to the risk that our workforce and its knowledge base may become depleted in coming years.

PPL is experiencing an increase in attrition due primarily to the number of retiring employees. Over the period from 2014 through 2018, 23.5% of PPL's total workforce is projected to leave the company, with the risk that critical knowledge will be lost and that it may be difficult to replace departed personnel due to a declining trend in the number of available skilled workers and an increase in competition for such workers.

(PPL, PPL Energy Supply and LKE)

Risk Related to Registrant Holding Companies

PPL's, PPL Energy Supply's and LKE's cash flows and ability to meet their obligations with respect to indebtedness and under guarantees, and PPL's ability to pay dividends, largely depends on the financial performance of their subsidiaries and, as a result, is effectively subordinated to all existing and future liabilities of those subsidiaries.

PPL, PPL Energy Supply and LKE are holding companies and conduct their operations primarily through subsidiaries. Substantially all of the consolidated assets of these Registrants are held by such subsidiaries. Accordingly, their cash flows and ability to meet debt and guaranty obligations, as well as PPL's ability to pay dividends, are largely dependent upon the earnings of those subsidiaries and the distribution or other payment of such earnings in the form of dividends, distributions, loans or advances or repayment of loans and advances. The subsidiaries are separate and distinct legal entities and have no obligation to pay dividends or distributions to their parents or to make funds available for such a payment. The ability of the Registrants' subsidiaries to pay dividends or distributions in the future will depend on the subsidiaries' future earnings and cash flows and the needs of their businesses, and may be restricted by their obligations to holders of their outstanding debt and other creditors, as well as any contractual or legal restrictions in effect at such time, including the requirements of state corporate law applicable to payment of dividends and distributions, and regulatory requirements, including restrictions on the ability of PPL Electric, LG&E and KU to pay dividends under Section 305(a) of the Federal Power Act.

Because PPL, PPL Energy Supply and LKE are holding companies, their debt and guaranty obligations are effectively subordinated to all existing and future liabilities of their subsidiaries. Although certain agreements to which certain subsidiaries are parties limit their ability to incur additional indebtedness, PPL, PPL Energy Supply and LKE and their subsidiaries retain the ability to incur substantial additional indebtedness and other liabilities. Therefore, PPL's, PPL Energy Supply's and LKE's rights and the rights of their creditors, including rights of any debt holders, to participate in the assets of any of their subsidiaries, in the event that such a subsidiary is liquidated or reorganized, will be subject to the prior claims of such subsidiary's creditors. In addition, if PPL elects to receive distributions of earnings from its foreign operations, PPL may incur U.S. income taxes, net of any available foreign tax credits, on such amounts.

(PPL)

Risks Related to U.K. Regulated Segment

Our U.K. delivery business is subject to risks with respect to rate regulation and operational performance.

Our U.K. delivery businesses are rate-regulated and operate under an incentive-based regulatory framework. Managing operational risk is critical to the U.K. Regulated Segment's financial performance. Disruption to these distribution networks could reduce profitability both directly by incurring costs for network restoration and also through the system of penalties and rewards that Ofgem administers relating to customer service levels.

A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL.

Ofgem has powers to levy fines of up to ten percent of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Ofgem also has formal powers to propose modifications to each distribution license and there can be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.

Various changes have been implemented by Ofgem to the current electricity distribution, gas transmission and gas distribution regulatory frameworks in the U.K. and there can be no assurance as to the effects such changes will have on our U.K. regulated businesses in the future.

Ofgem is implementing a new regulatory framework to become effective April 1, 2015 for the electricity distribution sector in the U.K. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), focuses on sustainability, environmental-focused output measures, promotion of low carbon energy networks and financing of new investments. The new regulatory framework is expected to have a wide-ranging effect on electricity distribution companies operating in the U.K., including extending the price review periods from five to eight years. Our U.K. regulated businesses' compliance with this new regulatory framework may result in significant additional capital expenditures, increases in operating and compliance costs and adjustments to our pricing models. In addition, if we are unable for any reason to realize the goals of our business plans for these businesses, we may not earn sufficient incentive compensation to maintain prior revenue levels.

We are subject to increased foreign currency exchange rate risks because a majority of our cash flows and reported earnings are currently generated by our U.K. Business operations.

These risks relate primarily to changes in the relative value of the British pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses and the time that cash is repatriated to the U.S. from the U.K., including cash flows from our U.K. businesses that may be distributed to PPL or used for repayments of intercompany loans or other general corporate purposes. In addition, PPL's consolidated reported earnings on a U.S. GAAP basis may be subject to increased earnings translation risk, which is the result of the conversion of earnings as reported in our U.K. businesses on a British pound sterling basis to a U.S. dollar basis in accordance with U.S. GAAP requirements.

Our U.K. distribution business contributes a significant portion of PPL's total annual revenues and exposes us to the following additional risks related to operating outside the U.S., including risks associated with changes in U.K. laws and regulations, taxes, economic conditions and political conditions and policies of the U.K. government and the European Union. These risks may reduce the results of operations from our U.K. distribution business or affect our ability to access U.K. revenues for payment of distributions or for other corporate purposes in the U.S.

- changes in laws or regulations relating to U.K. operations, including tax laws and regulations;
- changes in government policies, personnel or approval requirements;
- changes in general economic conditions affecting the U.K.;
- regulatory reviews of tariffs for distribution companies;
- changes in labor relations;
- limitations on foreign investment or ownership of projects and returns or distributions to foreign investors;
- limitations on the ability of foreign companies to borrow money from foreign lenders and lack of local capital or loans;
- changes in U.S. tax law applicable to taxation of foreign earnings; and
- compliance with U.S. foreign corrupt practices laws.

(All Registrants except PPL Energy Supply)

Risks Related to Domestic Regulated Utility Operations

Our domestic regulated utility businesses face many of the same risks, in addition to those risks that are unique to each of the Kentucky Regulated segment and the Pennsylvania Regulated segment. Set forth below are risk factors common to both domestic regulated segments, followed by sections identifying separately the risks specific to each of these segments.

Our profitability is highly dependent on our ability to recover the costs of providing energy and utility services to our customers and earn an adequate return on our capital investments. Regulators may not approve the rates we request.

The rates we charge our utility customers must be approved by one or more federal or state regulatory commissions, including the FERC, KPSC, VSCC, TRA and PUC. Although rate regulation is generally premised on the recovery of prudently incurred costs and a reasonable rate of return on invested capital, there can be no assurance that regulatory authorities will consider all of our costs to have been prudently incurred or that the regulatory process by which rates are determined will always result in rates that achieve full recovery of our costs or an adequate return on our capital investments. In any rate-setting proceedings, federal or state agencies, intervenors and other permitted parties may challenge our rate requests, and ultimately reduce, alter or limit the rates we seek. Although our rates are generally regulated based on an analysis of our costs incurred in a base year or based on future projected costs, the rates we are allowed to charge may or may not match our costs at any given time. Our domestic regulated utility businesses are subject to substantial capital expenditure requirements over the next several years, which will likely require rate increase requests to the regulators. If our costs are not adequately recovered through rates, it could have an adverse effect on our business, results of operations, cash flows and financial condition.

Our domestic utility businesses are subject to significant and complex governmental regulation.

In addition to regulating the rates we charge, various federal and state regulatory authorities regulate many aspects of our domestic utility operations, including:

- the terms and conditions of our service and operations;
- financial and capital structure matters;
- siting, construction and operation of facilities;
- mandatory reliability and safety standards under the Energy Policy Act of 2005 and other standards of conduct;
- accounting, depreciation and cost allocation methodologies;
- tax matters;
- affiliate transactions;
- acquisition and disposal of utility assets and issuance of securities; and
- various other matters, including energy efficiency.

Such regulations or changes thereto may subject us to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties which may not be recoverable from customers.

Changes in transmission and wholesale power market structures could increase costs or reduce revenues.

Wholesale revenues fluctuate with regional demand, fuel prices and contracted capacity. Changes to transmission and wholesale power market structures and prices may occur in the future, are not predictable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. These can include commercial or regulatory changes affecting power pools, exchanges or markets in which our domestic utilities participate.

Our domestic regulated businesses undertake significant capital projects and these activities are subject to unforeseen costs, delays or failures, as well as risk of inadequate recovery of resulting costs.

The domestic regulated utility businesses are capital intensive and require significant investments in energy generation (in the case of LG&E and KU) and transmission, distribution and other infrastructure projects, such as projects for environmental compliance and system reliability. The completion of these projects without delays or cost overruns is subject to risks in many areas, including:

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third-party intervenors;
- increases in commodity prices or labor rates;
- contractor performance;
- environmental considerations and regulations;
- weather and geological issues; and
- political, labor and regulatory developments.

Failure to complete our capital projects on schedule or on budget, or at all, could adversely affect our financial performance, operations and future growth if such expenditures are not granted rate recovery by our regulators.

Risks Specific to Kentucky Regulated Segment

(PPL, LKE, LG&E and KU)

The costs of compliance with, and liabilities under, environmental laws are significant and are subject to continuing changes.

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's generation business, including its air emissions, water discharges and the management of hazardous and solid waste, among other business-related activities, and the costs of compliance or alleged non-compliance cannot be predicted but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws, regulations or similar rules are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or forfeitures, operations changes, permit limitations or other restrictions. At some of our older generating facilities it may be uneconomic for us to install necessary pollution control equipment, which could cause us to retire those units. Market prices for energy and capacity also affect this cost-effectiveness analysis. Many of these environmental law considerations are also applicable to the operations of our key suppliers, or customers, such as coal producers and industrial power users, and may impact the costs of their products and demand for our services.

Ongoing changes in environmental regulations or their implementation requirements and our compliance strategies relating thereto entail a number of uncertainties.

The environmental standards governing LG&E's and KU's businesses, particularly as applicable to coal-fired generation and related activities, continue to be subject to uncertainties due to ongoing rulemakings and other regulatory developments, legislative activities and litigation. Revisions to applicable standards, changes in compliance deadlines and invalidation of rules on appeal may require major changes in compliance strategies, operations or assets and adjustments to prior plans. Depending on the extent, frequency and timing of such changes, the companies may be subject to inconsistent requirements under multiple regulatory programs, compressed windows for decision-making and short compliance deadlines that may require aggressive schedules for construction, permitting, and other regulatory approvals. Under such circumstances, the companies may face higher risks of unsuccessful implementation of environmental-related business plans, noncompliance with applicable environmental rules, delayed or incomplete rate recovery or increased costs of implementation.

Risks Specific to Pennsylvania Regulated Segment

(PPL and PPL Electric)

We may be subject to higher transmission costs and other risks as a result of PJM's regional transmission expansion plan (RTEP) process.

PJM and the FERC have authority to require upgrades or expansion of the regional transmission grid, which can result in substantial expenditures for transmission owners. As discussed in Note 8 to the Financial Statements, we expect to make substantial expenditures to construct the Susquehanna-Roseland and Northeast/Pocono transmission lines that PJM has determined are necessary for the reliability of the regional transmission grid. Although the FERC has granted our request for incentive rate treatment of such facilities, we cannot be certain that all costs that we may incur will be recoverable. In addition, the date when these facilities will be in service, which can be significantly impacted by delays related to public opposition or other factors, is subject to the outcome of future events that are not all within our control. As a result, we cannot predict the ultimate financial or operational impact of this project or other RTEP projects on PPL Electric.

We could be subject to higher costs and/or penalties related to Pennsylvania Conservation and Energy Efficiency Programs.

PPL Electric is subject to Act 129 which contains requirements for energy efficiency and conservation programs and for the use of smart metering technology, imposes PLR electricity supply procurement rules, provides remedies for market misconduct, and made changes to the existing AEPS. The law also requires electric utilities to meet specified goals for reduction in customer electricity usage and peak demand. Utilities not meeting these Act 129 requirements are subject to significant penalties that cannot be recovered in rates. Numerous factors outside of our control could prevent compliance with these requirements and result in penalties to us.

Risks Related to Supply Segment

(PPL and PPL Energy Supply)

Our costs to comply with existing and new environmental laws are expected to continue to be significant, and we plan to incur significant capital expenditures for pollution control improvements that could adversely affect our profitability and liquidity or cause the continued operation of certain generation facilities to be uneconomic.

Our business is subject to extensive federal, state and local statutes, rules and regulations relating to environmental protection. To comply with existing and future environmental requirements and as a result of voluntary pollution control measures we may take, we have spent and expect to spend substantial amounts in the future on environmental control and compliance.

Since 2005, we have spent more than \$1.6 billion to install scrubbers and other pollution control equipment in our competitive generation fleet in order to comply with existing and proposed federal and state environmental laws and regulations primarily governing air emissions from coal-fired plants. Many states and environmental groups, however, have challenged certain federal laws and regulations relating to air emissions as not being sufficiently strict. In addition, more recently, attention has also been refocused on effluent emissions and the handling of CCRs. As a result, state and federal regulations have been adopted that would impose more stringent restrictions than are currently in effect, which could require us significantly to increase capital expenditures for additional pollution control equipment. At some of our older generating facilities it may be uneconomic for us to install necessary pollution control equipment, which could cause us to retire those units.

We may not be able to obtain or maintain all environmental regulatory approvals necessary for our planned capital projects which are necessary to our business. If there is a delay in obtaining any required environmental regulatory approval or if we fail to obtain, maintain or comply with any such approval, operations at our affected facilities could be halted, reduced or subjected to additional costs.

We face intense competition in our energy supply business, which may adversely affect our ability to operate profitably.

Unlike our rate-regulated utility businesses, our energy supply business is dependent on our ability to operate in a competitive environment and is not assured of any rate of return on capital investments through a regulated rate structure. Competition is affected by electricity and fuel prices, new market entrants, construction by others of generating assets and transmission capacity, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. These competitive factors may negatively affect our ability to sell electricity and related products and services, as well as the prices that we may charge for such products and services, which could adversely affect our results of operations and our ability to grow our business.

We sell our available energy and capacity into the competitive wholesale markets through contracts of varying duration. Competition in the wholesale power markets occurs principally on the basis of the price of products and, to a lesser extent, on the basis of reliability and availability. We believe that the commencement of commercial operation of new electricity generating facilities in the regional markets where we own or control generation capacity and the evolution of demand side management resources will continue to increase competition in the wholesale electricity market in those regions, which could have an adverse effect on electricity and capacity prices.

We also face competition in the wholesale markets for generation capacity and ancillary services. We primarily compete with other electricity suppliers based on our ability to aggregate supplies at competitive prices from different sources and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities and ISOs. We also compete against other energy marketers on the basis of relative financial condition and access to credit sources, and our competitors may have greater financial resources than we have.

Competitors in the wholesale power markets in which PPL Generation subsidiaries and PPL EnergyPlus operate include regulated utilities, industrial companies, non-utility generators, competitive subsidiaries of regulated utilities and financial institutions.

Adverse changes in commodity prices and related costs may decrease our future energy margins, which could adversely affect our earnings and cash flows.

Our energy margins, or the amount by which our revenues from the sale of power exceed our costs to supply power, are impacted by changes in market prices for electricity, fuel, fuel transportation, emission allowances, RECs, electricity capacity and related congestion charges and other costs. Unlike most commodities, the limited ability to store electricity requires that it must be consumed at the time of production. As a result, wholesale market prices for electricity may fluctuate substantially over relatively short time periods and can be unpredictable. Among the factors that influence such prices are:

- demand for electricity;
- supply for electricity available from current or new generation resources;
- variable production costs, primarily fuel (and associated transportation costs) and emission allowance expense for the generation resources used to meet the demand for electricity;
- transmission capacity and service into, or out of, markets served;
- changes in the regulatory framework for wholesale power markets;
- liquidity in the wholesale electricity market, as well as general creditworthiness of key participants in the market; and
- weather and economic conditions affecting demand for or the price of electricity or the facilities necessary to deliver electricity.

Our risk management policy and programs relating to electricity and fuel prices, interest rates and counterparty credit and non-performance risks may not work as planned, and we may suffer economic losses despite such programs.

We actively manage the market risk inherent in our generation and energy marketing activities, as well as our debt and counterparty credit positions. We have implemented procedures to monitor compliance with our risk management policy and programs, including independent validation of transaction and market prices, verification of risk and transaction limits, portfolio stress tests, sensitivity analyses and daily portfolio reporting of various risk management metrics. Nonetheless, our risk management programs may not work as planned. For example, actual electricity and fuel prices may be significantly different or more volatile than the historical trends and assumptions upon which we based our risk management calculations. Additionally, unforeseen market disruptions could decrease market depth and liquidity, negatively impacting our ability to enter into new transactions. We enter into financial contracts to hedge commodity basis risk, and as a result are exposed to the risk that the correlation between delivery points could change with actual physical delivery. Similarly, interest rates or foreign currency exchange rates could change in significant ways that our risk management procedures were not designed to address. As a result, we cannot always predict the impact that our risk management decisions may have on us if actual events result in greater losses or costs than our risk models predict or greater volatility in our earnings and financial position.

In addition, our trading, marketing and hedging activities are exposed to counterparty credit risk and market liquidity risk. We have adopted a credit risk management policy and program to evaluate counterparty credit risk. However, if counterparties fail to perform, we may be forced to enter into alternative arrangements at then-current market prices. In that event, our financial results could be adversely affected.

We do not always hedge against risks associated with electricity and fuel price volatility.

We attempt to mitigate risks associated with satisfying our contractual electricity sales obligations by either reserving generation capacity to deliver electricity or purchasing the necessary financial or physical products and services through competitive markets to satisfy our net firm sales contracts. We also routinely enter into contracts, such as fuel and electricity purchase and sale commitments, to hedge our exposure to fuel requirements and other electricity-related commodities. However, based on economic and other considerations, we may decide not to hedge the entire exposure of our operations from commodity price risk. To the extent we do not hedge against commodity price risk, our results of operations and financial position may be adversely affected.

We are exposed to operational, price and credit risks associated with selling and marketing products in the wholesale and retail electricity markets.

We purchase and sell electricity in wholesale markets under market-based tariffs authorized by FERC throughout the U.S. and also enter into short-term agreements to market available electricity and capacity from our generation assets with the expectation of profiting from market price fluctuations. If we are unable to deliver firm capacity and electricity under these agreements, we could be required to pay damages. These damages would generally be based on the difference between the market price to acquire replacement capacity or electricity and the contract price of any undelivered capacity or electricity. Depending on price volatility in the wholesale electricity markets, such damages could be significant. Extreme weather conditions, unplanned generation facility outages, environmental compliance costs, transmission disruptions, and other factors could affect our ability to meet our obligations, or cause significant increases in the market price of replacement capacity and electricity.

Our wholesale power agreements typically include provisions requiring us to post collateral for the benefit of our counterparties if the market price of energy varies from the contract prices in excess of certain pre-determined amounts. We currently believe that we have sufficient credit to fulfill our potential collateral obligations under these power contracts. However, our obligation to post collateral could exceed the amount of our facilities or our ability to increase our facilities could be limited by financial markets or other factors. See Note 7 to the Financial Statements for a discussion of PPL's credit facilities.

We also face credit risk that counterparties with whom we contract in both the wholesale and retail markets will default in their performance, in which case we may have to sell our electricity into a lower-priced market or make purchases in a higher-priced market than existed at the inception of the contract. Whenever feasible, we attempt to mitigate these risks using various means, including agreements that require our counterparties to post collateral for our benefit if the market price of energy varies from the contract price in excess of certain pre-determined amounts. However, there can be no assurance that we will avoid counterparty nonperformance risk, including bankruptcy, which could adversely impact our ability to meet our obligations to other parties, which could in turn subject us to claims for damages.

The full-requirements sales contracts that PPL EnergyPlus is awarded do not provide for specific levels of load and actual load significantly below or above our forecasts could adversely affect our energy margins.

We generally hedge our full-requirements sales contracts with energy purchases from third parties, and to a lesser extent with our own generation. If the actual load is significantly lower than the expected load, we may be required to resell power at a lower price than was contracted for to supply the load obligation, resulting in a financial loss. Alternatively, a significant increase in load could adversely affect our energy margins because we are required under the terms of the full-requirements sales contracts to provide the energy necessary to fulfill increased demand at the contract price, which could be lower than the cost to procure additional energy on the open market. Therefore, any significant decrease or increase in load compared with our forecasts could have a material adverse effect on our results of operations and financial position.

Unforeseen changes in the price of coal and natural gas could cause us to incur excess coal inventories and contract termination costs.

Extraordinarily low natural gas prices during 2012 and 2013 caused natural gas to be the more cost-competitive fuel compared to coal for generating electricity. Because we enter into guaranteed supply contracts to provide for the amount of coal needed to operate our base load coal-fired generating facilities, we may experience periods where we hold excess amounts of coal if fuel pricing results in our reducing or idling coal-fired generating facilities in favor of operating available alternative natural gas-fired generating facilities. In addition, we may incur costs to terminate supply contracts for coal in excess of our generating requirements as occurred in 2012.

We may experience disruptions in our fuel supply, which could adversely affect our ability to operate our generation facilities.

We purchase fuel from a number of suppliers. Disruption in the delivery of fuel and other products consumed during the production of electricity (such as coal, natural gas, oil, water, uranium, lime, limestone and other chemicals), including disruptions as a result of weather, transportation difficulties, global demand and supply dynamics, labor relations, environmental regulations or the financial viability of our fuel suppliers, could adversely affect our ability to operate our facilities, which could result in lower sales and/or higher costs and thereby adversely affect our results of operations.

We rely on transmission and distribution assets that we do not own or control to deliver our wholesale electricity. If transmission is disrupted, or not operated efficiently, or if capacity is inadequate, our ability to sell and deliver power may be hindered.

We depend on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas we sell in the wholesale market, as well as the natural gas we purchase for use in our electricity generation facilities. If transmission is disrupted (as a result of weather, natural disasters or other reasons) or not operated efficiently by ISOs and RTOs, in applicable markets, or if capacity is inadequate, our ability to sell and deliver products and satisfy our contractual obligations may be hindered, or we may be unable to sell products on the most favorable terms.

The FERC has issued regulations that require wholesale electric transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are designed to encourage competition in wholesale market transactions for electricity, there is the potential that fair and equal access to transmission systems will not be available or that transmission capacity will not be available in the amounts we require. We cannot predict the timing of industry changes as a result of these initiatives or the adequacy of transmission facilities in specific markets or whether ISOs and RTOs in applicable markets will efficiently operate transmission networks and provide related services.

Despite federal and state deregulation initiatives, our supply business is still subject to extensive regulation, which may increase our costs, reduce our revenues, or prevent or delay operation of our facilities.

Our generation subsidiaries sell electricity into the wholesale market. Generally, our generation subsidiaries and our marketing subsidiaries are subject to regulation by the FERC. The FERC has authorized us to sell generation from our facilities and power from our marketing subsidiaries at market-based prices. The FERC retains the authority to modify or withdraw our market-based rate authority and to impose "cost of service" rates if it determines that the market is not competitive, that we possess market power or that we are not charging just and reasonable rates. Any reduction by the FERC in the rates we may receive or any unfavorable regulation of our business by state regulators could materially adversely affect our results of operations. See "Regulatory Issues - FERC Market-Based Rate Authority" in Note 15 to the Financial Statements for information regarding recent court decisions that could impact the FERC's market-based rate authority program.

In addition, the acquisition, construction, ownership and operation of electricity generation facilities require numerous permits, approvals, licenses and certificates from federal, state and local governmental agencies. We may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approvals or if we fail to obtain or maintain any required approval or fail to comply with any applicable law or regulation, the operation of our assets and our sales of electricity could be prevented or delayed or become subject to additional costs.

Changes in technology may negatively impact the value of our power plants.

A basic premise of our generation business is that generating electricity at central power plants achieves economies of scale and produces electricity at relatively low prices. There are alternate technologies to produce electricity, most notably fuel cells, micro turbines, windmills and photovoltaic (solar) cells, the development of which has been expanded due to global climate change concerns. Research and development activities are ongoing to seek improvements in alternate technologies. It is possible that advances will reduce the cost of alternative generation to a level that is equal to or below that of certain central station production. Also, as new technologies are developed and become available, the quantity and pattern of electricity usage (the "demand") by customers could decline, with a corresponding decline in revenues derived by generators. These alternative energy sources could result in a decline to the dispatch and capacity factors of our plants. As a result of all of these factors, the value of our generation facilities could be significantly reduced.

We are subject to certain risks associated with nuclear generation, including the risk that our Susquehanna nuclear plant could become subject to increased security or safety requirements that would increase capital and operating expenditures, uncertainties regarding spent nuclear fuel, and uncertainties associated with decommissioning our plant at the end of its licensed life.

Nuclear generation accounted for about 33% of our 2013 competitive generation output. The risks of nuclear generation generally include:

- the potential harmful effects on the environment and human health from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;
- limitations on the amounts and types of insurance commercially available to cover losses and liabilities that might arise in connection with nuclear operations; and

- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives. The licenses for our two nuclear units expire in 2042 and 2044. See Note 21 to the Financial Statements for additional information on the ARO related to the decommissioning.

The NRC has broad authority under federal law to impose licensing requirements, including security, safety and employee-related requirements for the operation of nuclear generation facilities. In the event of noncompliance, the NRC has authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. In addition, revised security or safety requirements promulgated by the NRC, particularly in response to the 2011 incident in Fukushima, Japan, could necessitate substantial capital or operating expenditures at our Susquehanna nuclear plant. There also remains substantial uncertainty regarding the temporary storage and permanent disposal of spent nuclear fuel, which could result in substantial additional costs to PPL that cannot be predicted. In addition, although we have no reason to anticipate a serious nuclear incident at our Susquehanna plant, if an incident did occur, any resulting operational loss, damages and injuries could have a material adverse effect on our results of operations, cash flows and financial condition. See Note 15 to the Financial Statements for a discussion of nuclear insurance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

ITEM 2. PROPERTIES

U.K. Regulated Segment (PPL)

For a description of WPD's service territory, see "Item 1. Business - General - Segment Information - U.K. Regulated Segment." WPD has electric distribution lines in public streets and highways pursuant to legislation and rights-of-way secured from property owners. At December 31, 2013, WPD's distribution system in the U.K. includes 1,600 substations with a total capacity of 68 million kVA, 57,180 circuit miles of overhead lines and 83,890 underground cable miles.

Kentucky Regulated Segment (PPL, LKE, LG&E and KU)

LG&E's and KU's properties consist primarily of regulated generation facilities, electric transmission and distribution assets and natural gas transmission and distribution assets in Kentucky. The capacity of generation units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances. The electric generating capacity at December 31, 2013 was:

Primary Fuel/Plant	Total MW Capacity Summer	LKE		LG&E		KU	
		Ownership or Lease Interest in MW	% Ownership	Ownership or Lease Interest in MW	% Ownership	Ownership or Lease Interest in MW	% Ownership
Coal							
Ghent - Units 1- 4	1,932	1,932				100.00	1,932
Mill Creek - Units 1- 4	1,472	1,472	100.00	1,472			
E.W. Brown - Units 1-3	682	682			100.00		682
Cane Run - Units 4 - 6	563	563		563			
Trimble County - Unit 1 (a)	511	383	75.00	383			
Trimble County - Unit 2 (a)	732	549	14.25	104	60.75		445
Green River - Units 3- 4	161	161			100.00		161
OVEC - Clifty Creek (b)	1,164	95	5.63	66	2.50		29
OVEC - Kyger Creek (b)	956	78	5.63	54	2.50		24
	8,173	5,915		2,642			3,273
Natural Gas/Oil							
E.W. Brown Unit 5 (c) (d)	132	132	53.00	69	47.00		63
E.W. Brown Units 6 - 7 (c)	292	292	38.00	111	62.00		181
E.W. Brown Units 8 - 11 (d)	486	486			100.00		486
Trimble County Units 5 - 6	314	314	29.00	91	71.00		223
Trimble County Units 7 - 10	628	628	37.00	232	63.00		396
Paddy's Run Units 11 - 12	35	35	100.00	35			
Paddy's Run Unit 13	147	147	53.00	78	47.00		69
Haefling - Units 1 - 2	24	24			100.00		24
Zorn Unit	14	14	100.00	14			
Cane Run Unit 11	14	14	100.00	14			
	2,086	2,086		644			1,442
Hydro							
Ohio Falls - Units 1-8	54	54	100.00	54			
Dix Dam - Units 1-3	24	24			100.00		24
	78	78		54			24
Total	10,337	8,079		3,340			4,739

- (a) Trimble County Unit 1 and Trimble County Unit 2 are jointly owned with Illinois Municipal Electric Agency and Indiana Municipal Power Agency. Each owner is entitled to its proportionate share of the units' total output and funds its proportionate share of capital, fuel and other operating costs. See Note 14 to the Financial Statements for additional information.
- (b) This unit is owned by OVEC. LG&E and KU have a power purchase agreement that entitles LG&E and KU to their proportionate share of the unit's total output and LG&E and KU fund their proportionate share of fuel and other operating costs. Clifty Creek is located in Indiana and Kyger Creek is located in Ohio. See Note 15 to the Financial Statements for additional information.
- (c) Includes a sale-leaseback interest on two combustion turbines. LG&E and KU provided funds to fully defease the lease including the purchase price and have the right to exercise an early purchase option contained in the lease after 15.5 years, which will occur in 2015. The financial statement treatment of this transaction is the same as if LG&E and KU had retained their ownership interests.
- (d) There is an inlet air cooling system attributable to these units. This inlet air cooling system is not jointly owned; however, it is used to increase production on the units to which it relates, resulting in an additional 10 MW of capacity for LG&E and an additional 88 MW of capacity for KU.

For a description of LG&E's and KU's service areas, see "Item 1. Business - General - Segment Information - Kentucky Regulated Segment." At December 31, 2013, LG&E's transmission system included in the aggregate, 45 substations (32 of which are shared with the distribution system) with a total capacity of 7 million kVA and 675 pole miles of lines. LG&E's distribution system included 97 substations (32 of which are shared with the transmission system) with a total capacity of 5 million kVA, 3,886 circuit miles of overhead lines and 2,419 underground cable miles. KU's transmission system included 137 substations (57 of which are shared with the distribution system) with a total capacity of 14 million kVA and 4,079 pole miles of lines. KU's distribution system included 480 substations (57 of which are shared with the transmission system) with a total capacity of 7 million kVA, 14,116 circuit miles of overhead lines and 2,288 underground cable miles.

LG&E's natural gas transmission system includes 4,272 miles of gas distribution mains and 388 miles of gas transmission mains, consisting of 255 miles of gas transmission pipeline, 126 miles of gas transmission storage lines, six miles of gas combustion turbine lines and one mile of gas transmission pipeline in regulator facilities. Five underground natural gas storage fields, with a total working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to ultimate consumers. KU's service area includes an additional 11 miles of gas transmission pipeline providing gas supply to natural gas combustion turbine electricity generating units.

Substantially all of LG&E's and KU's respective real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and, in the case of LG&E, the storage and distribution of natural gas, is subject to the lien of either the LG&E 2010 Mortgage Indenture or the KU 2010 Mortgage Indenture. See Note 7 to the Financial Statements for additional information.

LG&E and KU continuously reexamine development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them or pursue other options. LG&E and KU plan to implement the following capacity increases and decreases at the following plants located in Kentucky.

Primary Fuel/Plant	Total Net Summer MW Capacity Increase / (Decrease)	LG&E		KU		Year of Incremental Capacity Increase / Decrease
		% Ownership	Ownership or Lease Interest in MW	% Ownership	Ownership or Lease Interest in MW	
Coal						
Cane Run - Units 4-6 - (a)	(563)	100.00	(563)			2015
Green River - Units 3-4 - (a)	(161)			100.00	(161)	2015
Total Capacity Decreases	<u>(724)</u>		<u>(563)</u>		<u>(161)</u>	
Natural Gas						
Cane Run - Unit 7 (b)	640	22.00	141	78.00	499	2015
Green River - Unit 5 (c)	700	40.00	280	60.00	420	2018
Solar						
E.W. Brown (c)	10	36.00	4	64.00	6	2016
Total Capacity Increases	<u>1,350</u>		<u>425</u>		<u>925</u>	

- (a) LG&E and KU anticipate retiring these units by the end of 2015. See Notes 8 and 15 to the Financial Statements for additional information.
- (b) In May 2012, LG&E and KU received approval to build this unit at the existing Cane Run site. See Note 8 to the Financial Statements for additional information.
- (c) In January 2014, LG&E and KU filed an application for a CPCN requesting approval from the KPSC to build these units at the existing Green River and E.W. Brown sites. See Note 8 to the Financial Statements for additional information.

Pennsylvania Regulated Segment (PPL and PPL Electric)

For a description of PPL Electric's service territory, see "Item 1. Business - General - Segment Information - Pennsylvania Regulated Segment." PPL Electric had electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. At December 31, 2013, PPL Electric's transmission system includes 62 substations with a total capacity of 18 million kVA and 3,986 pole miles in service. PPL Electric's distribution system includes 358 substations with a total capacity of 13 million kVA, 37,079 circuit miles of overhead lines and 8,193 underground cable miles. All of PPL Electric's facilities are located in Pennsylvania. Substantially all of PPL Electric's distribution properties and certain transmission properties are subject to the lien of the PPL Electric 2001 Mortgage Indenture. See Note 7 to the Financial Statements for additional information.

See Note 8 to the Financial Statements for information on the Regional Transmission Line Expansion Plan.

Supply Segment (PPL and PPL Energy Supply)

The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units, and may be revised periodically to reflect changed circumstances. PPL Energy Supply's electric generating capacity (summer rating) at December 31, 2013 was as follows.

<u>Primary Fuel/Plant</u>	<u>Total MW Capacity</u>	<u>% Ownership</u>	<u>PPL Energy Supply's Ownership in MW</u>	<u>Location</u>
Natural Gas/Oil				
Martins Creek	1,729	100.00	1,729	Pennsylvania
Ironwood	662	100.00	662	Pennsylvania
Lower Mt. Bethel	555	100.00	555	Pennsylvania
Combustion turbines	363	100.00	363	Pennsylvania
	<u>3,309</u>		<u>3,309</u>	
Coal				
Montour	1,518	100.00	1,518	Pennsylvania
Brunner Island	1,439	100.00	1,439	Pennsylvania
Colstrip Units 1 & 2 (a)	614	50.00	307	Montana
Conemaugh (a)	1,742	16.25	283	Pennsylvania
Colstrip Unit 3 (a)	740	30.00	222	Montana
Keystone (a)	1,718	12.34	212	Pennsylvania
Corette (b)	148	100.00	148	Montana
	<u>7,919</u>		<u>4,129</u>	
Nuclear				
Susquehanna (a)	2,521	90.00	2,269	Pennsylvania
Hydro				
Various (c)	633	100.00	633	Montana
Various	296	100.00	296	Pennsylvania
	<u>929</u>		<u>929</u>	
Qualifying Facilities				
Renewables (d)	34	100.00	34	Pennsylvania
Renewables	8	100.00	8	Various
	<u>42</u>		<u>42</u>	
Total	<u>14,720</u>		<u>10,678</u>	

(a) This unit is jointly owned. Each owner is entitled to its proportionate share of the unit's total output and funds its proportionate share of fuel and other operating costs. See Note 14 to the Financial Statements for additional information.

(b) PPL Energy Supply intends to place this plant in long-term reserve status in April 2015.

(c) In 2013, PPL Montana executed a definitive agreement to sell these facilities. See Note 8 to the Financial Statements for additional information.

(d) Includes facilities owned, controlled or for which PPL Energy Supply has the rights to the output.

Amounts guaranteed by PPL Montour and PPL Brunner Island in connection with an \$800 million secured energy marketing and trading facility are secured by liens on the generating facilities owned by PPL Montour and PPL Brunner Island. See Note 7 to the Financial Statements for additional information.

ITEM 3. LEGAL PROCEEDINGS

See Notes 5, 6 and 15 to the Financial Statements for information regarding legal, tax litigation, regulatory and environmental proceedings and matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash" for information regarding certain restrictions on the ability to pay dividends for all Registrants.

PPL Corporation

Additional information for this item is set forth in the sections entitled "Quarterly Financial, Common Stock Price and Dividend Data," "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Shareowner and Investor Information" of this report. At January 31, 2014, there were 64,515 common stock shareowners of record.

There were no purchases by PPL of its common stock during the fourth quarter of 2013.

PPL Energy Supply, LLC

There is no established public trading market for PPL Energy Supply's membership interests. PPL Energy Funding, a direct wholly owned subsidiary of PPL, owns all of PPL Energy Supply's outstanding membership interests. Distributions on the membership interests will be paid as determined by PPL Energy Supply's Board of Managers.

PPL Energy Supply made cash distributions to PPL Energy Funding of \$408 million in 2013 and \$787 million in 2012.

PPL Electric Utilities Corporation

There is no established public trading market for PPL Electric's common stock, as PPL owns 100% of the outstanding common shares. Dividends paid to PPL on those common shares are determined by PPL Electric's Board of Directors. PPL Electric paid common stock dividends to PPL of \$127 million in 2013 and \$95 million in 2012.

LG&E and KU Energy LLC

There is no established public trading market for LKE's membership interests. PPL owns all of LKE's outstanding membership interests. Distributions on the membership interests will be paid as determined by LKE's Board of Directors. LKE made cash distributions to PPL of \$254 million in 2013 and \$155 million in 2012.

Louisville Gas and Electric Company

There is no established public trading market for LG&E's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by LG&E's Board of Directors. LG&E paid common stock dividends to LKE of \$99 million in 2013 and \$75 million in 2012.

Kentucky Utilities Company

There is no established public trading market for KU's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by KU's Board of Directors. KU paid common stock dividends to LKE of \$124 million in 2013 and \$100 million in 2012.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a) (b)	2013	2012	2011 (c)	2010 (c)	2009
Income Items (in millions)					
Operating revenues	\$ 11,860	\$ 12,286	\$ 12,737	\$ 8,521	\$ 7,449
Operating income	2,339	3,109	3,101	1,866	896
Income from continuing operations after income taxes					
attributable to PPL shareowners	1,128	1,532	1,493	955	414
Net income attributable to PPL shareowners	1,130	1,526	1,495	938	407
Balance Sheet Items (in millions) (d)					
Total assets	46,259	43,634	42,648	32,837	22,165
Short-term debt	701	652	578	694	639
Long-term debt	20,907	19,476	17,993	12,663	7,143
Noncontrolling interests		18	268	268	319
Common equity	12,466	10,480	10,828	8,210	5,496
Total capitalization	34,074	30,626	29,667	21,835	13,597
Financial Ratios					
Return on average common equity - %	9.84	13.76	14.93	13.26	7.48
Ratio of earnings to fixed charges (e)	2.2	2.9	3.1	2.7	1.9
Common Stock Data					
Number of shares outstanding - Basic (in thousands)					
Year-end	630,321	581,944	578,405	483,391	377,183
Weighted-average	608,983	580,276	550,395	431,345	376,082
Income from continuing operations after income taxes					
available to PPL common shareowners - Basic EPS	\$ 1.85	\$ 2.62	\$ 2.70	\$ 2.21	\$ 1.10
Income from continuing operations after income taxes					
available to PPL common shareowners - Diluted EPS	\$ 1.76	\$ 2.61	\$ 2.70	\$ 2.20	\$ 1.10
Net income available to PPL common shareowners -					
Basic EPS	\$ 1.85	\$ 2.61	\$ 2.71	\$ 2.17	\$ 1.08
Net income available to PPL common shareowners -					
Diluted EPS	\$ 1.76	\$ 2.60	\$ 2.70	\$ 2.17	\$ 1.08
Dividends declared per share of common stock	\$ 1.47	\$ 1.44	\$ 1.40	\$ 1.40	\$ 1.38
Book value per share (d)	\$ 19.78	\$ 18.01	\$ 18.72	\$ 16.98	\$ 14.57
Market price per share (d)	\$ 30.09	\$ 28.63	\$ 29.42	\$ 26.32	\$ 32.31
Dividend payout ratio - % (f)	84	55	52	65	128
Dividend yield - % (g)	4.89	5.03	4.76	5.32	4.27
Price earnings ratio (f) (g)	17.10	11.01	10.89	12.13	29.92
Sales Data - GWh					
Domestic - Electric energy supplied - retail (h)	44,564	42,379	40,147	14,595	38,912
Domestic - Electric energy supplied - wholesale (h)(i)	61,124	54,958	63,701	74,105	37,772
Domestic - Electric energy delivered - retail	67,848	66,931	67,806	42,463	36,689
U.K. - Electric energy delivered	78,219	77,467	58,245	26,820	26,358

- (a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Results" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2013, 2012 and 2011. The earnings were also affected by the sales of various businesses. See Note 9 to the Financial Statements for a discussion of discontinued operations in 2013, 2012 and 2011.
- (b) See "Item 1A. Risk Factors" and Notes 1, 6 and 15 to the Financial Statements for a discussion of uncertainties that could affect PPL's future financial condition.
- (c) 2011 includes eight months of WPD Midlands activity following the April 1, 2011 acquisition, as PPL consolidates WPD on a one-month lag. 2010 includes two months of LKE activity following the November 1, 2010 acquisition.
- (d) As of each respective year-end.
- (e) Computed using earnings and fixed charges of PPL and its subsidiaries. Fixed charges consist of interest on short- and long-term debt, amortization of debt discount, expense and premium - net, other interest charges, the estimated interest component of operating rentals and preferred securities distributions of subsidiaries. See Exhibit 12(a) for additional information.
- (f) Based on diluted EPS.
- (g) Based on year-end market prices.
- (h) The electric energy supplied changes in 2010 reflect the expiration of the PLR contract between PPL EnergyPlus and PPL Electric as of December 31, 2009.
- (i) GWh are included until the transaction closing for facilities that were sold.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 6 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This combined Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL Corporation and each of its Subsidiary Registrants. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The information provided in this Item 7. should be read in conjunction with the Registrants' Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy, a summary of PPL's earnings, a description of key factors expected to impact future earnings and a discussion of important financial and operational developments.
- "Results of Operations" for PPL provides a more detailed analysis of earnings by segment, and for the Subsidiary Registrants, includes a summary of earnings. For all Registrants, "Margins" provides explanations of non-GAAP financial measures and "Statement of Income Analysis" addresses significant changes in principal items on the Statements of Income, comparing 2013 with 2012 and 2012 with 2011.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of the Registrants and that require their management to make significant estimates, assumptions and other judgments of inherently uncertain matters.

Overview

For a description of the Registrants and their businesses, see "Item 1. Business."

Business Strategy

(All Registrants except PPL Energy Supply)

The strategy for the regulated businesses of WPD, PPL Electric, LKE, LG&E and KU is to provide efficient, reliable and safe operations and strong customer service, maintain constructive regulatory relationships and achieve timely recovery of costs. These regulated businesses also focus on providing competitively priced energy to customers and achieving stable, long-term growth in earnings and rate base, or RAV, as applicable. Both rate base and RAV are expected to grow for the foreseeable future as a result of significant capital expenditure programs to maintain existing assets and improving system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to electricity generation facilities. Future RAV for WPD will also be affected by RIIO-ED1, effective April 1, 2015, as the recovery period for assets placed in service after that date will be extended from 20 to 45 years.

Recovery of capital project costs is attained through various rate-making mechanisms, including periodic base rate case proceedings, FERC formula rate mechanisms, and other regulatory agency-approved recovery mechanisms. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that reduce regulatory lag and provide for timely recovery of prudently incurred costs. In Pennsylvania, the recently approved DSIC mechanism will help PPL Electric reduce regulatory lag and provide for timely recovery of distribution reliability-related capital investment. In addition, Pennsylvania has several other cost recovery mechanisms in place to reduce regulatory lag and provide for timely recovery of prudently incurred costs. See "Financial and Operational Developments - Distribution System Improvement Charge" below for additional information on the implementation of the DSIC mechanism in 2013 and "Item 1. Business - Segment Information - U.K. Regulated Segment - Revenues and Regulation" for changes to the regulatory framework in the U.K. applicable to WPD beginning in 2015.

(PPL and PPL Energy Supply)

The strategy for PPL Energy Supply is to optimize the value from its competitive generation asset and marketing portfolios while mitigating near-term volatility in both cash flows and earnings. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. PPL Energy Supply is focused on maintaining profitability during the current and projected period of low energy and capacity prices. See "Financial and Operational Developments - Economic and Market Conditions" below for additional information.

(PPL)

As a result of the acquisition of WPD Midlands in April 2011, PPL increased the proportion of its overall earnings that is subject to foreign currency translation risk. The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent they have U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

(All Registrants)

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain targeted credit profiles and liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to, as applicable, changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of generating units. To manage these risks, PPL generally uses contracts such as forwards, options and swaps.

Financial and Operational Developments

Earnings *(PPL)*

PPL's earnings by reportable segment were as follows.

	2013	2012	2011	% Change	
				2013 vs. 2012	2012 vs. 2011
U.K. Regulated (a)	\$ 922	\$ 803	\$ 325	15	147
Kentucky Regulated	307	177	221	73	(20)
Pennsylvania Regulated	209	132	173	58	(24)
Supply (b)	(272)	414	776	(166)	(47)
Corporate and Other (c)	(36)			n/a	n/a
Net Income Attributable to PPL Shareowners	\$ 1,130	\$ 1,526	\$ 1,495	(26)	2
EPS - basic	\$ 1.85	\$ 2.61	\$ 2.71	(29)	(4)
EPS - diluted (d)	\$ 1.76	\$ 2.60	\$ 2.70	(32)	(4)

- (a) 2013 and 2012 include a full year of WPD Midlands' results, while 2011, the year WPD Midlands was acquired, includes eight months of its results and was also impacted by certain acquisition related costs. See Notes 7 and 10 to the Financial Statements for additional information on the acquisition and related financing.
- (b) 2013 includes a charge of \$697 million (\$413 million after-tax) for the termination of the operating lease of the Colstrip coal-fired electricity generating facility and an impairment charge of \$65 million (\$39 million after-tax) for the Corette coal-fired plant and related emission allowances. See Notes 8 and 18 to the Financial Statements for additional information.
- (c) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. For 2012 and 2011, there were no significant amounts in this category.
- (d) See "Equity Units" below for information on the Equity Units' impact on the calculation of 2013 diluted EPS.

The following after-tax gains (losses), in total, which management considers special items, impacted PPL's reportable segments' results. See PPL's "Results of Operations - Segment Earnings" for details of these special items.

	2013	2012	2011
U.K. Regulated	\$ 67	\$ 107	\$ (157)
Kentucky Regulated	3	(16)	
Supply	(531)	18	142
Total PPL	<u>\$ (461)</u>	<u>\$ 109</u>	<u>\$ (15)</u>

The changes in PPL's reportable segments results for 2013 compared with 2012, excluding the impact of special items, were due to the following factors (on an after-tax basis):

- Increase at the U.K. Regulated segment primarily due to higher electricity delivery revenues and lower U.K. income taxes, partially offset by higher operation and maintenance expense and higher depreciation.
- Increase at the Kentucky Regulated segment primarily due to higher base rates that became effective January 1, 2013 and returns from additional environmental capital investments.
- Increase at the Pennsylvania Regulated segment primarily due to higher distribution base rates that became effective January 1, 2013, higher transmission margins from additional capital investments, lower operation and maintenance expense and higher distribution sales volume due to weather, partially offset by higher depreciation.
- Decrease at the Supply segment primarily due to lower baseload energy prices, higher depreciation and higher income taxes, partially offset by higher capacity prices, higher nuclear generation volume and lower operation and maintenance expense.

The changes in PPL's reportable segments' results for 2012 compared with 2011, excluding the impact of special items, were due to the following factors (on an after-tax basis):

- Increase at the U.K. Regulated segment primarily due to four additional months of earnings from the WPD Midlands businesses, higher delivery revenue and lower U.K. income taxes, partially offset by higher U.S. income taxes, higher depreciation and a less favorable currency exchange rate.
- Decrease at the Kentucky Regulated segment primarily due to higher operation and maintenance expense, higher depreciation, higher property taxes and losses from an equity method investment, partially offset by lower income taxes.
- Decrease at the Pennsylvania Regulated segment primarily due to higher operation and maintenance expense, higher income and non-income taxes, lower distribution margins as a result of mild weather early in the year and higher depreciation, partially offset by higher transmission revenue and lower financing costs due to the redemption of \$250 million of preferred securities.
- Decrease at the Supply segment primarily due to lower Eastern energy margins resulting from lower baseload energy and capacity prices, lower Western energy margins resulting from an early 2012 contract termination related to the bankruptcy of a large customer, higher operation and maintenance expense, higher depreciation, higher income taxes and higher financing costs.

See "Results of Operations" below for further discussion of PPL's reportable segments and analysis of results of operations.

2014 Outlook

(PPL)

Excluding special items, lower earnings are expected in 2014 compared with 2013. The factors underlying these projections by segment and Subsidiary Registrant are discussed below (on an after-tax basis).

(PPL's U.K. Regulated Segment)

Excluding special items, earnings in 2014 are projected to be comparable with 2013. Higher electricity delivery revenue and lower pension expense are expected to be offset by higher income taxes, higher depreciation and higher financing costs.

(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Excluding special items, lower earnings are projected in 2014 compared with 2013, primarily driven by higher operation and maintenance expense, higher depreciation and higher financing costs, partially offset by returns on additional environmental capital investments and modest retail load growth.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Excluding special items, higher earnings are projected in 2014 compared with 2013, primarily driven by higher transmission margins and returns on distribution improvement capital spending, partially offset by higher financing costs and higher income taxes.

(PPL's Supply Segment and PPL Energy Supply)

Excluding special items, lower earnings are projected in 2014 compared with 2013, primarily driven by lower energy and capacity prices, partially offset by lower financing costs and lower income taxes.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7, and Notes 1, 6 and 15 to the Financial Statements (as applicable) for a discussion of the risks, uncertainties and factors that may impact future earnings.

Other Financial and Operational Developments

Economic and Market Conditions

(PPL and PPL Energy Supply)

Continued depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development and additional renewable energy sources, primarily wind in the western U.S. Unregulated Gross Energy Margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in energy and capacity market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, transmission constraints that impact the locational pricing of electricity at PPL Energy Supply's power plants, fuel transportation costs and the level and price of hedging activities. As a result of these factors, energy margins were lower in 2013 compared to 2012 and future energy margins are expected to be lower compared to 2013 energy margins. See "Changes in Non-GAAP Financial Measures - Unregulated Gross Energy Margins in Statement of Income Analysis" below for additional information on energy margins for 2011 through 2013. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, its hedging strategies and potential plant modifications to burn lower cost fuels.

(All Registrants except PPL Electric)

The businesses of PPL Energy Supply, LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to coal combustion residuals, GHG, effluent limitation guidelines and MATS. See "Financial Condition - Environmental Matters" below for additional information on these requirements. These and other stringent environmental requirements, combined with low energy margins for competitive generation, have led several energy companies, including PPL, PPL Energy Supply, LKE, LG&E and KU, to announce plans to either temporarily or permanently close, or place in long-term reserve status, certain of their coal-fired generating plants.

(PPL and PPL Energy Supply)

In the third quarter of 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with MATS. During the fourth quarter of 2013, PPL Energy Supply determined its Corette plant was impaired and PPL Energy Supply recorded a charge of \$65 million, or \$39 million after-tax. See "Application of Critical Accounting Policies - Asset Impairment (Excluding Investments)" for additional information.

In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern 633 MW of hydroelectric generation facilities located in Montana for \$900 million in cash, subject to certain adjustments. The sale is subject to closing conditions, including receipt of regulatory approvals by the FERC and the Montana Public Service Commission and certain third-party consents. The sale is not expected to close before the second half of 2014. To facilitate the sale, on December 20, 2013, PPL Montana terminated its operating lease arrangement related to partial interests in Units 1, 2 and 3 of the Colstrip coal-fired electricity generating facility and acquired those interests, collectively, for \$271 million. As a result, PPL Energy Supply recorded a charge of \$697 million, or \$413 million after-tax, for the lease termination. See Note 8 to the Financial Statements for additional information.

PPL Energy Supply believes its remaining competitive coal-fired generation assets in Pennsylvania are well positioned to meet the current environmental requirements described above based on prior and planned investments. The current depressed levels of energy and capacity prices in PJM, as well as management's forward view of these prices using its fundamental pricing models recently updated in conjunction with the annual business planning process, continue to put pressure on the recoverability of PPL Energy Supply's investment in its Pennsylvania coal-fired generation assets. In the fourth quarter of 2013, management tested the Brunner Island and Montour plants for impairment and concluded neither plant was impaired as of December 31, 2013. The recoverability test is very sensitive to forward energy and capacity price assumptions, as well as forecasted operation and maintenance and capital spending. Therefore, a further decline in forecasted long-term energy or capacity prices or changes in environmental laws requiring additional capital or operation and maintenance expenditures, could negatively impact PPL Energy Supply's operations of these facilities and potentially result in future impairment charges for some or all of the carrying value of these plants. The carrying value of the Pennsylvania coal-fired generation assets tested was \$2.7 billion as of December 31, 2013 (\$1.4 billion for Brunner Island and \$1.3 billion for Montour).

(PPL, LKE, LG&E and KU)

As a result of the environmental requirements discussed above, LKE projects \$2.2 billion (\$1.1 billion each at LG&E and KU) in capital investment over the next five years and the anticipated retirement by 2015 of five coal-fired units (three at LG&E and two at KU) with a combined summer capacity rating of 724 MW (563 MW at LG&E and 161 MW at KU). KU retired the 71 MW unit at the Tyrone plant in February 2013 and a 12 MW unit at the Haefling plant in December 2013. The retirement of these coal-fired units is not expected to have a material impact on the financial condition or results of operations of PPL, LKE, LG&E and KU. See Note 8 to the Financial Statements for additional information regarding the anticipated retirement of these units as well as plans to build two combined-cycle natural gas facilities in Kentucky.

The KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that provide for timely recovery of prudently incurred costs (including costs associated with environmental requirements). The Kentucky utility businesses are impacted by changes in customer usage levels, which can be driven by a number of factors including weather conditions and economic factors that impact the load utilized by customers.

(All Registrants)

The Registrants cannot predict the impact that future economic and market conditions and regulatory requirements may have on their financial condition or results of operations.

(PPL)

Ofgem Review of Line Loss Calculation

Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentives and penalties for the DPCR4, which ended in March 2010. During 2013, WPD recorded increases of \$45 million to the liability with reductions to "Utility" revenue on the Statement of Income. PPL cannot predict the outcome of this matter. Based on information received from Ofgem in 2013, WPD currently estimates the potential loss exposure for this matter to be between \$74 million and \$213 million. See Note 6 to the Financial Statements for additional information.

Distribution Revenue Reduction

In December 2013, WPD and other U.K. DNOs, announced agreements with the U.K. Department of Energy and Climate Change and Ofgem to a reduction of £5 per residential customer of electricity distribution revenues that otherwise would have been collected in the regulatory year beginning April 1, 2014. Full recovery of the revenue reduction, together with the associated carrying cost, will occur during the regulatory year beginning April 1, 2015 for three of the WPD DNOs, and will occur over the eight year RIIO-ED1 regulatory period for the fourth DNO. PPL projects that, as a result of this change, 2014 earnings for its U.K. Regulated segment will be adversely affected by \$29 million and earnings for 2015 and 2016 will be positively affected by \$7 million and \$12 million.

RIIO-ED1 - Fast Tracking

In July 2013, WPD filed with Ofgem its 8-year business plans for its four DNOs for RIIO-ED1. In November 2013, Ofgem determined that the business plans of all four of WPD's DNOs were suitable for accelerated consideration or "fast tracking". Fast tracking affords several benefits to the WPD DNOs including the ability to collect additional revenue equivalent to 2.5% of total annual expenditures during the 8-year price control period, or approximately \$35 million annually, greater revenue certainty and a higher level of cost savings retention.

In February 2014, Ofgem announced its decision on the consultation related to the cost of equity to be used during the RIIO-ED1 period. The resulting real cost of equity for WPD was 6.4%, compared to 6.7% proposed in WPD's business plan submittals. WPD elected to accept this change and remain in the fast-track process. The change in the cost of equity is not expected to have a significant impact on the results of operations for PPL. Ofgem expects to announce its fast track final determination in late February 2014.

See "Item 1. Business - Segment Information - U.K. Regulated Segment" for additional information.

Equity Forward Agreements

In the second quarter of 2013, PPL settled forward sale agreements for 10.5 million shares of PPL common stock by issuing 8.4 million shares and cash settling the remaining 2.1 million shares. PPL received net cash proceeds of \$201 million, which was used to repay short-term debt obligations and for other general corporate purposes. See Note 7 to the Financial Statements for additional information. Prior to settlement, incremental shares were included within the calculation of diluted EPS using the treasury stock method. See Note 4 to the Financial Statements for the impact on the calculation of diluted EPS.

Equity Units

During 2013, several events occurred related to the 2010 Equity Units. During the second quarter of 2013, PPL Capital Funding remarketed the Junior Subordinated Notes and simultaneously exchanged the remarketed notes for three tranches of Senior Notes. The transaction resulted in a \$10 million loss on extinguishment of the Junior Subordinated Notes. Additionally, in July 2013, PPL issued 40 million shares of common stock at \$28.73 per share to settle the 2010 Purchase Contracts. PPL received net cash proceeds of \$1.150 billion, which were used to repay short-term and long-term debt obligations and for other general corporate purposes.

In 2013, the If-Converted Method of calculating diluted EPS was applied to the Equity Units prior to settlement. This resulted in \$44 million of interest charges (after-tax) being added back to income available to PPL common shareowners, and 53 million weighted-average incremental shares of PPL common stock being treated as outstanding for purposes of the diluted EPS calculation. See Note 4 to the Financial Statements for the impact on the calculation of diluted EPS.

During 2014, two events are anticipated related to the 2011 Equity Units. PPL will receive proceeds of \$978 million through the issuance of PPL common stock to settle the 2011 Purchase Contracts and PPL Capital Funding expects to remarket the 4.32% Junior Subordinated Notes due 2019. See Note 7 to the Financial Statements for additional information.

Tax Litigation

In May 2013, the U.S. Supreme Court reversed the December 2011 ruling of the U.S. Court of Appeals for the Third Circuit, on the creditability for U.S. income tax purposes of the U.K. Windfall Profits Tax paid by a U.K. subsidiary of PPL. As a result of this decision, PPL recorded an income tax benefit of \$44 million in 2013. See Note 5 to the Financial Statements for additional information.

U.K. Tax Rate Change

In July 2013, the U.K. Finance Act 2013 was enacted, which reduces the U.K.'s statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20%, effective April 1, 2015. As a result of these changes, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit of \$97 million during 2013.

Susquehanna Turbine Blade Inspection (PPL and PPL Energy Supply)

In the spring of 2013, PPL Susquehanna made modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant that was first identified in 2011. The modifications were made during the Unit 2 refueling outage and an additional planned outage for Unit 1. In September 2013, data from extensive vibration monitoring equipment installed on the turbine blades identified cracks in a small number of the blades on both units. Unit 2 completed a blade inspection and replacement outage on September 23, 2013. Based upon the evaluation of the conditions on Unit 1 and the latest inspection of previously removed blades, PPL Susquehanna will continue to operate Unit 1 and monitor the blades through the vibration monitoring equipment. The financial impact of the Unit 2 outage was not material. PPL Susquehanna continues to work with the turbine manufacturer to identify and resolve the issues causing the blade cracking.

Distribution System Improvement Charge (PPL and PPL Electric)

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery. In May 2013, the PUC approved PPL Electric's proposed DSIC, with an initial rate effective July 1, 2013, subject to refund after hearings. See Note 6 to the Financial Statements for additional information.

Rate Case Proceedings

(PPL and PPL Electric)

In December 2012, the PUC approved a total distribution revenue increase of about \$71 million for PPL Electric, using a 10.4% return on equity. The approved rates became effective January 1, 2013.

(PPL, LKE, LG&E and KU)

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million for LG&E and \$51 million for KU and an increase in annual base gas rates of \$15 million for LG&E and authorizes a 10.25% return on equity. The approved rates became effective January 1, 2013.

(KU)

In November 2013, the VSCC approved a stipulation providing for increases in annual base electricity rates of \$4.7 million. The approved rates became effective December 1, 2013. The order does not formally establish a return on equity, but authorizes use of a 10% return on equity for certain annual rate filing purposes.

FERC Formula Rates (KU)

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Subject to regulatory approval, the new formula rate may become effective during the second quarter of 2014.

Results of Operations

(PPL)

The discussion for PPL provides a review of results by reportable segment. The "Margins" discussion provides explanations of non-GAAP financial measures (Kentucky Gross Margins, Pennsylvania Gross Delivery Margins and Unregulated Gross Energy Margins) and a reconciliation of non-GAAP financial measures to "Operating Income." The "Statement of Income Analysis" discussion addresses significant changes in principal line items on PPL's Statements of Income, comparing year-to-year changes. "Segment Earnings, Margins and Statement of Income Analysis" is presented separately for PPL.

On April 1, 2011, PPL completed its acquisition of WPD Midlands. WPD Midlands' results are included within "Segment Results - U.K. Regulated Segment." As PPL is consolidating WPD Midlands on a one-month lag, consistent with its accounting policy on consolidation of foreign subsidiaries, a full year of WPD Midlands' results of operations are included in PPL's results for 2013 and 2012, and eight months of WPD Midlands' results of operations are included in PPL's results for 2011. When discussing PPL's results of operations for 2013 compared with 2012, the results of WPD Midlands are comparable and have not been isolated for purposes of comparability. For 2012 compared with 2011, WPD Midlands results have been isolated for purposes of comparability. See Note 10 to the Financial Statements for additional information regarding the acquisition.

Tables analyzing changes in amounts between periods within "Segment Earnings" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average U.K. foreign currency exchange rate.

(Subsidiary Registrants)

The discussion for each of PPL Energy Supply, PPL Electric, LKE, LG&E and KU provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income" and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income comparing year-to-year changes. "Earnings, Margins and Statement of Income Analysis" are presented separately for PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

PPL Segment Earnings, Margins and Statement of Income Analysis

Segment Earnings

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global which primarily includes WPD's regulated electricity distribution operations and certain costs, such as U.S. income taxes, administrative costs, WPD Midlands acquisition-related costs and allocated financing costs. The U.K. Regulated segment represents 82% of Net Income Attributable to PPL Shareowners for 2013 and 34% of PPL's assets at December 31, 2013.

Net Income Attributable to PPL Shareowners includes the following results (PPL WW and WPD Midlands on a consolidated basis, except for 2012 and 2011 acquisition-related adjustments, which are shown separately):

	2013	2012	2011	% Change	
				2013 vs. 2012	2012 vs. 2011
Utility revenues (a)	\$ 2,359	\$ 2,289	\$ 1,618	3	41
Energy-related businesses	44	47	35	(6)	34
Total operating revenues	2,403	2,336	1,653	3	41
Other operation and maintenance	470	439	374	7	17
Depreciation	300	279	211	8	32
Taxes, other than income	147	147	113		30
Energy-related businesses	29	34	17	(15)	100
Total operating expenses	946	899	715	5	26
Other Income (Expense) - net	(39)	(51)	13	(24)	(492)
Interest Expense	425	421	336	1	25
Income Taxes	71	153	98	(54)	56
WPD Midlands acquisition-related adjustments, net of tax		(9)	(192)	(100)	(95)
Net Income Attributable to PPL Shareowners (b)	\$ 922	\$ 803	\$ 325	15	147

(a) 2011 includes \$790 million for WPD Midlands.

(b) 2011 includes \$137 million for WPD Midlands, net of acquisition-related adjustments.

The changes in the results of the U.K. Regulated segment between these periods were due to the factors set forth below, which reflect certain items that management considers special. WPD Midlands' results for 2012 compared with 2011 and effects of movements in foreign currency exchange rates are on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of these special items.

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
U.K.		
Utility revenues	\$ 240	\$ 49
Other operation and maintenance	(40)	(26)
Depreciation	(25)	(8)
Interest expense	(10)	16
Other	1	(4)
Income taxes		17
WPD Midlands, after-tax		224
U.S.		
Interest expense and other	(1)	(15)
Income taxes	1	(25)
Foreign currency exchange, after-tax	(7)	(14)
Special items, after-tax	(40)	264
Total	<u>\$ 119</u>	<u>\$ 478</u>

U.K.

- The increase in utility revenues in 2013 compared with 2012 was primarily due to the impact of the April 1, 2013 and 2012 price increases.

The increase in utility revenues in 2012 compared with 2011 was primarily due to the impact of the April 1, 2012 and 2011 price increases which resulted in \$78 million of higher utility revenues, partially offset by \$13 million of lower volumes due primarily to a downturn in the economy and weather.

- The increase in other operation and maintenance for 2013 compared with 2012 was primarily due to higher network maintenance costs.

The increase in other operation and maintenance in 2012 compared with 2011 was primarily due to higher pension expense resulting from an increase in amortization of actuarial losses.

- The increase in depreciation expense for both periods was primarily due to PP&E additions.
- The increase in interest expense in 2013 compared with 2012 was primarily due to debt issuances in April 2012 and October 2013.

The decrease in interest expense in 2012 compared with 2011 was primarily due to lower interest expense on index-linked notes.

- Income taxes for 2013 compared with 2012 were flat despite higher pre-tax income primarily due to lower U.K. tax rates.

The decrease in income taxes in 2012 compared with 2011 was primarily due to the tax deductibility of interest on acquisition financing of \$12 million and a \$9 million benefit relating to customer contributions for capital expenditures.

WPD Midlands (2012 vs. 2011)

- Earnings in 2012 compared with 2011 were affected by an additional four months of results in 2012 totaling \$171 million, after-tax.
- The comparable eight-month period was affected by higher utility revenue of \$125 million resulting from the April 1, 2012 price increase and \$26 million of lower pension expense, partially offset by \$26 million of higher taxes due to higher pre-tax income, \$25 million of additional interest expense on debt issuances in 2011 and 2012 and \$25 million of higher taxes due to a U.K./U.S. intercompany tax transaction.

U.S.

- The increase in interest expense and other in 2012 compared with 2011 was primarily due to the 2011 Equity Units issued to finance the WPD Midlands acquisition.

- The decrease in income taxes for 2013 compared with 2012 was primarily due to a \$42 million adjustment related to a ruling obtained from the IRS regarding 2010 U.K. earnings and profits calculations, partially offset by a \$27 million increase attributable to a revision in the expected taxable amount of cash repatriation in 2013.

The increase in income taxes in 2012 compared with 2011 was primarily due to \$28 million of tax benefits recorded in 2011 as a result of U.K. pension plan contributions and a \$20 million adjustment primarily related to the recalculation of 2010 U.K. earnings and profits, partially offset by \$25 million from a U.K./U.S. intercompany tax transaction.

The following after-tax gains (losses), which management considers special items, also impacted the U.K. Regulated segment's results.

	Income Statement			
	Line Item	2013	2012	2011
Foreign currency-related economic hedges, net of tax of \$15, \$18, (\$2) (a)	Other Income (Expense) - net	\$ (29)	\$ (33)	\$ 5
WPD Midlands acquisition-related adjustments:				
2011 Bridge Facility costs, net of tax of \$0, \$0, \$14 (b)	Interest Expense			(30)
	Other Income			
Foreign currency loss on 2011 Bridge Facility, net of tax of \$0, \$0, \$19 (c)	(Expense) - net			(38)
	Other Income			
Net hedge gains, net of tax of \$0, \$0, (\$17) (c)	(Expense) - net			38
Hedge ineffectiveness, net of tax of \$0, \$0, \$3 (d)	Interest Expense			(9)
	Other Income			
U.K. stamp duty tax, net of tax of \$0, \$0, \$0 (e)	(Expense) - net			(21)
	Other operation			
Separation benefits, net of tax of \$1, \$4, \$26 (f)	and maintenance	(4)	(11)	(75)
Other acquisition-related adjustments, net of tax of (\$2), (\$1), \$20 (g)		8	2	(57)
Other:				
Change in U.K. tax rate (h)	Income Taxes	84	75	69
Windfall tax litigation (i)	Income Taxes	43		(39)
Change in WPD line loss accrual, net of tax of \$10, (\$23), \$0 (j)	Utility	(35)	74	
Total		\$ 67	\$ 107	\$ (157)

- (a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.
- (b) Represents fees incurred to establish the 2011 Bridge Facility.
- (c) Represents the foreign currency loss on repayment of the 2011 Bridge Facility, including a pre-tax foreign currency loss of \$15 million associated with proceeds received on the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011 that were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility. The foreign currency risk was economically hedged with forward contracts to purchase GBP, which resulted in pre-tax gains of \$55 million.
- (d) Represents a combination of ineffectiveness associated with terminated interest rate swaps and a charge recorded as a result of certain interest rate swaps failing hedge effectiveness testing.
- (e) Tax on the transfer of ownership of property in the U.K., which is not tax deductible for income tax purposes.
- (f) 2012 represents severance compensation and early retirement deficiency costs. 2011 primarily represents severance compensation, early retirement deficiency costs and outplacement services for employees separating from the WPD Midlands companies as a result of a reorganization to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales). 2011 also includes severance compensation and early retirement deficiency costs associated with certain employees who separated from the WPD Midlands companies, but were not part of the reorganization.
- (g) 2011 primarily includes \$34 million, pre-tax, of advisory, accounting and legal fees which are recorded in "Other Income (Expense) - net" on the Statement of Income; \$37 million, pre-tax, of costs, primarily related to the termination of certain contracts, rebranding and relocation costs that were recorded to "Other operation and maintenance" expense on the Statement of Income; and \$6 million, pre-tax, of costs associated with the integration of certain information technology assets, that were recorded in "Depreciation" on the Statement of Income.
- (h) The U.K. Finance Act of 2013, enacted in July 2013, reduced the U.K.'s statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20%, effective April 1, 2015. The U.K. Finance Act of 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. The U.K. Finance Act of 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and reduced the rate from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in 2013, 2012 and 2011.
- (i) In 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS concluding that the 1997 U.K. Windfall Profits Tax (WPT) imposed on all U.K. privatized utilities, including PPL's U.K. subsidiary, is a creditable tax for U.S. Federal income tax purposes. In January 2011, the IRS appealed the U.S. Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision and holding that the WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in 2011. In May 2013, the U.S. Supreme Court reversed the Third Circuit's December 2011 ruling. As a result, PPL recorded a \$43 million income tax benefit during 2013. See Note 5 to the Financial Statements for additional information.
- (j) In November 2012, Ofgem issued additional consultation on the final DPCR4 line loss close-out that published values for each DNO and further indicated the preferred methodology that would replace the methodology under WPD's licenses, and also indicated that the line loss incentive implemented at the last rate review will be withdrawn and no incentive will apply for the DPCR5 period. Based on this, WPD Midlands reduced its line loss liability by \$97 million, pre-tax in 2012. In 2013, WPD Midlands increased its line loss accrual by \$45 million pre-tax based on additional information provided by Ofgem regarding the calculation. See Note 6 to the Financial Statements for additional information.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas in Kentucky. In addition, certain financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 27% of Net Income Attributable to PPL Shareowners for 2013 and 26% of PPL's assets at December 31, 2013.

Net Income Attributable to PPL Shareowners includes the following results:

	2013	2012	2011	% Change	
				2013 vs. 2012	2012 vs. 2011
Utility revenues	\$ 2,976	\$ 2,759	\$ 2,793	8	(1)
Fuel	896	872	866	3	1
Energy purchases	217	195	238	11	(18)
Other operation and maintenance	778	778	751		4
Depreciation	334	346	334	(3)	4
Taxes, other than income	48	46	37	4	24
Total operating expenses	2,273	2,237	2,226	2	
Other Income (Expense) - net	(7)	(15)	(1)	(53)	1,400
Other-Than-Temporary Impairments		25		(100)	n/a
Interest Expense	212	219	217	(3)	1
Income Taxes	179	80	127	124	(37)
Income (Loss) from Discontinued Operations (net of income taxes)	2	(6)	(1)	(133)	500
Net Income Attributable to PPL Shareowners	\$ 307	\$ 177	\$ 221	73	(20)

The changes in the results of the Kentucky Regulated segment between these periods were due to the factors set forth below, which reflect amounts classified as Kentucky Gross Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of the special items.

	2013 vs. 2012	2012 vs. 2011
Kentucky Gross Margins	\$ 220	\$ (8)
Other operation and maintenance	(5)	(16)
Depreciation	(34)	(10)
Taxes, other than income	(1)	(9)
Other Income (Expense) - net	7	(14)
Interest Expense	7	(2)
Income Taxes	(83)	31
Special items, after-tax	19	(16)
Total	\$ 130	\$ (44)

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Kentucky Gross Margins.
- Higher other operation and maintenance in 2012 compared with 2011 primarily due to \$11 million of expenses related to an increased scope of scheduled outages and a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.
- Higher depreciation in 2013 compared with 2012 primarily due to environmental costs related to the 2005 and 2006 ECR plans now being included in base rates. As a result, \$51 million of depreciation associated with those environmental projects is shown as depreciation in 2013. Depreciation for these ECR plans was included in Kentucky Gross Margins in 2012 and 2011. This increase was partially offset by lower depreciation due to revised rates that were effective January 1, 2013. Both events are the result of the 2012 rate case proceedings.

Higher depreciation in 2012 compared with 2011 due to additions to PP&E.
- Lower other income (expense) - net in 2012 compared with 2013 and 2011 primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.
- Higher income taxes in 2013 compared with 2012 and lower income taxes in 2012 compared with 2011 are primarily due to the change in pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted the Kentucky Regulated segment's results.

	Income Statement Line Item	2013	2012	2011
Adjusted energy-related economic activity, net, net of tax of \$0, \$0, \$(1) (a)	Utility Revenues			\$ 1
Impairments:				
Other asset impairments, net of tax of \$0, \$10, \$0 (b)	Other-Than-Temporary-Impairments		\$ (15)	
LKE acquisition-related adjustments:				
Net operating loss carryforward and other tax-related adjustments	Income Taxes and Other operation and maintenance		4	
Other:				
LKE discontinued operations (c)	Discontinued Operations	\$ 2	(5)	(1)
EEI adjustments, net of tax of \$0, \$0, \$0 (d)	Other Income (Expense) - net	1		
Total		<u>\$ 3</u>	<u>\$ (16)</u>	<u>\$</u>

- (a) Recorded by LG&E and is reflected in "Operating Revenues" for LKE and in "Retail and wholesale" for LG&E on the Statements of Income.
(b) KU recorded an impairment of its equity method investment in EEI. See Note 18 to the Financial Statements for additional information.
(c) 2012 includes an adjustment recorded by LKE to an indemnification liability.
(d) Recorded by KU.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain financing costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 18% of Net Income Attributable to PPL Shareowners for 2013 and 15% of PPL's assets at December 31, 2013.

Net Income Attributable to PPL Shareowners includes the following results:

	2013	2012	2011	% Change	
				2013 vs. 2012	2012 vs. 2011
Operating revenues					
External	\$ 1,866	\$ 1,760	\$ 1,881	6	(6)
Intersegment	4	3	11	33	(73)
Total operating revenues	<u>1,870</u>	<u>1,763</u>	<u>1,892</u>	<u>6</u>	<u>(7)</u>
Energy purchases					
External	588	550	738	7	(25)
Intersegment	51	78	26	(35)	200
Other operation and maintenance	531	576	530	(8)	9
Depreciation	178	160	146	11	10
Taxes, other than income	103	105	104	(2)	1
Total operating expenses	<u>1,451</u>	<u>1,469</u>	<u>1,544</u>	<u>(1)</u>	<u>(5)</u>
Other Income (Expense) - net	6	9	7	(33)	29
Interest Expense	108	99	98	9	1
Income Taxes	108	68	68	59	-
Net Income	209	136	189	54	(28)
Net Income Attributable to Noncontrolling Interests (Note 3)		4	16	(100)	(75)
Net Income Attributable to PPL Shareowners	<u>\$ 209</u>	<u>\$ 132</u>	<u>\$ 173</u>	<u>58</u>	<u>(24)</u>

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as Pennsylvania Gross Delivery Margins on a separate line and not on their respective Statement of Income line items.

	2013 vs. 2012	2012 vs. 2011
Pennsylvania Gross Delivery Margins	\$ 114	\$ 19
Other operation and maintenance	23	(50)
Depreciation	(18)	(14)
Taxes, other than income	5	(9)
Other Income (Expense) - net	(3)	2
Interest Expense	(9)	(1)
Income Taxes	(39)	
Noncontrolling Interests	4	12
Total	<u>\$ 77</u>	<u>\$ (41)</u>

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Lower other operation and maintenance for 2013 compared with 2012, primarily due to lower storm costs of \$17 million and lower support group costs of \$19 million, partially offset by \$14 million increased vegetation management costs.

Higher other operation and maintenance for 2012 compared with 2011, primarily due to \$17 million in higher payroll-related costs due to less project costs being capitalized in 2012, higher support group costs of \$11 million and \$10 million for increased vegetation management costs.

- Higher depreciation for both periods primarily due to PP&E additions related to the ongoing efforts to ensure the reliability of the delivery system and replace aging infrastructure.
- Income taxes were higher in 2013 compared with 2012 primarily due to higher pre-tax income which increased income taxes by \$47 million, partially offset by \$8 million of income tax return adjustments primarily recorded in 2012, largely related to changes in flow-through regulated tax depreciation.

Income taxes were flat in 2012 compared with 2011 primarily due to lower pre-tax income which decreased income taxes by \$22 million, primarily offset by \$9 million of depreciation not normalized and \$11 million of income tax return adjustments, largely related to changes in flow-through regulated tax depreciation.

- Lower noncontrolling interests for both periods due to PPL Electric's redemption of preference securities in June 2012.

Supply Segment

The Supply segment consists primarily of PPL Energy Supply's wholesale, retail, marketing and trading activities, as well as the competitive generation operations. In addition, certain financing and other costs are allocated to the Supply segment. The Supply segment represents negative 24% of Net Income Attributable to PPL Shareowners for 2013 and 25% of PPL's assets at December 31, 2013. In 2011, PPL Energy Supply subsidiaries completed the sale of several businesses, which have been classified as Discontinued Operations. See Note 9 to the Financial Statements for additional information.

Net Income Attributable to PPL Shareowners includes the following results.

	2013	2012	2011	% Change	
				2013 vs. 2012	2012 vs. 2011
Energy revenues					
External (a)	\$ 4,075	\$ 4,970	\$ 5,938	(18)	(16)
Intersegment	51	79	26	(35)	204
Energy-related businesses	527	461	472	14	(2)
Total operating revenues	4,653	5,510	6,436	(16)	(14)
Fuel (a)	1,049	965	1,080	9	(11)
Energy Purchases					
External (a)	1,168	1,810	2,277	(35)	(21)
Intersegment	3	2	4	50	(50)
Other operation and maintenance (b)	1,072	1,058	899	1	18
Loss on lease termination (c)	697			n/a	n/a
Depreciation	318	289	245	10	18
Taxes, other than income	66	68	72	(3)	(6)
Energy-related businesses	512	450	467	14	(4)
Total operating expenses	4,885	4,642	5,044	5	(8)
Other Income (Expense) - net	33	18	43	83	(58)
Other-Than-Temporary Impairments	1	2	6	(50)	(67)
Interest Expense	228	222	192	3	16
Income Taxes	(157)	247	463	(164)	(47)
Income (Loss) from Discontinued Operations			3	n/a	(100)
Net Income	(271)	415	777	(165)	(47)
Net Income Attributable to Noncontrolling Interests	1	1	1		
Net Income Attributable to PPL Shareowners	\$ (272)	\$ 414	\$ 776	(166)	(47)

- (a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 19 to the Financial Statements for additional information.
- (b) 2013 includes an impairment charge of \$65 million (\$39 million after-tax) for the Corette coal-fired plant and related emission allowances. See Note 18 to the Financial Statements for additional information.
- (c) See Note 8 to the Financial Statements for additional information.

The changes in the components of the Supply segment's results between these periods were due to the factors set forth below, which reflect amounts classified as Unregulated Gross Energy Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of the special items.

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Unregulated Gross Energy Margins	\$ (194)	\$ (197)
Other operation and maintenance	40	(100)
Depreciation	(29)	(44)
Taxes, other than income	5	8
Other Income (Expense) - net	19	(26)
Interest Expense	(6)	(20)
Other	(5)	5
Income Taxes	33	136
Special items, after-tax	(549)	(124)
Total	<u>\$ (686)</u>	<u>\$ (362)</u>

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Lower other operation and maintenance in 2013 compared with 2012 primarily due to lower fossil and hydroelectric costs of \$17 million, largely driven by lower outage costs in 2013 and lower pension expense of \$11 million.

Higher other operation and maintenance in 2012 compared with 2011 primarily due to higher costs at PPL Susquehanna of \$33 million, \$20 million due to the Ironwood Acquisition, \$7 million of higher fossil and hydroelectric unit costs and \$11 million of higher pension expense.
- Higher depreciation in 2013 compared with 2012 primarily due to PP&E additions.

Higher depreciation in 2012 compared with 2011 primarily due to a \$24 million impact from PP&E additions and \$17 million due to the Ironwood Acquisition.
- Higher other income (expense) - net in 2013 compared with 2012, however no individual item was significant in comparison to the prior year.

Lower other income (expense) - net in 2012 compared with 2011 primarily due to a \$22 million gain on the July 2011 debt redemption.
- Higher interest expense in 2012 compared with 2011 primarily due to hedging activity, which increased interest expense by \$30 million, and \$12 million related to the debt assumed as a result of the Ironwood Acquisition, partially offset by \$11 million of lower interest on short-term borrowings.
- Lower income taxes in 2013 compared with 2012 due to lower pre-tax income, which reduced income taxes by \$62 million, and \$10 million related to the impact of prior period tax return adjustments, partially offset by \$38 million of higher taxes due to state tax rate changes.

Lower income taxes in 2012 compared with 2011 due to lower pre-tax income, which reduced income taxes by \$151 million, and \$23 million related to lower adjustments to valuation allowances on Pennsylvania net operating losses, partially offset by \$21 million related to the impact of prior period tax return adjustments.

The following after-tax gains (losses), which management considers special items, also impacted the Supply segment's results.

	Income Statement Line Item	2013	2012	2011
Adjusted energy-related economic activity - net, net of tax of \$54, (\$26), (\$52)	(a)	\$ (77)	\$ 38	\$ 72
Impairments:				
Emission allowances, net of tax of \$0, \$0, \$1	Other operation and maintenance			(1)
RECs, net of tax of \$0, \$0, \$2	Other operation and maintenance			(3)
Adjustments - nuclear decommissioning trust investments, net of tax of \$0, (\$2), \$0	Other Income		2	
Other asset impairments, net of tax of \$0, \$0, \$0	(Expense) - net			
Corette asset impairment, net of tax of \$26, \$0, \$0 (b)	Other operation and maintenance		(1)	
	Other operation and maintenance	(39)		
LKE acquisition-related adjustments:				
Sale of certain non-core generation facilities, net of tax of \$0, \$0, \$0	Discontinued Operations			(2)
Other:				
Montana hydroelectric litigation, net of tax of \$0, \$0, (\$30)	(c)			45
Litigation settlement - spent nuclear fuel storage, net of tax of \$0, \$0, (\$24) (d)	Fuel			33
Change in tax accounting method related to repairs	Income Taxes	(3)		
Counterparty bankruptcy, net of tax of (\$1), \$5, \$5 (e)	Other operation and maintenance	1	(6)	(6)
Wholesale supply cost reimbursement, net of tax of \$0, \$0, (\$3) (f)	Unregulated wholesale energy		1	4
Ash basin leak remediation adjustment, net of tax of \$0, (\$1), \$0	Other operation and maintenance		1	
Coal contract modification payments, net of tax of \$0, \$12, \$0 (g)	Fuel		(17)	
Loss on Colstrip operating lease termination, net of tax of \$284, \$0, \$0 (h)	Loss on lease termination	(413)		
Total		<u>\$ (531)</u>	<u>\$ 18</u>	<u>\$ 142</u>

- (a) See "Reconciliation of Economic Activity" below.
- (b) In 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place its Corette coal-fired plant in Montana in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with MATS. During the fourth quarter of 2013, PPL Energy Supply determined its Corette plant was impaired and recorded a pre-tax charge of \$65 million for the plant and related emission allowances. See Note 18 to the Financial Statements for additional information.
- (c) In February 2012, the U.S. Supreme Court overturned the Montana state court decisions requiring PPL Montana to make lease payments for the use of certain Montana streambeds. As a result, in 2011, PPL Montana reversed its total loss accrual. The amount related to periods prior to 2011 was considered a special item, which consisted of a \$65 million net credit to "Other operation and maintenance" and a \$10 million net credit to "Interest Expense" on the Statement of Income in 2011.
- (d) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. DOE relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits to fuel expense to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. This special item represents amounts recorded in 2011 to cover the costs incurred from 1998 through December 2010.
- (e) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012. In June 2013, PPL EnergyPlus received an approval for an administrative claim in the amount of \$2 million.
- (f) In January 2012, PPL received \$7 million pre-tax, related to electricity delivered to a wholesale customer in 2008 and 2009. The additional revenue results from several transmission projects approved at PJM for recovery that were not initially anticipated at the time of the electricity auctions and therefore were not included in the auction pricing. A FERC order was issued in 2011 approving the disbursement of these supply costs by the wholesale customer to the suppliers; therefore, PPL accrued its share of this additional revenue in 2011.
- (g) As a result of lower electricity and natural gas prices, coal-fired generation output decreased during 2012. Contract modification payments were incurred to reduce 2012 and 2013 coal deliveries.
- (h) In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern certain hydroelectric generating facilities located in Montana. To facilitate the sale of the hydroelectric facilities, on December 20, 2013, PPL Montana terminated its operating lease arrangement related to partial interests in Units 1, 2 and 3 of the Colstrip coal-fired electric generating facility and acquired those interests, collectively, for \$271 million. At lease termination, the existing lease-related assets on the balance sheet were written-off and the acquired Colstrip assets were recorded at fair value as of the acquisition date. PPL and PPL Energy Supply recorded a charge of \$697 million (\$413 million after-tax) for the termination of the lease. See Note 8 to the Financial Statements for additional information.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 19 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net."

	2013	2012	2011
Operating Revenues			
Unregulated wholesale energy	\$ (721)	\$ (311)	\$ 1,407
Unregulated retail energy	12	(17)	31
Operating Expenses			
Fuel	(4)	(14)	6
Energy Purchases	586	442	(1,123)
Energy-related economic activity (a)	(127)	100	321
Option premiums (b)	(4)	(1)	19
Adjusted energy-related economic activity	(131)	99	340
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010		35	216
Adjusted energy-related economic activity, net, pre-tax	\$ (131)	\$ 64	\$ 124
Adjusted energy-related economic activity, net, after-tax	\$ (77)	\$ 38	\$ 72

(a) See Note 19 to the Financial Statements for additional information.

(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Unregulated wholesale energy" and "Energy purchases" on the Statements of Income.

Margins

Non-GAAP Financial Measures

Management utilizes the following non-GAAP financial measures as indicators of performance for its businesses.

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's, LKE's, LG&E's and KU's electricity generation, transmission and distribution operations as well as LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded as "Other operation and maintenance" on the Statements of Income) are deducted from revenues. In addition, certain other expenses, recorded as "Other operation and maintenance" and "Depreciation" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from the electricity and gas operations.
- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Energy purchases from affiliate" in PPL Electric's reconciliation table). As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.
- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's and PPL Energy Supply's competitive energy activities, which are managed on a geographic basis. In calculating this measure, energy revenues, including operating revenues associated with certain businesses classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, recorded in "Taxes, other than income," and operating expenses associated with certain businesses classified as discontinued operations. This performance measure is relevant due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Unregulated wholesale energy", "Unregulated retail energy" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Unregulated wholesale energy to affiliate" in PPL Energy Supply's reconciliation table). "Unregulated Gross Energy Margins" excludes adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of the competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the

delivery period that was hedged. Adjusted energy-related economic activity includes the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in "Unregulated Gross Energy Margins" over the delivery period that was hedged or upon realization.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of their operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage the operations, analyze actual results compared with budget and, in certain cases, to measure certain corporate financial goals used to determine variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the years ended December 31.

	2013					2012				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 2,976	\$ 1,866		\$ 2,359 (c)	\$ 7,201	\$ 2,759	\$ 1,760		\$ 2,289 (c)	\$ 6,808
PLR intersegment utility revenue (expense) (d)		(51)	\$ 51				(78)	\$ 78		
Unregulated wholesale energy			3,758	(714) (e)	3,044			4,416	(290)(e)	4,126
Unregulated retail energy (f)			1,019	8 (e)	1,027			865	(21)(e)	844
Energy-related businesses				588	588				508	508
Total Operating Revenues	2,976	1,815	4,828	2,241	11,860	2,759	1,682	5,359	2,486	12,286
Operating Expenses										
Fuel	896		1,045	3 (g)	1,944	872		931	34 (g)	1,837
Energy purchases	217	588	1,742	(580) (e)	1,967	195	550	2,204	(394)(e)	2,555
Other operation and maintenance	97	82	20	2,626	2,825	101	104	19	2,611	2,835
Loss on lease termination (Note 8)				697	697					
Depreciation	5			1,156	1,161	51			1,049	1,100
Taxes, other than income	1	95	37	231	364		91	34	241	366
Energy-related businesses			7	556	563				484	484
Intercompany eliminations		(4)	3	1			(3)	3		
Total Operating Expenses	1,216	761	2,854	4,690	9,521	1,219	742	3,191	4,025	9,177
Total	\$ 1,760	\$ 1,054	\$ 1,974	\$ (2,449)	\$ 2,339	\$ 1,540	\$ 940	\$ 2,168	\$ (1,539)	\$ 3,109

	2011				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues					
Utility	\$ 2,791	\$ 1,881		\$ 1,620 (c)	\$ 6,292
PLR intersegment utility revenue (expense) (d)		(26)	\$ 26		
Unregulated wholesale energy			3,743	1,469 (e)	5,212
Unregulated retail energy (f)			696	30 (e)	726
Energy-related businesses				507	507
Total Operating Revenues	2,791	1,855	4,465	3,626	12,737

	2011				Operating Income (b)
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	
Operating Expenses					
Fuel	866		1,151	(71) (g)	1,946
Energy purchases	238	738	912	1,365 (e)	3,253
Other operation and maintenance	90	108	16	2,453	2,667
Depreciation	49			911	960
Taxes, other than income		99	30	197	326
Energy-related businesses				484	484
Intercompany eliminations		(11)	3	8	
Total Operating Expenses	1,243	934	2,112	5,347	9,636
Discontinued operations			12	(12) (h)	
Total	\$ 1,548	\$ 921	\$ 2,365	\$ (1,733)	\$ 3,101

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) Primarily represents WPD's utility revenue.
(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
(e) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. For 2012, "Unregulated wholesale energy" and "Energy purchases" include a net pre-tax loss of \$35 million related to the monetization of certain full-requirement sales contracts. 2011 includes a net pre-tax loss of \$216 million related to the monetization of certain full-requirement sales contracts and a net pre-tax gain of \$19 million related to the amortization of option premiums.
(f) Although retail energy revenues continue to grow, the net margins related to these activities are not currently a significant component of Unregulated Gross Energy Margins.
(g) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. 2012 includes a net pre-tax loss of \$29 million related to coal contract modification payments. 2011 includes pre-tax credits of \$57 million for the spent nuclear fuel litigation settlement.
(h) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

The following table shows the non-GAAP financial measures by PPL's reportable segment and by component, as applicable, for the year ended December 31 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	2013	2012	2011	\$ Change	
				2013 vs. 2012	2012 vs. 2011
Kentucky Regulated					
Kentucky Gross Margins					
LKE	\$ 1,760	\$ 1,540	\$ 1,548	\$ 220	\$ (8)
LG&E	791	727	724	64	3
KU	969	813	823	156	(10)
Pennsylvania Regulated					
Pennsylvania Gross Delivery Margins					
Distribution	\$ 803	\$ 730	\$ 741	\$ 73	\$ (11)
Transmission	251	210	180	41	30
Total	\$ 1,054	\$ 940	\$ 921	\$ 114	\$ 19
Supply					
Unregulated Gross Energy Margins					
Eastern U.S.	\$ 1,756	\$ 1,867	\$ 2,015	\$ (111)	\$ (148)
Western U.S.	218	301	350	(83)	(49)
Total	\$ 1,974	\$ 2,168	\$ 2,365	\$ (194)	\$ (197)

Kentucky Gross Margins

Kentucky Gross Margins increased in 2013 compared with 2012, primarily due to higher base rates of \$102 million (\$44 million at LG&E and \$58 million at KU), environmental cost recoveries added to base rates of \$53 million (\$3 million at LG&E and \$50 million at KU), returns from additional environmental capital investments of \$34 million (\$16 million at LG&E and \$18 million at KU), higher fuel recoveries of \$18 million (\$7 million at LG&E and \$11 million at KU) and higher volumes of \$6 million (\$9 million higher at KU partially offset by \$3 million lower at LG&E).

The increase in base rates was the result of new KPSC rates effective January 1, 2013 at LG&E and KU. The environmental cost recoveries added to base rates were due to the transfer of the 2005 and 2006 ECR plans into base rates as a result of the 2012 Kentucky rate cases for LG&E and KU. This transfer results in depreciation and other operation and maintenance expenses associated with the 2005 and 2006 ECR plans being excluded from Kentucky Gross Margins in 2013, while the recovery of such costs remain in Kentucky Gross Margins through base rates.

Kentucky Gross Margins decreased in 2012 compared with 2011, primarily due to \$6 million of lower wholesale margins at LG&E, resulting from lower market prices. Retail margins were \$10 million lower at KU, as volumes were impacted by unseasonably mild weather during the first four months of 2012. Retail margins were \$8 million higher at LG&E due to incremental returns on environmental investments, with retail volumes consistent with the prior year.

Pennsylvania Gross Delivery Margins

Distribution

Distribution margins increased in 2013 compared with 2012, primarily due to a \$53 million favorable effect of price, largely comprised of higher base rates, effective January 1, 2013, a \$15 million impact of weather primarily due to the adverse effect of mild weather in 2012 and higher volumes of \$5 million.

Distribution margins decreased in 2012 compared with 2011, primarily due to a \$14 million impact of weather primarily due to the adverse effect of mild weather early in 2012 and lower revenue applicable to certain energy-related costs of \$3 million due to fewer PLR customers in 2012, partially offset by a \$7 million charge recorded in 2011 to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC.

Transmission

Transmission margins increased for both periods, primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

Unregulated Gross Energy Margins

Eastern U.S.

Eastern margins decreased in 2013 compared with 2012 primarily due to \$435 million of lower baseload energy prices, partially offset by \$198 million of higher capacity prices and \$100 million of increased nuclear generation volume.

Eastern margins decreased in 2012 compared with 2011 primarily due to \$121 million of lower baseload energy prices and \$54 million of lower capacity prices.

Western U.S.

Western margins decreased in 2013 compared with 2012 primarily due to \$69 million of lower wholesale energy prices and \$15 million of lower net economic availability of coal and hydroelectric units.

Western margins decreased in 2012 compared with 2011 primarily due to \$34 million of lower wholesale volumes, including \$31 million related to the bankruptcy of SMGT, \$9 million of higher average fuel prices and \$9 million of lower wholesale energy prices.

Statement of Income Analysis --

Utility Revenues

The increase (decrease) in utility revenues was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Domestic:		
PPL Electric (a)	\$ 106	\$ (121)
LKE (b)	217	(34)
Total Domestic	<u>323</u>	<u>(155)</u>
U.K.:		
Price (c)	264	78
Volume (d)	5	(13)
Recovery of allowed revenues (e)	(43)	(6)
WPD Midlands line loss accrual adjustments (f)	(142)	
Foreign currency exchange rates	(27)	(11)
Other	13	(10)
WPD Midlands (g)		633
Total U.K.	<u>70</u>	<u>671</u>
Total	<u>\$ 393</u>	<u>\$ 516</u>

(a) See "Pennsylvania Gross Delivery Margins" for further information.

(b) See "Kentucky Gross Margins" for further information.

(c) The increase in 2013 compared with 2012 was due to price increases effective April 1, 2013 and April 1, 2012. The increase in 2012 compared with 2011 was due to price increases effective April 1, 2012 and April 1, 2011.

(d) The increase in 2013 compared with 2012 was primarily due to the favorable effect of weather. The decrease in 2012 compared with 2011 was primarily due to the downturn in the economy and the unfavorable effect of weather.

(e) The decrease in 2013 compared with 2012 was primarily due to over-recovered revenues as a result of price and weather related volume effects that are not expected to reverse within the regulatory year ending March 31, 2014. Therefore, a liability was recorded and utility revenue reduced for the amount of the over-recovery in 2013. These amounts are expected to be refunded within the regulatory year beginning April 1, 2014.

(f) The decrease was due to a \$97 million increase in revenue in 2012 and a \$45 million reduction in revenue in 2013 from adjusting a loss accrual based on information provided by Ofgem regarding the calculation of line loss incentives and penalties for all network operators, primarily related to DPCR4. See Note 6 to the Financial Statements for additional information.

(g) Amounts in 2013 compared with 2012 are comparable and have not been isolated for purposes of comparability. Amounts in 2012 were not comparable with 2011, as 2011 includes eight months of WPD Midlands' results. The increase in 2012 compared with 2011 was primarily due to four additional months of utility revenue in 2012 of \$446 million. The comparable eight month period was higher in 2012 compared to 2011 due to a \$125 million price increase effective April 1, 2012 and the \$97 million line loss accrual adjustment in 2012 discussed above.

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items are included above within "Margins" and are not discussed separately.

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Unregulated wholesale energy	\$ (1,082)	\$ (1,086)
Unregulated retail energy	183	118
Fuel	107	(109)
Energy purchases	(588)	(698)

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Domestic:		
LKE coal plant operations and maintenance (a)	\$ (15)	\$ 21
Act 129 costs incurred (b)	(24)	(6)
Vegetation management (c)	14	10
PPL Electric payroll-related costs (d)	4	17
Montana hydroelectric litigation (e)		65
PPL Susquehanna (f)	(3)	33
Fossil and hydroelectric plants (g)	43	1
Ironwood Acquisition (h)		20
PUC-reportable storm costs, net of insurance recoveries	(21)	14
PPL EnergyPlus (i)	(18)	17
Stock based compensation	2	17
Other	(10)	21

	2013 vs. 2012	2012 vs. 2011
U.K.:		
Network maintenance (j)	32	11
Third-party engineering (k)	12	(3)
Pension (l)	8	21
Separation benefits (m)	(11)	
Employee-related expenses	(7)	
Foreign currency exchange rates	(4)	(2)
Acquisition-related adjustments	(8)	
WPD Midlands (n)		(85)
Other	(4)	(4)
	<u>\$ (10)</u>	<u>\$ 168</u>

- (a) The decrease in 2013 compared with 2012 was primarily due to \$21 million of lower costs related to the timing and scope of scheduled outages, partially offset by increased generation costs. The increase in 2012 compared with 2011 was primarily due to \$11 million of expenses related to an increase scope of scheduled outages, as well as \$5 million of increased maintenance at the Ghent plant on the scrubber system and primary fuel combustion system.
- (b) Relates to costs associated with PPL Electric's PUC-approved energy efficiency and conservation plan with programs starting in 2010. These costs are recovered in customer rates. The decrease in both periods primarily results from the number of programs and timing of such programs. Phase 1 of Act 129 closed in May 2013. Phase 2 programs began in June 2013.
- (c) PPL Electric incurred higher vegetation management costs in both periods due to increased activities related to maintaining and increasing system reliability for both the transmission and distribution systems. The amount for 2012 compared to the 2011 period was also higher due to increased costs to comply with federal transmission reliability requirements.
- (d) PPL Electric Utilities incurred higher payroll costs of \$17 million in 2012 compared with 2011 due to less project costs being capitalized.
- (e) In February 2012, the U.S. Supreme Court overturned the Montana state court decisions requiring PPL Montana to make lease payments for the use of certain Montana streambeds. As a result, in 2011, PPL Montana reversed its total loss accrual. See Note 15 to the Financial Statements for additional information.
- (f) 2012 compared with 2011 was higher due to outage and project costs.
- (g) In 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operations due to expected market conditions and the costs to comply with MATS. During the fourth quarter of 2013, PPL Energy Supply determined its Corette plant was impaired and recorded a charge of \$65 million for the plant and related emission allowances. See Note 18 to the Financial Statements for additional information.
- (h) Amounts in 2013 compared with 2012 are comparable and have not been isolated for purposes of comparability. Amounts in 2012 compared with 2011 were not comparable as 2012 includes nine months of expense and, therefore, have been isolated for purposes of comparability. See Note 10 to the Financial Statements for information on the acquisition.
- (i) 2013 compared with 2012 was lower primarily due to SMGT filing under Chapter 11 of the U.S. Bankruptcy Code. \$11 million of receivables billed to SMGT were fully reserved in 2012. For 2012 compared with 2011, no individual item was significant in comparison to the prior year.
- (j) The increases in both periods were primarily due to higher vegetation management costs.
- (k) These costs are offset by revenues reflected in "Utility" on the Statement of Income.
- (l) The increases in both periods were due to higher pension costs resulting from increased amortization of actuarial losses.
- (m) The decrease in 2013 compared with 2012 was primarily due to costs incurred in 2012 related to the WPD Midlands reorganization.
- (n) Amounts in 2012 compared with 2011 were not comparable as 2011 includes eight months of WPD Midlands' results and therefore, have been isolated for purposes of comparability. The increase in 2012 compared with 2011 was partially due to four additional months of expense in 2012 of \$86 million. The comparable eight month period was \$171 million lower in 2012 compared to 2011 primarily due to \$86 million of lower separation benefits, \$34 million of lower acquisition related costs, and \$26 million of lower pension expense.

Loss on Lease Termination

A \$697 million charge was recorded in 2013 for the termination of the Colstrip operating lease to facilitate the sale of the Montana hydroelectric generating facilities. See Note 8 to the Financial Statements for additional information.

Depreciation

The increase (decrease) in depreciation was due to:

	2013 vs. 2012	2012 vs. 2011
Additions to PP&E, net	\$ 89	\$ 65
LKE lower depreciation rates effective January 1, 2013 (a)	(22)	
WPD Midlands (b)		55
Ironwood Acquisition (c)		17
Other	(6)	3
Total	<u>\$ 61</u>	<u>\$ 140</u>

- (a) A result of the 2012 rate case.
- (b) Amounts in 2013 compared with 2012 are comparable and have not been isolated for purposes of comparability. Amounts in 2012 were not comparable with 2011, which includes eight months of WPD Midlands' results and therefore, have been isolated for purposes of comparability. The increase in 2012 compared with 2011 is primarily due to four additional months of expense in 2012 of \$49 million.

(c) Amounts in 2013 compared with 2012 are comparable and have not been isolated for purposes of comparability. Amounts in 2012 compared with 2011 were not comparable as 2012 includes nine months of expenses and therefore, have been isolated for purposes of comparability. See Note 10 to the Financial Statements for information on the acquisition.

Taxes, Other Than Income

The increase (decrease) in taxes, other than income was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Domestic property tax expense (a)	\$ 3	\$ 14
State capital stock tax (b)	(5)	(11)
WPD Midlands (c)		33
Other		4
Total	<u>\$ (2)</u>	<u>\$ 40</u>

- (a) The increase in 2012 compared with 2011 is primarily due to the fully amortized PURTA refund to the customers in 2011 pursuant to PUC regulations. This tax is included in "Pennsylvania Gross Delivery Margins" above.
- (b) The decrease in 2012 compared with 2011 was due to changes in the statutory rate from the prior year.
- (c) Amounts in 2013 compared with 2012 are comparable and have not been isolated for purposes of comparability. Amounts in 2012 compared with 2011 were not comparable as 2011 includes eight months of WPD Midlands' results and therefore, have been isolated for purposes of comparability. The increase in 2012 compared with 2011 is primarily due to four additional months of expense in 2012 of \$30 million.

Other Income (Expense) - net

The increase (decrease) in other income (expense) - net was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Economic foreign currency exchange contracts (Note 19)	\$ 14	\$ (62)
Net hedge gains associated with the 2011 Bridge Facility (a)		(55)
Foreign currency loss on 2011 Bridge Facility		57
Gain on redemption of debt (b)		(22)
WPD Midlands acquisition-related adjustments in 2011 (Note 10)		55
Losses from equity method investments	8	(9)
Charitable contributions	(15)	(1)
Other	9	(6)
Total	<u>\$ 16</u>	<u>\$ (43)</u>

- (a) Represents a gain on foreign currency contracts in 2011 that hedged the repayment of the 2011 Bridge Facility borrowing.
- (b) In July 2011, as a result of PPL Electric's redemption of 7.125% Senior Secured Bonds due 2013, PPL recorded a gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges.

Other-Than-Temporary Impairments

Other-than-temporary impairments decreased by \$26 million in 2013 compared with 2012 and increased by \$21 million in 2012 compared with 2011 primarily due to a \$25 million pre-tax impairment of the EEI investment in 2012. See Notes 1 and 18 to the Financial Statements for additional information.

Interest Expense

The increase (decrease) in interest expense was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
2011 Bridge Facility costs related to the acquisition of WPD Midlands (Notes 7 and 10)		\$ (44)
2011 Equity Units (a)	\$ (2)	12
Long-term debt interest expense (b)	31	3
Short-term debt interest expense (c)	3	(12)
Inflation adjustment on U.K. Index-linked Senior Unsecured Notes	4	(12)
WPD Midlands (d)		80
Ironwood Acquisition (e)		12
Hedging activities and ineffectiveness	4	29
Capitalized interest (f)	6	(6)
Montana hydroelectric litigation (g)		10
Loss on extinguishment of debt (h)	10	
Other	(11)	(9)
Total	<u>\$ 45</u>	<u>\$ 63</u>

- (a) Interest related to the issuance in April 2011 to support the WPD Midlands acquisition.

- (b) 2013 increased due to debt issuances by PPL Capital Funding in March 2013, June 2012 and October 2012, by PPL Electric in July 2013 and August 2012, and WPD (East Midlands) in April 2012. Partially offsetting these increases was PPL Energy Supply's debt maturity in July 2013.
- (c) 2012 compared with 2011 was lower primarily due to lower interest rates on 2012 short-term borrowings coupled with lower fees on credit facilities.
- (d) Amounts in 2013 compared with 2012 are comparable and have not been isolated for purposes of comparability. Amounts in 2012 compared with 2011 were not comparable as 2011 includes eight months of WPD Midlands' results and therefore, have been isolated for purposes of comparability. The increase in 2012 compared with 2011 is primarily due to four additional months of expense in 2012 of \$74 million.
- (e) Amounts in 2013 compared with 2012 are comparable and have not been isolated for purposes of comparability. Amounts in 2012 compared with 2011 were not comparable as 2012 includes nine months of expense and therefore, have been isolated for purposes of comparability. See Note 10 to the Financial Statements for information on the acquisition.
- (f) Includes AFUDC.
- (g) In February 2012, the U.S. Supreme Court overturned the Montana state court decisions requiring PPL Montana to make lease payments for the use of certain Montana streambeds. As a result, in 2011, PPL Montana reversed its total loss accrual including accrued interest. See Note 15 to the Financial Statements for additional information.
- (h) In May 2013, PPL Capital Funding remarketed and exchanged junior subordinate notes that were originally issued in June 2010 as a component of PPL's 2010 Equity Units.

See Note 7 to the Financial Statements for information on 2013 long-term debt activity.

Income Taxes

The increase (decrease) in income taxes was due to:

	2013 vs. 2012	2012 vs. 2011
Change in pre-tax income	\$ (335)	\$ (296)
State valuation allowance adjustments (a)	11	(23)
State deferred tax rate change (b)	34	7
Federal and state tax reserve adjustments (c)	(42)	(40)
Federal and state tax return adjustments (d)	(21)	33
U.S. income tax on foreign earnings net of foreign tax credit (e)	(17)	57
U.K. Finance Act adjustments (f)	(22)	2
Foreign valuation allowance adjustments (g)		(147)
Foreign tax reserve adjustments (g)	3	134
Foreign tax return adjustments	2	(6)
Depreciation not normalized (a)	3	9
Net operating loss carryforward adjustments (h)	9	(9)
WPD Midlands (i)		146
Other	10	(13)
Total	<u>\$ (365)</u>	<u>\$ (146)</u>

- (a) The valuation allowances recorded on PPL's state deferred tax assets primarily relate to Pennsylvania net operating loss carryforwards. Pennsylvania requires that each corporation file a separate income tax return and has significant annual limitations on the deduction for net operating loss carryforwards. Currently, Pennsylvania allows an annual maximum deduction equal to the greater of \$3 million or 20% of taxable income. Recent legislation increased the annual maximum deduction to the greater of \$5 million or 30% of taxable income for tax years beginning in 2015.

During 2013, PPL recorded \$24 million state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income over the remaining carryforward period of Pennsylvania net operating losses.

During 2012, PPL recorded \$9 million state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income over the remaining carryforward period of Pennsylvania net operating losses.

During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL recorded a \$43 million state deferred income tax expense related to deferred tax valuation allowances during 2011.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed into service before January 1, 2012. The placed-in-service deadline was extended to January 1, 2013 for property that had a cost in excess of \$1 million, had a production period longer than one year and had a tax life of at least ten years. PPL's tax deduction for 100% bonus regulated tax depreciation was zero in 2013 and was significantly lower in 2012 than in 2011.

- (b) Changes in state apportionment resulted in an increase to the future estimated state tax rate at December 31, 2013 and reductions to the future estimated state tax rate at December 31, 2012 and 2011. PPL recorded a \$15 million deferred tax expense in 2013, a \$19 million deferred tax benefit in 2012 and a \$26 million deferred tax benefit in 2011 related to its state deferred tax liabilities.
- (c) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling of the U.S. Court of Appeals for the Third Circuit on the creditability of U.K. Windfall Profits Tax for tax purposes. As a result of this decision, PPL recorded a tax benefit of \$44 million during 2013. PPL recorded \$39 million tax expense related to the U.S. Court of Appeals for the Third Circuit's ruling in 2011. See Note 5 to the Financial Statements for additional information.

PPL recorded a tax benefit of \$7 million during 2013 and \$6 million during 2012 and 2011 to federal and state income tax reserves related to stranded cost securitization. The reserve balance at December 31, 2013 related to stranded costs securitization is zero.

- (d) During 2012, PPL recorded \$16 million in federal and state income tax expense related to the filing of the 2011 federal and state income tax returns. Of this amount, \$5 million relates to the reversal of prior years' state income tax benefits related to regulated depreciation. PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL adopted the safe harbor method with the filing of its 2011 federal income tax return.

During 2011, PPL recorded \$17 million in federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of this amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts and \$3 million in tax benefits related to the flow-through impact of Pennsylvania regulated state tax depreciation.

- (e) During 2013, PPL recorded \$25 million income tax expense resulting from increased taxable dividends offset by a \$19 million income tax benefit associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that was reflected on an amended 2010 U.S. tax return.

During 2012, PPL recorded a \$23 million adjustment to federal income tax expense related to the recalculation of 2010 U.K. earnings and profits.

During 2011, PPL recorded a \$28 million federal income tax benefit related to U.K. pension contributions.

- (f) The U.K.'s Finance Act 2013, enacted in July 2013, reduced the U.K. statutory income tax rate from 23% to 21% effective April 1, 2014 and from 21% to 20% effective April 1, 2015. As a result, PPL reduced its net deferred tax liabilities and recognized a \$97 million deferred tax benefit in 2013 related to both rate decreases.

The U.K.'s Finance Act 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liabilities and recognized a \$75 million deferred tax benefit in 2012 related to both rate decreases. WPD Midlands' portion of the deferred tax benefit is \$43 million.

The U.K.'s Finance Act 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a \$69 million deferred tax benefit in 2011 related to both rate decreases. WPD Midlands' portion of the deferred tax benefit is \$35 million.

- (g) During 2011, WPD reached an agreement with the HMRC related to the amount of the capital losses that resulted from prior years' restructuring in the U.K. and recorded a \$147 million foreign tax benefit for the reversal of tax reserves related to the capital losses. Additionally, WPD recorded a \$147 million valuation allowance for the amount of capital losses that, more likely than not, will not be utilized.
- (h) During 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
- (i) Amounts in 2013 compared with 2012 are comparable and have not been isolated for purposes of comparability. Amounts in 2012 compared with 2011 were not comparable as 2011 includes eight months of WPD Midlands' results and therefore, have been isolated for purposes of comparability. The increase in 2012 compared with 2011 was primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information on income taxes.

Noncontrolling Interests

"Net Income Attributable to Noncontrolling Interests" decreased by \$4 million in 2013 compared with 2012 and \$12 million in 2012 compared with 2011 primarily due to PPL Electric's June 2012 redemption of all 2.5 million shares of its preference stock.

PPL Energy Supply: Earnings, Margins and Statement of Income Analysis

Earnings

	2013	2012	2011
Net Income (Loss) Attributable to PPL Energy Supply Member	\$ (230)	\$ 474	\$ 768
Special items, gains (losses), after-tax	(531)	18	142

Excluding special items, pre-tax earnings in 2013 compared with 2012 decreased primarily due to lower baseload energy prices and higher depreciation, partially offset by higher capacity prices, higher nuclear generation volume, lower operation and maintenance expense and lower income taxes.

Excluding special items, pre-tax earnings in 2012 compared with 2011 decreased primarily due to lower Eastern energy margins resulting from lower baseload energy and capacity prices, lower Western energy margins resulting from an early 2012 contract termination related to the bankruptcy of SMGT, higher operation and maintenance expense, higher depreciation, partially offset by lower financing costs and income taxes.

The table below quantifies the changes in the components of Net Income Attributable to PPL Energy Supply Member between these periods, which reflect amounts classified as Unregulated Gross Energy Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Supply Segment" for the details of special items.

	2013 vs. 2012	2012 vs. 2011
Unregulated Gross Energy Margins	\$ (194)	\$ (197)
Other operation and maintenance	23	(53)
Depreciation	(33)	(41)
Taxes, other than income	6	6
Other Income (Expense) - net	15	(5)
Interest Expense	(3)	16
Other	(3)	2
Income Taxes	34	102
Special items, after-tax	(549)	(124)
Total	<u>\$ (704)</u>	<u>\$ (294)</u>

Margins

"Unregulated Gross Energy Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the years ended December 31.

	2013			2012		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Unregulated wholesale energy	\$ 3,758	\$ (714) (c)	\$ 3,044	\$ 4,416	\$ (290) (c)	\$ 4,126
Unregulated wholesale energy to affiliate	51		51	78		78
Unregulated retail energy (d)	1,019	12 (c)	1,031	865	(17) (c)	848
Energy-related businesses		527	527		448	448
Total Operating Revenues	<u>4,828</u>	<u>(175)</u>	<u>4,653</u>	<u>5,359</u>	<u>141</u>	<u>5,500</u>
Operating Expenses						
Fuel	1,045	4 (e)	1,049	931	34 (e)	965
Energy purchases	1,742	(574) (c)	1,168	2,204	(386) (c)	1,818
Energy purchases from affiliate	3		3	3		3
Other operation and maintenance	20	1,052	1,072	19	1,022	1,041
Loss on lease termination (Note 8)		697	697			
Depreciation		318	318		285	285
Taxes, other than income	37	29	66	34	35	69
Energy-related businesses	7	505	512		432	432
Total Operating Expenses	<u>2,854</u>	<u>2,031</u>	<u>4,885</u>	<u>3,191</u>	<u>1,422</u>	<u>4,613</u>
Total	<u>\$ 1,974</u>	<u>\$ (2,206)</u>	<u>\$ (232)</u>	<u>\$ 2,168</u>	<u>\$ (1,281)</u>	<u>\$ 887</u>

	2011		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues			
Unregulated wholesale energy	\$ 3,743	\$ 1,469 (c)	\$ 5,212
Unregulated wholesale energy to affiliate	26		26
Unregulated retail energy (e)	696	31 (c)	727
Energy-related businesses		464	464
Total Operating Revenues	<u>4,465</u>	<u>1,964</u>	<u>6,429</u>
Operating Expenses			
Fuel	1,151	(71) (e)	1,080
Energy purchases	912	1,371 (c)	2,283
Energy purchases from affiliate	3		3
Other operation and maintenance	16	913	929
Depreciation		244	244
Taxes, other than income	30	41	71
Energy-related businesses		458	458
Total Operating Expenses	<u>2,112</u>	<u>2,956</u>	<u>5,068</u>
Discontinued Operations	12	(12) (f)	
Total	<u>\$ 2,365</u>	<u>\$ (1,004)</u>	<u>\$ 1,361</u>

- (a) Represents amounts excluded from Margins.
- (b) As reported on the Statements of Income.
- (c) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. For 2012, "Unregulated wholesale energy" and "Energy purchases" include a net pre-tax loss of \$35 million related to the monetization of certain full-requirement sales contracts. 2011 includes a net pre-tax loss of \$216 million related to the monetization of certain full-requirement sales contracts and a net pre-tax gain of \$19 million related to the amortization of option premiums.
- (d) Although retail energy revenues continue to grow, the net margins related to these activities are not currently a significant component of Unregulated Gross Energy Margins.
- (e) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. 2012 includes a net pre-tax loss of \$29 million related to coal contract modification payments. 2011 includes pre-tax credits of \$57 million for the spent nuclear fuel litigation settlement.
- (f) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Unregulated Gross Energy Margins"

The following Statement of Income line items are included above within "Unregulated Gross Energy Margins" and are not discussed separately.

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Unregulated wholesale energy	\$ (1,082)	\$ (1,086)
Unregulated wholesale energy to affiliate	(27)	52
Unregulated retail energy	183	121
Fuel	84	(115)
Energy purchases	(650)	(465)

Energy-Related Businesses

The \$10 million net increase in contributions from energy-related businesses in 2012 compared with 2011 primarily relates to the mechanical services businesses, due to improved margins on construction and energy service projects in 2012.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Fossil and hydroelectric plants (a)	\$ 43	\$ 1
PPL EnergyPlus (b)	(18)	17
PPL Susquehanna (c)	(3)	33
Montana hydroelectric litigation (d)		65
Ironwood Acquisition (e)		20
Trademark royalties (f)		(34)
Other	9	10
Total	<u>\$ 31</u>	<u>\$ 112</u>

- (a) In 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place its Corette coal-fired plant in Montana in long-term reserve status, suspending the plant's operations due to expected market conditions and the costs to comply with MATS. During the fourth quarter of 2013, PPL Energy Supply determined its Corette plant was impaired and recorded a charge of \$65 million for the plant and related emission allowances. See Note 18 to the Financial Statements for additional information.
- (b) 2013 compared with 2012 was lower primarily due to SMGT filing under Chapter 11 of the U.S. Bankruptcy Code. \$11 million of receivables billed to SMGT were fully reserved in 2012. For 2012 compared with 2011, no individual item was significant in comparison to the prior year.
- (c) 2012 compared with 2011 was higher primarily due to outage and project costs.
- (d) In February 2012, the U.S. Supreme Court overturned the Montana state court decisions requiring PPL Montana to make lease payments for the use of certain Montana streambeds. As a result, in 2011, PPL Montana reversed its total loss accrual. See Note 15 to the Financial Statements for additional information.
- (e) Amounts in 2013 compared with 2012 are comparable and have not been isolated for purposes of comparability. Amounts in 2012 compared with 2011 were not comparable as 2012 includes nine months of expense and therefore, have been isolated for purposes of comparability. See Note 10 to the Financial Statements for information on the acquisition.
- (f) In 2011, PPL Energy Supply was charged trademark royalties by an affiliate. The agreement was terminated in December 2011.

Loss on Lease Termination

A \$697 million charge was recorded in 2013 for the termination of the Colstrip operating lease to facilitate the sale of the Montana hydroelectric generating facilities. See Note 8 to the Financial Statements for additional information.

Depreciation

Depreciation increased by \$33 million in 2013 compared with 2012, primarily due to net PP&E additions.

Depreciation increased by \$41 million in 2012 compared with 2011, primarily due to \$16 million attributable to net PP&E additions and \$17 million attributable to the Ironwood Acquisition in April 2012.

Taxes, Other Than Income

Taxes, other than income decreased by \$2 million in 2012 compared with 2011, primarily due to a \$7 million decrease in state capital stock tax offset by a \$4 million increase in state gross receipts tax.

Other Income (Expense) - net

See Note 17 to the Financial Statements for details.

Interest Income from Affiliates

Interest income from affiliates decreased by \$6 million in 2012 compared with 2011, primarily due to lower average loan balances with PPL Energy Funding.

Interest Expense

The increase (decrease) in interest expense was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Long-term debt interest expense (a)	\$ (5)	\$ (11)
Short-term debt interest expense (b)	(2)	(10)
Ironwood Acquisition (c)		12
Capitalized interest (d)	10	
Net amortization of debt discounts, premiums and issuance costs (e)	(1)	(9)
Montana hydroelectric litigation (f)		10
Other	1	2
Total	<u>\$ 3</u>	<u>\$ (6)</u>

- (a) The decrease in 2013 compared with 2012 was primarily due to the July 2013 debt maturity. The decrease in 2012 compared with 2011 was primarily due to the debt redemption in July 2011, along with the repayment and subsequent issuance of debt in the fourth quarter of 2011.
- (b) The decrease in 2012 compared with 2011 was primarily due to lower interest rates on 2012 short-term borrowings coupled with lower fees on credit facilities.
- (c) The change in 2013 compared with 2012 is comparable and has not been isolated for purposes of comparability. Amounts in 2012 compared with 2011 were not comparable as 2012 includes nine months of expense and therefore, have been isolated for purposes of comparability.
- (d) The increase in 2013 compared with 2012 was primarily due to the Rainbow hydroelectric redevelopment project.
- (e) The decrease in 2012 compared with 2011 includes the impact of accelerating the amortization of deferred financing fees of \$7 million in 2011, due to the July 2011 redemption.
- (f) In February 2012, the U.S. Supreme Court overturned the Montana state court decisions requiring PPL Montana to make lease payments for the use of certain Montana streambeds. As a result, in 2011, PPL Montana reversed its total loss accrual including accrued interest. See Note 15 to the Financial Statements for additional information.

Income Taxes

The increase (decrease) in income taxes was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Change in pre-tax income	\$ (448)	\$ (191)
State valuation allowance adjustments (a)	2	(20)
State deferred tax rate change (b)	34	7
Federal income tax credits	4	
Federal and state tax reserve adjustments (c)	8	(4)
Federal and state tax return adjustments (d)	(5)	26
Total	<u>\$ (405)</u>	<u>\$ (182)</u>

- (a) The valuation allowances recorded on PPL Energy Supply's state deferred tax assets primarily relate to Pennsylvania net operating loss carryforwards. Pennsylvania requires that each corporation file a separate income tax return and has significant annual limitations on the deduction for net operating loss carryforwards. Currently, Pennsylvania allows an annual maximum deduction equal to the greater of \$3 million or 20% of taxable income. Recent legislation increased the annual maximum deduction to the greater of \$5 million or 30% of taxable income for tax years beginning in 2015.

During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL Energy Supply recorded \$22 million in state deferred income tax expense related to deferred tax valuation allowances during 2011.

- (b) Changes in state apportionment resulted in an increase to the future estimated state tax rate at December 31, 2013 and reductions to the future estimated state tax rate at December 2012 and 2011. PPL Energy Supply recorded a \$15 million deferred tax expense in 2013, a \$19 million deferred tax benefit in 2012 and a \$26 million deferred tax benefit in 2011 related to its state deferred tax liabilities.
- (c) During 2013, PPL Energy Supply reversed \$3 million in tax benefits related to a 2008 change in method of accounting for certain expenditure for tax purposes and recorded \$4 million in federal tax expense related to differences in over (under) payment interest rates applied to audit claims as a result of the U.S. Supreme Court decision related to Windfall Profits Tax.
- (d) During 2011, PPL Energy Supply recorded \$22 million in federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of that amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts.

See Note 5 to the Financial Statements for additional information on income taxes.

PPL Electric: Earnings, Margins and Statement of Income Analysis

Earnings

	2013	2012	2011
Net Income Available to PPL	\$ 209	\$ 132	\$ 173

Excluding special items, pre-tax earnings in 2013 compared with 2012 increased primarily due to higher distribution base rates that became effective January 1, 2013, higher transmission margins from additional capital investments, lower operation and maintenance expense and higher distribution sales volume due to weather, partially offset by higher depreciation.

Excluding special items, pre-tax earnings in 2012 compared with 2011 decreased primarily due to higher operation and maintenance expense, higher income and non-income taxes, lower distribution margins as a result of mild weather early in the year, higher depreciation, partially offset by higher transmission revenue and lower financing costs due to the redemption of \$250 million of preferred securities.

The table below quantifies the changes in the components of Net Income Available to PPL between these periods, which reflect amounts classified as Pennsylvania Gross Delivery Margins on a separate line within the table and not in their respective Statement of Income line items.

	2013 vs. 2012	2012 vs. 2011
Pennsylvania Gross Delivery Margins	\$ 114	\$ 19
Other operation and maintenance	23	(50)
Depreciation	(18)	(14)
Taxes, other than income	5	(9)
Other Income (Expense) - net	(3)	2
Interest Expense	(9)	(1)
Income Taxes	(39)	
Distributions on preference stock	4	12
Total	<u>\$ 77</u>	<u>\$ (41)</u>

Margins

"Pennsylvania Gross Delivery Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income."

	2013			2012		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	\$ 1,866		\$ 1,866	\$ 1,760		\$ 1,760
Electric revenue from affiliate	4		4	3		3
Total Operating Revenues	1,870		1,870	1,763		1,763
Operating Expenses						
Energy purchases	588		588	550		550
Energy purchases from affiliate	51		51	78		78
Other operation and maintenance	82	\$ 449	531	104	\$ 472	576
Depreciation		178	178		160	160
Taxes, other than income	95	8	103	91	14	105
Total Operating Expenses	816	635	1,451	823	646	1,469
Total	\$ 1,054	\$ (635)	\$ 419	\$ 940	\$ (646)	\$ 294

	2011		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues			
Retail electric	\$ 1,881		\$ 1,881
Electric revenue from affiliate	11		11
Total Operating Revenues	1,892		1,892
Operating Expenses			
Energy purchases	738		738
Energy purchases from affiliate	26		26
Other operation and maintenance	108	\$ 422	530
Depreciation		146	146
Taxes, other than income	99	5	104
Total Operating Expenses	971	573	1,544
Total	\$ 921	\$ (573)	\$ 348

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Pennsylvania Gross Delivery Margins"

The following Statement of Income line items are included above within "Pennsylvania Gross Delivery Margins" and are not discussed separately.

	2013 vs. 2012	2012 vs. 2011
Retail electric	\$ 106	\$ (121)
Electric revenue from affiliate	1	(8)
Energy purchases	38	(188)
Energy purchases from affiliate	(27)	52

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Act 129 costs incurred (a)	\$ (24)	\$ (6)
Vegetation management (b)	14	10
Payroll-related costs (c)	4	17
Allocation of certain corporate support group costs	(19)	11
PUC-reportable storm costs, net of insurance recovery	(18)	7
Other	(2)	7
Total	<u>\$ (45)</u>	<u>\$ 46</u>

- (a) Relates to costs associated with PPL Electric's PUC-approved energy efficiency and conservation plan with programs starting in 2010. These costs are recovered in customer rates. The decrease in both periods primarily results from the number of programs and the timing of such programs. Phase 1 of Act 129 closed in May 2013. Phase 2 programs began in June 2013.
- (b) PPL Electric incurred higher vegetation management costs in both periods due to increased activities related to maintaining and increasing system reliability for both the transmission and distribution systems. The 2012 compared with 2011 period was also higher due to activities related to compliance with federal transmission reliability requirements.
- (c) Higher payroll costs of \$17 million in 2012 compared with 2011 due to less project costs being capitalized.

Depreciation

Depreciation increased by \$18 million in 2013 compared with 2012, and by \$14 million in 2012 compared with 2011, primarily due to net PP&E additions.

Taxes, Other Than Income

Taxes, other than income increased by \$1 million in 2012 compared with 2011. The increase was primarily a result of the net effect of the fully amortized PURTA refund to customers of \$10 million in 2011, partially offset by a decrease in gross receipts tax of \$7 million in 2012.

Financing Costs

The increase (decrease) in financing costs was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Long-term debt interest expense (a)	\$ 12	\$ 1
Distributions on Preference Stock (b)	(4)	(12)
Other	(3)	
Total	<u>\$ 5</u>	<u>\$ (11)</u>

- (a) The increase was due to debt issuances in August 2012 and July 2013.
- (b) The decrease was due to the June 2012 redemption of all 2.5 million shares of preference stock.

Income Taxes

The increase (decrease) in income taxes was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Change in pre-tax income	\$ 47	\$ (22)
Federal and state tax reserve adjustments (a)	(1)	1
Federal and state tax return adjustments (b)	(8)	11
Depreciation not normalized (c)	2	9
Other		1
Total	<u>\$ 40</u>	<u>\$ 8</u>

- (a) PPL Electric recorded a tax benefit of \$7 million during 2013 and \$6 million during 2012 and 2011 to federal and state income tax reserves related to stranded costs securitization. The reserve balance at December 31, 2013 related to stranded costs securitization is zero.
- (b) PPL Electric changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August, 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL Electric adopted the safe harbor method with the filing of its 2011 federal income tax return and recorded a \$5 million adjustment to federal and state income tax expense resulting from the reversal of prior years' state income tax benefits related to regulated depreciation.

During 2011, PPL Electric recorded a \$5 million federal and state income tax benefit as a result of filing its 2010 federal and state income tax returns. The tax benefit primarily related to the flow-through impact of Pennsylvania regulated 100% bonus tax depreciation.

- (c) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed in service before January 1, 2012. The placed-in-service deadline was extended to January 1, 2013 for property that had a cost in excess of \$1 million, had a production period longer than one year and had a tax life of at least ten years. The PPL Electric's tax deduction for 100% bonus depreciation was zero in 2013 and was significantly lower in 2012 than in 2011.

See Note 5 to the Financial Statements for additional information on income taxes.

LKE: Earnings, Margins and Statement of Income Analysis

Earnings

	2013	2012	2011
Net Income	\$ 347	\$ 219	\$ 265
Special items, gains (losses), after-tax	3	(16)	

Excluding special items, earnings in 2013 compared with 2012 increased primarily due to higher electricity and gas base rates that went into effect January 1, 2013 and returns from additional environmental capital investments.

Excluding special items, earnings in 2012 compared with 2011 decreased primarily due to higher operation and maintenance expense, higher depreciation, higher property taxes and losses from an equity method investment, partially offset by lower income taxes.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated segment" for details of the special items.

	2013 vs. 2012	2012 vs. 2011
Margins	\$ 220	\$ (8)
Other operation and maintenance	(5)	(16)
Depreciation	(34)	(10)
Taxes, other than income	(1)	(9)
Other Income (Expense) - net	7	(14)
Interest Expense	6	(4)
Income Taxes	(84)	31
Special items, after-tax	19	(16)
Total	<u>\$ 128</u>	<u>\$ (46)</u>

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, LKE's Margins are referred to as "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income."

	2013			2012		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,976		\$ 2,976	\$ 2,759		\$ 2,759
Operating Expenses						
Fuel	896		896	872		872
Energy purchases	217		217	195		195
Other operation and maintenance	97	\$ 681	778	101	\$ 677	778
Depreciation	5	329	334	51	295	346
Taxes, other than income	1	47	48		46	46
Total Operating Expenses	1,216	1,057	2,273	1,219	1,018	2,237
Total	\$ 1,760	\$ (1,057)	\$ 703	\$ 1,540	\$ (1,018)	\$ 522

	2011		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,791	\$ 2	\$ 2,793
Operating Expenses			
Fuel	866		866
Energy purchases	238		238
Other operation and maintenance	90	661	751
Depreciation	49	285	334
Taxes, other than income		37	37
Total Operating Expenses	1,243	983	2,226
Total	\$ 1,548	\$ (981)	\$ 567

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items are included above within "Margins" and are not discussed separately.

	2013 vs. 2012	2012 vs. 2011
Operating Revenues	\$ 217	\$ (34)
Fuel	24	6
Energy purchases	22	(43)

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2013 vs. 2012	2012 vs. 2011
Coal plant operations and maintenance (a)	\$ (15)	\$ 21
Administrative and general (b)	9	(7)
Distribution maintenance (c)	3	7
Other	3	6
Total	\$ 3	\$ 27

(a) 2013 was lower than 2012 due to \$21 million of lower costs related to the timing and scope of scheduled plant outages, partially offset by increased generation costs.

2012 was higher than 2011 primarily due to \$11 million of expenses related to an increased scope of scheduled outages, as well as \$5 million of increased maintenance at the Ghent plant on the scrubber system and primary fuel combustion system.

(b) 2013 was higher than 2012 primarily due to increases in software maintenance and property and liability insurance expenses.

2012 was lower than 2011 primarily due to a decrease in pension expense resulting from pension funding and lower interest cost.

(c) 2012 was higher than 2011 primarily due to a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

Depreciation

The increase (decrease) in depreciation was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Lower depreciation rates effective January 1, 2013 (a)	\$ (22)	
Additions to PP&E	10	\$ 12
Total	<u>\$ (12)</u>	<u>\$ 12</u>

(a) A result of the 2012 rate case.

Taxes, Other Than Income

Taxes, other than income increased \$9 million in 2012 compared with 2011 due to an increase in property taxes resulting from property additions, higher assessed values and changes in property classifications to categories with higher tax rates.

Other Income (Expense) - net

Other income (expense) - net increased \$8 million in 2013 compared with 2012 and decreased \$14 million in 2012 compared with 2011 primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.

Other-Than-Temporary Impairments

Other-than-temporary impairments decreased \$25 million in 2013 compared with 2012 and increased \$25 million in 2012 compared with 2011 due to the \$25 million pre-tax impairment of the EEI investment in 2012. See Notes 1 and 18 to the Financial Statements for additional information.

Interest Expense

Interest expense decreased \$6 million in 2013 compared with 2012 primarily due to amortization of a fair market value adjustment of \$7 million.

Interest expense increased \$4 million in 2012 compared with 2011 primarily due to LKE's issuance of \$250 million of senior notes in September 2011, resulting in an \$8 million increase in interest expense. This increase was partially offset by lower interest rates.

Income Taxes

The increase (decrease) in income taxes was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Change in pre-tax income	\$ 86	\$ (34)
Net operating loss carryforward adjustments (a)	9	(9)
Other	5	(4)
Total	<u>\$ 100</u>	<u>\$ (47)</u>

(a) Adjustments recorded in 2012 to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

Income (Loss) from Discontinued Operations (net of income taxes)

Income (loss) from discontinued operations (net of income taxes) increased \$8 million in 2013 compared with 2012 and decreased \$5 million in 2012 compared with 2011 primarily due to an adjustment in 2012 to the estimated liability for indemnifications related to the termination of the WKE lease.

LG&E: Earnings, Margins and Statement of Income Analysis

Earnings

	2013	2012	2011
Net Income	\$ 163	\$ 123	\$ 124
Special items, gains (losses), after-tax			1

Earnings in 2013 compared with 2012 increased primarily due to higher electricity and gas base rates that went into effect January 1, 2013 and returns from additional environmental capital investments.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated segment" for details of the special items.

	2013 vs. 2012	2012 vs. 2011
Margins	\$ 64	\$ 3
Other operation and maintenance	(10)	3
Depreciation	3	(4)
Taxes, other than income	(1)	(5)
Other Income (Expense) - net	1	(1)
Interest Expense	8	2
Income Taxes	(25)	2
Special items, after-tax		(1)
Total	\$ 40	\$ (1)

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, LG&E's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income."

	2013			2012		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,410		\$ 1,410	\$ 1,324		\$ 1,324
Operating Expenses						
Fuel	367		367	374		374
Energy purchases	205		205	175		175
Other operation and maintenance	45	\$ 328	373	45	\$ 318	363
Depreciation	2	146	148	3	149	152
Taxes, other than income		24	24		23	23
Total Operating Expenses	619	498	1,117	597	490	1,087
Total	\$ 791	\$ (498)	\$ 293	\$ 727	\$ (490)	\$ 237

	2011		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,363	\$ 1	\$ 1,364
Operating Expenses			
Fuel	350		350
Energy purchases	245		245
Other operation and maintenance	42	321	363
Depreciation	2	145	147
Taxes, other than income		18	18
Total Operating Expenses	639	484	1,123
Total	\$ 724	\$ (483)	\$ 241

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items are included above within "Margins" and are not discussed separately.

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Retail and wholesale	\$ 104	\$ (34)
Electric revenue from affiliate	(18)	(6)
Fuel	(7)	24
Energy purchases	32	(46)
Energy purchases from affiliate	(2)	(24)

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Administrative and general (a)	\$ 6	\$ (5)
Distribution maintenance	3	(1)
Coal plant operations and maintenance	(1)	2
Other	2	4
Total	<u>\$ 10</u>	<u>\$</u>

- (a) 2013 was higher than 2012 primarily due to increases in software maintenance and property and liability insurance expenses.

2012 was lower than 2011 primarily due to a decrease in pension expense resulting from pension funding and lower interest cost.

Depreciation

The increase (decrease) in depreciation was due to:

	<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
Lower depreciation rates effective January 1, 2013 (a)	\$ (8)	
Additions to PP&E	4	\$ 5
Total	<u>\$ (4)</u>	<u>\$ 5</u>

- (a) A result of the 2012 rate case.

Taxes, Other Than Income

Taxes, other than income increased \$5 million in 2012 compared with 2011 due to an increase in property taxes resulting from property additions, higher assessed values and changes in property classifications to categories with higher tax rates.

Interest Expense

Interest expense decreased \$8 million in 2013 compared with 2012 primarily due to amortization of a fair market value adjustment of \$7 million.

Income Taxes

Income taxes increased \$25 million in 2013 compared with 2012 due to the change in pre-tax income.

See Note 5 to the Financial Statements for additional information on income taxes.

KU: Earnings, Margins and Statement of Income Analysis

Earnings

	2013	2012	2011
Net Income	\$ 228	\$ 137	\$ 178
Special items, gains (losses), after tax	1	(15)	

Excluding special items, earnings in 2013 compared with 2012 increased primarily due to higher electricity base rates that went into effect January 1, 2013 and returns from additional environmental capital investments.

Excluding special items, earnings in 2012 compared with 2011 decreased primarily due to higher operation and maintenance expense, higher depreciation, higher property taxes and losses from an equity method investment.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated segment" for details of these special items.

	2013 vs. 2012	2012 vs. 2011
Margins	\$ 156	\$ (10)
Other operation and maintenance	(1)	(16)
Depreciation	(39)	(6)
Taxes, other than income		(4)
Other Income (Expense) - net	4	(7)
Interest Expense	(1)	1
Income Taxes	(44)	16
Special items, after-tax	16	(15)
Total	\$ 91	\$ (41)

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, KU's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income."

	2013			2012		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,635		\$ 1,635	\$ 1,524		\$ 1,524
Operating Expenses						
Fuel	529		529	498		498
Energy purchases	81		81	109		109
Other operation and maintenance	52	\$ 330	382	55	\$ 329	384
Depreciation	3	183	186	49	144	193
Taxes, other than income	1	23	24	23	23	23
Total Operating Expenses	666	536	1,202	711	496	1,207
Total	\$ 969	\$ (536)	\$ 433	\$ 813	\$ (496)	\$ 317

	2011		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,548		\$ 1,548
Operating Expenses			
Fuel	516		516
Energy purchases	112		112
Other operation and maintenance	49	\$ 313	362
Depreciation	48	138	186
Taxes, other than income		19	19
Total Operating Expenses	725	470	1,195
Total	\$ 823	\$ (470)	\$ 353

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items are included above within "Margins" and are not discussed separately.

	2013 vs. 2012	2012 vs. 2011
Retail and wholesale	\$ 113	
Electric revenue from affiliate	(2)	\$ (24)
Fuel	31	(18)
Energy purchases	(10)	3
Energy purchases from affiliate	(18)	(6)

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2013 vs. 2012	2012 vs. 2011
Coal plant operations and maintenance (a)	\$ (14)	\$ 17
Administrative and general (b)	7	(5)
Distribution maintenance (c)		8
Other	5	2
Total	\$ (2)	\$ 22

- (a) 2013 was lower than 2012 due to \$21 million of lower costs related to the timing and scope of scheduled plant outages, partially offset by increased generation costs.
2012 was higher than 2011 primarily due to \$8 million of expenses related to an increased scope of scheduled outages, as well as \$5 million of increased maintenance on the scrubber system and primary fuel combustion system at the Ghent plant.
(b) 2013 was higher than 2012 primarily due to increases in software maintenance and property and liability insurance expenses.
2012 was lower than 2011 primarily due to a decrease in pension expense resulting from pension funding and lower interest cost.
(c) 2012 was higher than 2011 primarily due to a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

Depreciation

The increase (decrease) in depreciation was due to:

	2013 vs. 2012	2012 vs. 2011
Lower depreciation rates effective January 1, 2013 (a)	\$ (13)	
Additions to PP&E	6	\$ 7
Total	\$ (7)	\$ 7

- (a) A result of the 2012 rate case.

Other Income (Expense) - net

Other income (expense) - net increased \$5 million in 2013 compared with 2012 and decreased \$7 million in 2012 compared with 2011 primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.

Other-Than-Temporary Impairments

Other-than-temporary impairments decreased \$25 million in 2013 compared with 2012 and increased \$25 million in 2012 compared with 2011 due to the \$25 million pre-tax impairment of the EEI investment in 2012. See Notes 1 and 18 to the Financial Statements for additional information.

Income Taxes

Income taxes increased \$54 million in 2013 compared with 2012 and decreased \$26 million in 2012 compared with 2011 primarily due to the change in pre-tax income.

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

The remainder of this Item 7 in this Form 10-K is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants expect to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may borrow in the capital markets, and PPL Energy Supply, PPL Electric, LKE, LG&E and KU anticipate receiving equity contributions from their parent or member in 2014.

The Registrants' cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- any adverse outcome of legal proceedings and investigations with respect to the Registrants' current and past business activities;
- changes in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in the Registrants' or their rated subsidiaries' credit ratings that could adversely affect their ability to access capital and increase the cost of credit facilities and any new debt.

(All Registrants except PPL Electric)

- costs of compliance with existing and new environmental laws focused on electricity generation facilities, and for PPL and PPL Energy Supply with new security and safety requirements for nuclear facilities;
- changes in electricity, fuel and other commodity prices;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- potential ineffectiveness of the trading, marketing and risk management policy and programs used to mitigate PPL's risk exposure to adverse changes in electricity and fuel prices, interest rates, foreign currency exchange rates and counterparty credit;
- reliance on transmission and distribution facilities that PPL, PPL Energy Supply, LKE, LG&E and KU do not own or control to deliver electricity and natural gas; and
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity.

(All Registrants except PPL Energy Supply)

- unusual or extreme weather that may damage transmission and distribution facilities or affect energy sales to customers; and
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses.

(All Registrants)

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties that could affect the Registrants' cash flows.

The Registrants had the following at:

	PPL (a)	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
December 31, 2013						
Cash and cash equivalents	\$ 1,102	\$ 239	\$ 25	\$ 35	\$ 8	\$ 21
Notes receivable from affiliates			150	70		
Short-term debt	701		20	245	20	150
December 31, 2012						
Cash and cash equivalents	901	413	140	43	22	21
Short-term debt	652	356		125	55	70
Notes payable with affiliates				25		
December 31, 2011						
Cash and cash equivalents	1,202	379	320	59	25	31
Notes receivable from affiliates		198		15		
Short-term investments	16					
Short-term debt	578	400				

- (a) At December 31, 2013, PPL's cash and cash equivalents included \$637 million denominated in GBP. If these amounts were remitted as dividends, PPL may be subject to additional U.S. taxes, net of allowable foreign tax credits. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements for additional information on undistributed earnings of WPD.

Net cash provided by (used in) operating, investing and financing activities for the years ended December 31 and the changes between periods were as follows.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
2013						
Operating activities	\$ 2,857	\$ 410	\$ 523	\$ 911	\$ 356	\$ 495
Investing activities	(4,295)	(631)	(1,080)	(1,493)	(567)	(853)
Financing activities	1,631	47	442	574	197	358
2012						
Operating activities	\$ 2,764	\$ 784	\$ 389	\$ 747	\$ 308	\$ 500
Investing activities	(3,123)	(469)	(613)	(756)	(289)	(480)
Financing activities	48	(281)	44	(7)	(22)	(30)
2011						
Operating activities	\$ 2,507	\$ 776	\$ 420	\$ 781	\$ 325	\$ 444
Investing activities	(7,952)	(668)	(477)	(277)	(42)	(279)
Financing activities	5,767	(390)	173	(456)	(260)	(137)
2013 vs. 2012 Change						
Operating activities	\$ 93	\$ (374)	\$ 134	\$ 164	\$ 48	\$ (5)
Investing activities	(1,172)	(162)	(467)	(737)	(278)	(373)
Financing activities	1,583	328	398	581	219	388
2012 vs. 2011 Change						
Operating activities	\$ 257	\$ 8	\$ (31)	\$ (34)	\$ (17)	\$ 56
Investing activities	4,829	199	(136)	(479)	(247)	(201)
Financing activities	(5,719)	109	(129)	449	238	107

Operating Activities

The components of the change in cash provided by (used in) operating activities were as follows.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
2013 vs. 2012						
Change - Cash Provided (Used):						
Net income	\$ (400)	\$ (704)	\$ 73	\$ 128	\$ 40	\$ 91
Non-cash components	534	313	31	90	(30)	(68)
Working capital	(332)	65	12	(31)	12	(15)
Defined benefit plan funding	44	(38)	(34)	(98)	(21)	(44)
Other operating activities	247	(10)	52	75	47	31
Total	<u>\$ 93</u>	<u>\$ (374)</u>	<u>\$ 134</u>	<u>\$ 164</u>	<u>\$ 48</u>	<u>\$ (5)</u>
2012 vs. 2011						
Change - Cash Provided (Used):						
Net income	\$ 19	\$ (294)	\$ (53)	\$ (46)	\$ (1)	\$ (41)
Non-cash components	241	180	34	(48)	5	41
Working capital	(178)	30	(79)	(66)	(65)	11
Defined benefit plan funding	60	77	54	100	43	29
Other operating activities	115	15	13	26	1	16
Total	<u>\$ 257</u>	<u>\$ 8</u>	<u>\$ (31)</u>	<u>\$ (34)</u>	<u>\$ (17)</u>	<u>\$ 56</u>

(PPL and PPL Energy Supply)

A significant portion of PPL's Supply segment and PPL Energy Supply's operating cash flows is derived from its competitive baseload generation activities. PPL employs a formal hedging program for its baseload generation fleet, the objective of which is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential over the medium term to benefit from power price increases. See Note 19 to the Financial Statements for further discussion. Despite PPL's hedging practices, future cash flows from operating activities from its Supply segment are influenced by energy and capacity prices and, therefore, will fluctuate from period to period.

PPL's and PPL Energy Supply's contracts for the sale and purchase of electricity and fuel often require cash collateral or cash equivalents (e.g. letters of credit), or reductions or terminations of a portion of the entire contract through cash settlement, in the event of a downgrade of PPL's or its subsidiaries' or PPL Energy Supply's or its subsidiaries' credit ratings or adverse changes in market prices. For example, in addition to limiting its trading ability, if PPL's or its subsidiaries' or PPL Energy Supply's or its subsidiaries' ratings were lowered to below "investment grade" and there was a 10% adverse movement in energy prices, PPL and PPL Energy Supply estimate that, based on their December 31, 2013 positions, they would have been required to post additional collateral of approximately \$406 million for PPL and approximately \$318 million for PPL Energy Supply with respect to electricity and fuel contracts. PPL and PPL Energy Supply had adequate liquidity sources at December 31, 2013 if they would have been required to post this additional collateral. PPL and PPL Energy Supply have in place risk management programs that are designed to monitor and manage exposure to volatility of cash flows related to changes in energy and fuel prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operating performance of generating units.

(PPL)

PPL's net income for 2013 includes a \$271 million payment made in December 2013 related to terminating the operating lease arrangement for interests in the Colstrip facility in Montana and acquiring the previously leased interests. A portion of this payment was used to satisfy the lessors' principal, interest and make whole premium for the redemption of their 8.903% Pass Through Certificates due 2020, which did not represent obligations of PPL or its subsidiaries and, therefore, were not included in PPL's financial statements. Net income for 2013 also includes a non-cash charge of \$426 million associated with the lease termination. See Note 8 to the Financial Statements for additional information on the transaction. Non-cash components of net income in 2013 compared with 2012 also included \$209 million for the impact of non-cash hedging activities (primarily unrealized losses in 2013), \$124 million for changes to the WPD line loss accrual and the \$65 million charge for the impairment of the Corette facility, offset by a \$352 million decline in deferred income taxes. In 2013 compared with 2012, the decrease in cash from changes in components of working capital was primarily due to increases in accounts receivable (primarily due to extended payment terms at LG&E and KU, higher rates and colder weather in 2013 at LG&E, KU and PPL Electric and increases at PPL Energy Supply's mechanical contracting business) and changes to certain tax-related accounts. The increase in cash provided by other operating activities was partially due to net proceeds of \$104 million for the settlement in 2013 of forward starting interest rate swaps.

For PPL, in 2012 compared with 2011, non-cash components of net income primarily consisted of \$341 million related to non-cash hedging activities (primarily unrealized gains recorded in 2011) and \$139 million related to increased depreciation, partially offset by a \$158 million decline in deferred income taxes. The decrease in cash from changes in components of working capital was primarily due to changes in prepayments (primarily due to the receipt in 2011 of a tax refund) and changes in net regulatory assets/liabilities (primarily due to higher collection on PPL Electric's Generation Supply Charge for its PLR customers in 2011), partially offset by a reduction of \$156 million in returns of counterparty collateral. Included in the change in cash from operating activities is the impact of having an additional four months of WPD Midlands operations in 2012. WPD Midlands' cash from operating activities increased by \$190 million in 2012 compared with 2011.

(PPL Energy Supply)

PPL Energy Supply's net income for 2013 includes a \$271 million payment made in December 2013 related to terminating the operating lease arrangement for interests in the Colstrip facility in Montana and acquiring the previously leased interests. A portion of this payment was used to satisfy the lessors' principal, interest and make whole premium for the redemption of their 8.903% Pass Through Certificates due 2020, which did not represent obligations of PPL Energy Supply or its subsidiaries and, therefore, were not included in PPL Energy Supply's financial statements. Net income for 2013 also includes a non-cash charge of \$426 million associated with the lease termination. See Note 8 to the Financial Statements for additional information on the transaction. Non-cash components of net income in 2013 compared with 2012 also included \$212 million for the impact of non-cash hedging activities (primarily unrealized losses in 2013) and the \$65 million charge for the impairment of the Corette facility, offset by a \$448 million decline in deferred income taxes.

For PPL Energy Supply, in 2012 compared with 2011, non-cash components of net income primarily consisted of \$242 million related to non-cash hedging activities (primarily unrealized gains in 2011) and the \$74 million reduction in the provision for the Montana hydroelectric litigation recorded in 2011, partially offset by a \$165 million decline in deferred income taxes. The increase in cash from changes in components of working capital was primarily due to a reduction of \$156 million in returns of counterparty collateral, partially offset by increases in accounts receivable (primarily affiliate receivables).

(PPL Electric)

For PPL Electric, in 2013 compared with 2012, the increase in net income resulted primarily due to higher distribution base rates that became effective January 1, 2013 and higher transmission margins from additional capital investments. The change in other operating activities was partially due to changes to certain tax-related accounts.

For PPL Electric, in 2012 compared with 2011, the decrease in cash from changes in components of working capital was primarily due to changes from regulatory assets and liabilities, net (primarily due to higher collection on the generation supply charge from its PLR customers in 2011) and from prepayments (due to the receipt in 2011 of a tax refund), partially offset by accounts payable changes in 2011 (due to lower PLR prices and lower energy purchases (due to warmer weather in 2011 compared with 2010).

(LKE)

In 2013, LKE's non-cash components of net income included a \$121 million increase in deferred income taxes primarily due to utilization of net operating losses. The decrease in cash from working capital was driven primarily by increases in accounts receivable and unbilled revenues due to extended payment terms, higher rates and colder December weather in 2013, offset by an increase in accounts payable due to timing of fuel purchase commitments and payments. The increase in cash from LKE's other operating activities was driven primarily by \$86 million in proceeds from the settlement of interest rate swaps.

In 2012, LKE's non-cash components of net income included an \$85 million reduction in deferred income taxes due primarily to the utilization of a capital loss carry forward in 2011. The decrease in cash from changes in components of working capital was driven primarily by changes in receivables and unbilled revenues due to milder December weather in 2011 than in 2012 and 2010 and more income tax receivables collected in 2011 than in 2012.

(LG&E)

In 2013, LG&E's increase in cash from changes in components of working capital was driven primarily by an increase in accounts payable due to timing of fuel purchase commitments and payments and an increase in accrued taxes due to decreased payments for property taxes in 2013, partially offset by increases in accounts receivable and unbilled revenues due to extended payment terms, higher rates and colder December weather in 2013, and higher fuel and underground gas storage inventory in 2013 attributable to an increase in fuel and natural gas prices. The increase in cash from LG&E's other operating activities was driven primarily by \$43 million in proceeds from the settlement of interest rate swaps.

In 2012, LG&E's decrease in cash from changes in components of working capital was driven primarily by changes in receivables and unbilled revenues due to milder December weather in 2011 than in 2012 and 2010, and lower inventory levels in 2011 as compared with 2010 driven by lower gas prices.

(KU)

In 2013, KU's decrease in cash from changes in components of working capital was driven primarily by increases in accounts receivable and unbilled revenues due to extended payment terms, higher rates and colder December weather in 2013, offset by an increase in accounts payable due to timing of fuel purchase commitments and payments. The increase in cash from KU's other operating activities was driven primarily by \$43 million in proceeds from the settlement of interest rate swaps.

In 2012, KU's increase in cash from changes in components of working capital was driven primarily by lower income tax payments as a result of lower taxable income in 2012, partially offset by changes in receivables and unbilled revenues due to milder December weather in 2011 than in 2012 and 2010.

Investing Activities

(All Registrants)

The components of the change in cash provided by (used in) investing activities were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2013 vs. 2012						
Change - Cash Provided (Used):						
Expenditures for PP&E	\$ (1,107)	\$ 65	\$ (279)	\$ (666)	\$ (291)	\$ (375)
Acquisitions & divestitures, net	84	84				
Notes receivable with affiliates activity, net		(198)	(150)	(85)		
Restricted cash and cash equivalent activity	(116)	(126)		12	13	
Investment activity, net	(20)					
Other investing activities	(13)	13	(38)	2		2
Total	<u>\$ (1,172)</u>	<u>\$ (162)</u>	<u>\$ (467)</u>	<u>\$ (737)</u>	<u>\$ (278)</u>	<u>\$ (373)</u>
2012 vs. 2011						
Change - Cash Provided (Used):						
Expenditures for PP&E	\$ (618)	\$ 13	\$ (143)	\$ (291)	\$ (90)	\$ (201)
Acquisitions & divestitures, net	5,298	(465)				
Notes receivable with affiliates activity, net		396		(31)		
Restricted cash and cash equivalent activity	239	232		6	6	
Investment activity, net	(145)	(2)		(163)	(163)	
Other investing activities	55	25	7			
Total	<u>\$ 4,829</u>	<u>\$ 199</u>	<u>\$ (136)</u>	<u>\$ (479)</u>	<u>\$ (247)</u>	<u>\$ (201)</u>

(PPL)

For PPL, in 2013 compared with 2012, the change in "Expenditures for PP&E" was due to increases for projects to enhance system reliability at WPD and PPL Electric, the Susquehanna-Roseland transmission project at PPL Electric, environmental air projects at LG&E's Mill Creek and KU's Ghent plants, construction of Cane Run Unit 7 for both LG&E and KU and coal combustion residuals projects at KU's Ghent and E.W. Brown plants. The change in "Restricted cash and cash equivalent activity" was primarily related to margin deposit returns in 2012 at PPL Energy Supply.

For PPL, in 2012 compared with 2011, the change in "Expenditures for PP&E" was due to increases from having four additional months of WPD Midlands expenditures in 2012, the Susquehanna-Roseland transmission project and construction of a new data center at PPL Electric, coal combustion residuals projects at KU's Ghent and E.W. Brown plants, environmental air projects at LG&E's Mill Creek and KU's Ghent plants, and construction of Cane Run Unit 7 for both LG&E and KU. The change in "Restricted cash and cash equivalent activity" was primarily related to margin deposits posted in 2011 that were returned in 2012 at PPL Energy Supply. The change in "Investment activity, net" was primarily due to the sale in 2011 by LG&E of tax-exempt revenue bonds that were repurchased from the remarketing agent in 2008.

(PPL Energy Supply)

For PPL Energy Supply, in 2013 compared with 2012, the change in "Acquisitions & divestitures, net" related to the disbursement in 2012 for the Ironwood Acquisition. See Note 10 to the Financial Statement for additional information. The change in "Notes receivable with affiliates, net" resulted from proceeds received in 2012 from repayments. The change in "Restricted cash and cash equivalent activity" was primarily related to margin deposit returns in 2012.

For PPL Energy Supply, in 2012 compared with 2011, the change in "Restricted cash and cash equivalent activity" was primarily related to margin deposits posted in 2011 that were returned in 2012.

(PPL Electric)

For PPL Electric, in 2013 compared with 2012, the change in "Expenditures for PP&E" was due to increases for projects to enhance system reliability and the Susquehanna-Roseland transmission project.

For PPL Electric, in 2012 compared with 2011, the change in "Expenditures for PP&E" was due to increases for the Susquehanna-Roseland transmission project and a new data center.

(LKE, LG&E and KU)

For LKE, LG&E and KU, in 2013 compared with 2012, cash used in investing activities changed as a result of an increase in expenditures for PP&E, primarily due to environmental air projects at LG&E's Mill Creek and KU's Ghent plants, construction of Cane Run Unit 7 for both LG&E and KU and coal combustion residuals projects at KU's Ghent and E.W. Brown plants. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2014 through 2018.

For LKE, LG&E and KU, in 2012 compared with 2011, cash used in investing activities changed as a result of an increase in expenditures for PP&E, primarily due to coal combustion residuals projects at KU's Ghent and E.W. Brown plants, environmental air projects at LG&E's Mill Creek and KU's Ghent plants, and construction of Cane Run Unit 7 for both LG&E and KU. The change in investment activity was due to LG&E's sale of tax-exempt revenue bonds in 2011 that were repurchased from the remarketing agent in 2008.

Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2013 vs. 2012						
Change - Cash Provided (Used):						
Debt issuance/retirement, net	\$ 176	\$ (738)	\$ 99	\$ 496	\$ 248	\$ 248
Stock issuances/redemptions, net	1,515		250			
Dividends	(45)		(32)		(24)	(24)
Capital contributions/distributions, net		1,393	55	144	86	157
Changes in net short-term debt (a)	(25)	(312)	20	(55)	(90)	10
Other financing activities	(38)	(15)	6	(4)	(1)	(3)
Total	<u>\$ 1,583</u>	<u>\$ 328</u>	<u>\$ 398</u>	<u>\$ 581</u>	<u>\$ 219</u>	<u>\$ 388</u>

2012 vs. 2011	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used):						
Debt issuance/retirement, net	\$ (3,420)	\$ 241	\$ 62	\$ (248)		
Stock issuances/redemptions, net	(2,475)		(250)			
Dividends	(87)		(3)		\$ 8	\$ 24
Capital contributions/distributions, net		(44)	50	378		
Changes in net short-term debt (a)	199	(94)		313	230	80
Other financing activities	64	6	12	6		3
Total	<u>\$ (5,719)</u>	<u>\$ 109</u>	<u>\$ (129)</u>	<u>\$ 449</u>	<u>\$ 238</u>	<u>\$ 107</u>

(a) Includes net increase (decrease) in notes payable with affiliates.

(PPL)

For PPL, in 2013 compared with 2012, the change in "Stock issuances/redemptions, net" primarily resulted from the July 2013 settlement of the 2010 Equity Units and the April and May 2013 settlements of forward sale agreements. Also, the 2012 activity included the June 2012 redemption of the remaining PPL Electric preference stock. The 2013 net stock issuances/redemptions proceeds of \$1.3 billion were primarily contributed to PPL Energy Supply to fund a \$300 million debt maturity, to repay short-term debt, terminate the operating lease arrangement for interests in the Colstrip facility in Montana and acquire the previously leased interests for \$271 million and fund a \$437 million repayment of outstanding debt related to the acquisition of the previously leased Lower Mt. Bethel facility. In addition, an \$18 million distribution was made to the equity investors of LMB Funding, L.P., which was accounted for as a redemption of noncontrolling interests and reflected in "Other financing activities" in the table above. See Notes 7, 8 and 22 to the Financial Statements for additional information on these 2013 equity, debt and lease transactions.

For PPL, in 2012 compared with 2011, the changes in "Debt issuances/retirements, net" and "Stock issuances/redemptions, net" were primarily due to cash received in 2011 from securities issued to fund the WPD Midlands acquisition.

(PPL Energy Supply)

For PPL Energy Supply, in 2013 compared with 2012, the change in "Debt issuance/retirement, net" was due to the 2013 repayment of a \$300 million debt maturity and \$437 million repayment of outstanding debt related to the acquisition of the previously leased Lower Mt. Bethel facility. In addition, an \$18 million distribution was made to the equity investors of LMB Funding, L.P., which was accounted for as a redemption of noncontrolling interests and reflected in "Other financing activities" in the table above. See Notes 7 and 22 to the Financial Statements for additional information on these 2013 debt and lease transactions. The change in "Capital Contributions/distributions, net" included net proceeds from 2013 of \$1.1 billion that were contributed to PPL Energy Supply to fund the debt maturities discussed above, to repay short-term debt and terminate the operating lease arrangement for interests in the Colstrip facility in Montana and acquire the previously leased interests.

For PPL Energy Supply, in 2012 compared with 2011, the change in "Debt issuance/retirement, net" was due to 2011 including the early redemption at par of \$250 million 7.00% Senior Notes due 2046.

(PPL Electric)

For PPL Electric, in 2013 compared with 2012, and 2012 compared with 2011, the changes in "Stock issuances/redemptions, net" related to the June 2012 redemption of the remaining preference stock.

(LKE)

For LKE, in 2013 compared with 2012, the change in "Debt issuance/retirement, net" was due to the issuance of long-term debt by LG&E and KU in November 2013. The change in "Capital contributions/distributions, net" resulted from an increase in equity contributions received from PPL. The increase in cash provided by financing activities resulted from the long-term debt issuance noted above, the proceeds of which were used for capital expenditures related to environmental air projects, construction of Cane Run Unit 7 and for other general corporate purposes. See Note 7 to the Financial Statements for additional information on these transactions.

For LKE, in 2012 compared with 2011, the change in "Debt issuance/retirement, net" and "Capital contributions/distributions, net" was due to the issuance of long-term debt by LKE in 2011, the proceeds of which were used for distributions to PPL, whereas there were no debt issuances in 2012. The "Changes in net short-term debt" resulted from the issuance of short-term debt in 2012 and the repayment of short-term debt during 2011.

(LG&E)

For LG&E, in 2013 compared with 2012, the change in "Debt issuance/retirement, net" was due to the issuance of long-term debt in November 2013, the proceeds of which were used for the repayment of short-term debt, capital expenditures related to environmental air projects, construction of Cane Run Unit 7 and for other general corporate purposes. The change in "Capital contributions/distributions, net" resulted from an increase in equity contributions received from LKE. The "Changes in net short-term debt" resulted from the repayment of short-term debt in 2013 and the issuance of short-term debt in 2012. See Note 7 to the Financial Statements for additional information on these transactions.

For LG&E, in 2012 compared with 2011, the "Changes in net short-term debt" resulted from the issuance of short-term debt during 2012 and the repayment of short-term debt in 2011.

(KU)

For KU, in 2013 compared with 2012, the change in "Debt issuance/retirement, net" was due to the issuance of long-term debt in November 2013, the proceeds of which were used for capital expenditures related to environmental air projects, construction of Cane Run Unit 7 and for other general corporate purposes. The change in "Capital contributions/distributions, net" resulted from an increase in equity contributions received from LKE. See Note 7 to the Financial Statements for additional information on these transactions.

For KU, in 2012 compared with 2011, the "Changes in net short-term debt" resulted from the issuance of short-term debt during 2012. The change in "Dividends" resulted from higher common stock dividends paid to LKE in 2011.

(All Registrants)

See "Long-term Debt and Equity Securities" below for additional information on current year activity. See "Forecasted Sources of Cash" for a discussion of the Registrants' plans to issue debt and equity securities, as well as a discussion of credit facility capacity available to the Registrants. Also see "Forecasted Uses of Cash" for a discussion of PPL's plans to pay dividends on common securities in the future, as well as the Registrants' maturities of long-term debt.

Long-term Debt and Equity Securities (All Registrants)

Long-term debt and equity securities activity for 2013 included:

	Debt		Net Stock Issuances (b)
	Issuances (a)	Retirements	
PPL	\$ 2,038	\$ 747	\$ 1,337
PPL Energy Supply		747	
PPL Electric	348		
LKE	496		
LG&E	248		
KU	248		
Non-cash Transactions:			
PPL (c)	\$ 1,317	\$ 1,317	
PPL Energy Supply	167	167	

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.

(b) Net stock issuances include activity related to various stock and incentive compensation plans and other equity transactions. See Overview - "Financial and Operational Developments" for information regarding issuances from the equity forward agreements and the 2010 Equity Units. The activity is net of \$74 million for the repurchase of PPL common stock.

(c) The transaction primarily includes \$1.150 billion relating to the remarketing of Junior Subordinated Notes that were issued as a component of PPL's 2010 Equity Units and simultaneously exchanged for Senior Notes.

See Note 7 to the Financial Statements for additional information about long-term debt and equity securities.

Auction Rate Securities (LKE, LG&E and KU)

At December 31, 2013, LG&E's and KU's tax-exempt revenue bonds in the form of auction rate securities total \$231 million (\$135 million at LG&E and \$96 million at KU). These bonds continue to experience failed auctions and the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2013, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.16% (0.15% at LG&E and 0.18% at KU).

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may borrow in the capital markets, and PPL Energy Supply, PPL Electric, LKE, LG&E and KU anticipate receiving equity contributions from their parent or member in 2014.

Credit Facilities

At December 31, 2013, the total committed borrowing capacity under credit facilities and the use of this borrowing capacity were:

External

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
PPL Capital Funding Credit Facility	\$ 300	\$ 270		\$ 30
PPL Energy Supply Credit Facilities	3,150		\$ 167	2,983
PPL Electric Credit Facility	300		21	279
LKE Credit Facility	75	75		
LG&E Credit Facility	500		20	480
KU Credit Facilities	598		348	250
Total LKE Consolidated	1,173	75	368	730
Total Domestic Credit Facilities (a) (b) (c)	<u>\$ 4,923</u>	<u>\$ 345</u>	<u>\$ 556</u>	<u>\$ 4,022</u>
Total WPD Credit Facilities (c) (d) (e) (f)	<u>£ 1,055</u>	<u>£ 103</u>		<u>£ 952</u>

- (a) The syndicated credit facilities, as well as KU's letter of credit facility, each contain a financial covenant requiring debt to total capitalization not to exceed 65% for PPL Energy Supply and 70% for PPL, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facility, and other customary covenants. See Note 7 to the Financial Statements for additional information regarding these credit facilities.
- (b) The commitments under the domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 8%, PPL Energy Supply - 10%, PPL Electric - 6%, LKE - 12%, LG&E - 6% and KU - 22%.
- (c) Each company pays customary fees under its respective syndicated credit facility, as does KU under its letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (d) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
- (e) Under the syndicated credit facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing.
- (f) The total amount borrowed at December 31, 2013 was a USD-denominated borrowing of \$166 million, which equated to £103 million at the time of borrowing and bore interest at 1.87%. At December 31, 2013, the unused capacity of WPD's committed credit facilities was approximately \$1.6 billion.

The commitments under WPD's credit facilities are provided by a diverse bank group with no one bank providing more than 13% of the total committed capacity.

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. The Registrants monitor compliance with the covenants on a regular basis. At December 31, 2013, the Registrants were in compliance with these covenants. At this time, the Registrants believe that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (All Registrants except PPL)

	Committed Capacity	Borrowed	Unused Capacity
PPL Energy Supply Credit Facility	\$ 200		\$ 200
PPL Electric Credit Facility	100		100
LKE Credit Facility	225		225
LG&E Money Pool (a)	500		500
KU Money Pool (a)	500		500

(a) LG&E and KU participate in an intercompany agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues.

Commercial Paper (All Registrants)

PPL Energy Supply, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances are supported by the respective Registrant's Syndicated Credit Facility.

When outstanding, the amounts are reflected in "Short-term debt" on the Balance Sheets. The following amounts were outstanding at:

	December 31, 2013			December 31, 2012	
	Capacity	Commercial Paper Issuances	Unused Capacity	Commercial Paper Issuances	
PPL Energy Supply	\$ 750		\$ 750	\$ 356	
PPL Electric	300	\$ 20	280		
LG&E	350	20	330	55	
KU	350	150	200	70	
Total LKE	700	170	530	125	
Total PPL	\$ 1,750	\$ 190	\$ 1,560	\$ 481	

Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries currently plan to incur, subject to market conditions, up to approximately \$350 million of long-term indebtedness in 2014. In addition, PPL will receive proceeds of \$978 million through the issuance of PPL common stock to settle the 2011 Purchase Contracts, and PPL Capital Funding expects to remarket the 4.32% Junior Subordinated Notes due 2019 related to the 2011 Equity Units. The proceeds will be used to fund capital expenditures and for other general corporate purposes. In January 2014, PPL Capital Funding elected to conduct an optional remarketing of the 2019 Notes that will occur between January 30, 2014 and April 15, 2014. See Note 7 to the Financial Statements for additional information.

PPL currently does not plan to issue additional shares of common stock in 2014.

(PPL Energy Supply)

Subject to market conditions, PPL Energy Supply may issue long-term debt securities in 2014 to fund its current debt maturity obligations or for general corporate purposes, if necessary.

(PPL Electric)

PPL Electric currently plans to issue, subject to market conditions, up to approximately \$350 million of long-term indebtedness in 2014, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

(LKE, LG&E and KU)

LKE, LG&E and KU currently do not plan to issue long-term debt securities in 2014.

Contributions from Parent/Member (All Registrants except PPL)

From time to time, PPL Energy Supply's and LKE's members or the parents of PPL Electric, LG&E and KU make capital contributions to subsidiaries. The proceeds from these contributions are used to fund capital expenditures and for other general corporate purposes and, in the case of LKE, to make contributions to its subsidiaries.

Forecasted Uses of Cash

(All Registrants)

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, the Registrants currently expect to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock, distributions by PPL Energy Supply and LKE to their members, and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows the Registrants' current capital expenditure projections for the years 2014 through 2018. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

	Total	Projected				
		2014	2015	2016	2017	2018
PPL						
Construction expenditures (a) (b) (c)						
Generating facilities	\$ 2,751	\$ 528	\$ 511	\$ 754	\$ 517	\$ 441
Distribution facilities	9,238	1,886	1,780	1,832	1,864	1,876
Transmission facilities	3,286	707	615	618	701	645
Environmental	2,433	688	620	348	371	406
Other	714	170	150	137	136	121
Total Construction Expenditures	18,422	3,979	3,676	3,689	3,589	3,489
Nuclear fuel	726	127	139	150	154	156
Total Capital Expenditures	\$ 19,148	\$ 4,106	\$ 3,815	\$ 3,839	\$ 3,743	\$ 3,645
PPL Energy Supply						
Construction expenditures (a) (b) (c)						
Generating facilities	\$ 1,238	\$ 280	\$ 253	\$ 245	\$ 224	\$ 236
Environmental	279	85	102	24	42	26
Other	88	33	14	13	13	15
Total Construction Expenditures	1,605	398	369	282	279	277
Nuclear fuel	726	127	139	150	154	156
Total Capital Expenditures	\$ 2,331	\$ 525	\$ 508	\$ 432	\$ 433	\$ 433
PPL Electric (a) (b) (c)						
Distribution facilities	\$ 1,861	\$ 324	\$ 334	\$ 350	\$ 422	\$ 431
Transmission facilities	2,852	631	551	525	574	571
Total Capital Expenditures	\$ 4,713	\$ 955	\$ 885	\$ 875	\$ 996	\$ 1,002
LKE (c)						
Generating facilities	\$ 1,512	\$ 248	\$ 258	\$ 509	\$ 293	\$ 204
Distribution facilities	1,192	223	250	250	244	225
Transmission facilities	434	77	64	93	127	73
Environmental	2,155	603	518	325	329	380
Other	329	70	76	63	64	56
Total Capital Expenditures	\$ 5,622	\$ 1,221	\$ 1,166	\$ 1,240	\$ 1,057	\$ 938
LG&E (c)						
Generating facilities	\$ 719	\$ 105	\$ 122	\$ 260	\$ 139	\$ 93
Distribution facilities	754	144	165	166	153	126
Transmission facilities	170	40	24	34	48	24
Environmental	1,062	289	312	200	115	146
Other	150	32	34	29	28	27
Total Capital Expenditures	\$ 2,855	\$ 610	\$ 657	\$ 689	\$ 483	\$ 416

	Total	Projected				
		2014	2015	2016	2017	2018
KU (c)						
Generating facilities	\$ 793	\$ 143	\$ 136	\$ 249	\$ 154	\$ 111
Distribution facilities	438	79	85	84	91	99
Transmission facilities	264	37	40	59	79	49
Environmental	1,093	314	206	125	214	234
Other	174	37	41	31	36	29
Total Capital Expenditures	\$ 2,762	\$ 610	\$ 508	\$ 548	\$ 574	\$ 522

- (a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately \$174 million for PPL; \$73 million for PPL Energy Supply and \$57 million for PPL Electric.
- (b) Includes expenditures for certain intangible assets.
- (c) The 2014 total excludes amounts included in accounts payable as of December 31, 2013.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes projected costs related to the planned 1,340 MW of new capacity at LKE (421 MW at LG&E and 919 MW at KU) and PPL Electric's asset optimization program to replace aging transmission and distribution assets as well as the Susquehanna-Roseland and Northeast/Pocono projects. This table also includes LKE's environmental projects related to existing and proposed EPA compliance standards (actual costs may be significantly lower or higher depending on the final requirements and market conditions; most environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism). See Note 6 to the Financial Statements for information on LG&E's and KU's ECR mechanism and CPCN filing, and Note 8 to the Financial Statements for information on significant development plans. See "Item 2. Properties" for information on planned projects to expand capacity.

The Registrants plan to fund capital expenditures in 2014 with proceeds from the sources noted below.

Source	PPL	Energy Supply	PPL Electric	LKE	LG&E	KU
Cash on hand	X	X	X	X	X	X
Cash from operations	X	X	X	X	X	X
Issuance of common stock	X					
Issuance of long-term debt securities	X		X			
Equity contributions from parent/member		X	X	X	X	X
Short-term debt	X	X	X	X	X	X

X = Expected funding source.

Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2013, estimated contractual cash obligations were as follows.

	Total	2014	2015 - 2016	2017 - 2018	After 2018
PPL					
Long-term Debt (a)	\$ 20,935	\$ 314	\$ 2,118	\$ 757	\$ 17,746
Interest on Long-term Debt (b)	17,550	960	1,838	1,736	13,016
Operating Leases (c)	201	59	70	30	42
Purchase Obligations (d)	7,060	2,379	2,476	981	1,224
Other Long-term Liabilities					
Reflected on the Balance					
Sheet under GAAP (e) (f)	1,048	303	637	108	
Total Contractual Cash Obligations	\$ 46,794	\$ 4,015	\$ 7,139	\$ 3,612	\$ 32,028
PPL Energy Supply					
Long-term Debt (a)	\$ 2,547	\$ 304	\$ 658	\$ 407	\$ 1,178
Interest on Long-term Debt (b)	1,025	137	209	147	532
Operating Leases (c)	83	31	36	13	3
Purchase Obligations (d)	2,559	738	826	643	352
Other Long-term Liabilities					
Reflected on the Balance					
Sheet under GAAP (e) (f)	30	30			
Total Contractual Cash Obligations	\$ 6,244	\$ 1,240	\$ 1,729	\$ 1,210	\$ 2,065

	Total	2014	2015 - 2016	2017 - 2018	After 2018
PPL Electric					
Long-term Debt (a)	\$ 2,324	\$ 10	\$ 100		\$ 2,214
Interest on Long-term Debt (b)	2,119	108	209	\$ 204	1,598
Purchase Obligations (d)	257	76	91	45	45
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP (e) (f)	19	19			
Total Contractual Cash Obligations	\$ 4,719	\$ 213	\$ 400	\$ 249	\$ 3,857
LKE					
Long-term Debt (a)	\$ 4,585		\$ 900		\$ 3,685
Interest on Long-term Debt (b)	3,302	\$ 159	309	\$ 319	2,515
Operating Leases (c)	79	16	22	12	29
Coal and Natural Gas Purchase Obligations (g)	2,049	799	959	191	100
Unconditional Power Purchase Obligations (h)	862	26	52	56	728
Construction Obligations (i)	1,270	684	543	43	
Pension Benefit Plan Obligations (e)	38	38			
Other Obligations	50	31	16	3	
Total Contractual Cash Obligations	\$ 12,235	\$ 1,753	\$ 2,801	\$ 624	\$ 7,057
LG&E					
Long-term Debt (a)	\$ 1,359		\$ 250		\$ 1,109
Interest on Long-term Debt (b)	1,247	\$ 47	92	\$ 101	1,007
Operating Leases (c)	31	6	9	4	12
Coal and Natural Gas Purchase Obligations (g)	1,178	413	585	94	86
Unconditional Power Purchase Obligations (h)	597	18	36	39	504
Construction Obligations (i)	639	368	270	1	
Pension Benefit Plan Obligations (e)	8	8			
Other Obligations	18	13	5		
Total Contractual Cash Obligations	\$ 5,077	\$ 873	\$ 1,247	\$ 239	\$ 2,718
KU					
Long-term Debt (a)	\$ 2,101		\$ 250		\$ 1,851
Interest on Long-term Debt (b)	1,826	\$ 75	151	\$ 160	1,440
Operating Leases (c)	45	10	13	7	15
Coal and Natural Gas Purchase Obligations (g)	871	386	374	97	14
Unconditional Power Purchase Obligations (h)	265	8	16	17	224
Construction Obligations (i)	631	316	273	42	
Pension Benefit Plan Obligations (e)	2	2			
Other Obligations	30	16	11	3	
Total Contractual Cash Obligations	\$ 5,771	\$ 813	\$ 1,088	\$ 326	\$ 3,544

- (a) Reflects principal maturities only based on stated maturity dates, except for PPL Energy Supply's 5.70% REset Put Securities (REPS). See Note 7 to the Financial Statements for a discussion of the remarketing feature related to the REPS, as well as discussion of variable-rate remarketable bonds issued on behalf of PPL Energy Supply, LG&E and KU. The Registrants do not have any significant capital lease obligations.
- (b) Assumes interest payments through stated maturity, except for PPL Energy Supply's REPS, for which interest is reflected to the put date. For PPL, PPL Energy Supply, LKE, LG&E and KU the payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and for PPL, payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.
- (c) See Note 11 to the Financial Statements for additional information.
- (d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes as applicable, the purchase obligations of electricity, coal, nuclear fuel and limestone as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above. Financial swaps (for PPL and PPL Energy Supply) and open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented.
- (e) The amounts for PPL include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2013. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit. The amounts also include contributions made or committed to be made in 2014 for PPL's and LKE's U.S. pension plans (for PPL Energy Supply, PPL Electric, LG&E and KU includes their share of these amounts). Based on the current funded status of these plans, except for WPD's plans, no cash contributions are required. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (f) At December 31, 2013, total unrecognized tax benefits of \$22 million for PPL and \$15 million for PPL Energy Supply were excluded from this table as management cannot reasonably estimate the amount and period of future payments. See Note 5 to the Financial Statements for additional information.
- (g) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 15 to the Financial Statements for additional information.
- (h) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 15 to the Financial Statements for additional information.
- (i) Represents construction commitments, including commitments for the LG&E's Mill Creek and KU's Ghent and E.W. Brown environmental air projects, LG&E's and KU's Cane Run Unit 7, KU's E.W. Brown landfill and LG&E's Ohio Falls refurbishment which are also reflected in the Capital Expenditures table presented above.

Dividends/Distributions

(PPL)

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts that are within the context of maintaining a capitalization structure that supports investment grade credit ratings. In February 2014, PPL declared its quarterly common stock dividend, payable April 1, 2014, at 37.25 cents per share (equivalent to \$1.49 per annum). Future dividends will be declared at the discretion of the Board of Directors and will depend upon future earnings, cash flows, financial and legal requirements and other relevant factors at the time. As discussed in Note 7 to the Financial Statements, subject to certain exceptions, PPL may not declare or pay any cash dividend on its common stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or its 4.32% Junior Subordinated Notes due 2019 or until deferred contract adjustment payments on PPL's Purchase Contracts have been paid. No such deferrals have occurred or are currently anticipated.

(All Registrant except PPL)

From time to time, as determined by their respective Board of Directors or Board of Managers, the Registrants other than PPL pay dividends or distributions, as applicable, to their respective shareholders or members. Certain of the credit facilities of PPL Energy Supply, PPL Electric, LKE, LG&E and KU include minimum debt covenant ratios that could effectively restrict the payment of dividends.

(All Registrants except PPL Energy Supply)

See Note 7 to the Financial Statements for these and other restrictions related to distributions on capital interests for the Registrants and their subsidiaries.

Purchase or Redemption of Debt Securities

The Registrants will continue to evaluate outstanding debt securities and may decide to purchase or redeem these securities depending upon prevailing market conditions and available cash.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities.

The following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2013.

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
PPL									
PPL WEM	Baa3	BBB-							
WPD (East Midlands)	Baa1	BBB							
WPD (West Midlands)	Baa1	BBB							
PPL WW	Baa3	BBB-	BBB						
WPD (South Wales)	Baa1	BBB	A-						
WPD (South West)	Baa1	BBB	A-				P-2		
PPL Capital Funding	Baa3	BBB-	BBB						

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
PPL and PPL Energy Supply									
PPL Energy Supply	Baa2	BBB	BBB-				P-2	A-2	F3
PPL and PPL Electric									
PPL Electric				A3	A-	A-	P-2	A-2	F2
PPL and LKE									
LKE	Baa2	BBB-	BBB+						
LG&E				A2	A-	A+	P-2	A-2	F2
KU				A2	A-	A+	P-2	A-2	F2

A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

In addition to the credit ratings noted above, the rating agencies have taken the following actions related to the Registrants and their subsidiaries.

(PPL)

In March 2013, Moody's, S&P and Fitch assigned ratings of Ba1, BB+ and BB+ to PPL Capital Funding's \$450 million 5.90% Junior Subordinated Notes due 2073. Fitch also assigned a stable outlook to these notes.

In May 2013, Moody's, S&P and Fitch assigned ratings of Baa3, BBB- and BBB to PPL Capital Funding's \$250 million 1.90% Senior Notes due 2018, \$600 million 3.40% Senior Notes due 2023 and \$300 million 4.70% Senior Notes due 2043. Fitch also assigned a stable outlook to these notes.

In September 2013, Fitch affirmed the following ratings with a stable outlook:

- the long-term issuer default and senior unsecured ratings for PPL WW, WPD (South Wales) and WPD (South West); and
- the short-term issuer default ratings for WPD (South Wales) and WPD (South West).

In September 2013, Moody's and S&P assigned ratings of Baa1 and BBB to WPD (East Midlands') £65 million 1.676% Index-Linked Senior Notes due 2052.

In October 2013, Moody's and S&P assigned ratings of Baa1 and BBB to WPD (West Midlands') £400 million 3.875% Senior Notes due 2024.

In November 2013, Moody's placed the ratings of PPL on review for upgrade.

In December 2013, Fitch affirmed the following ratings with a stable outlook:

- the long-term and short-term issuer default ratings for PPL and PPL Capital Funding; and
- the senior unsecured debt and junior subordinated notes ratings for PPL Capital Funding.

In January 2014, Moody's affirmed its ratings and revised its outlook to stable for PPL.

(PPL and PPL Energy Supply)

In February 2013, Moody's upgraded its rating, from B2 to Ba1, and revised its outlook from under review to stable for PPL Ironwood.

In April 2013, Fitch affirmed its rating and outlook on PPL Montana's pass-through certificates due 2020.

In July 2013, Moody's withdrew its rating and outlook for PPL Ironwood.

In July 2013, S&P lowered its rating, from BBB- to BB+, retained its negative outlook and assigned a recovery rating of 1 to PPL Montana's pass-through certificates due 2020.

In August 2013, Moody's affirmed its rating and revised its outlook from stable to negative on PPL Montana's pass-through certificates due 2020.

In September 2013, S&P affirmed its rating and revised its outlook from negative to stable on PPL Montana's pass-through certificates due 2020.

In December 2013, Fitch downgraded its long-term issuer default rating, from BBB to BBB-, short-term issuer default and commercial paper ratings, from F2 to F3, and retained its negative outlook for PPL Energy Supply.

In January 2014, S&P withdrew its rating, outlook and recovery rating on PPL Montana's pass-through certificates due 2020.

(PPL and PPL Electric)

In July 2013, Moody's, S&P and Fitch assigned ratings of A3, A- and A- to PPL Electric's \$350 million 4.75% First Mortgage Bonds due 2043. Fitch assigned a stable outlook and S&P assigned a recovery rating of 1+ to these notes.

In November 2013, Moody's placed the ratings of PPL Electric on review for upgrade.

In December 2013, Fitch affirmed its long-term issuer default rating, short-term issuer default rating, secured debt and commercial paper rating with a stable outlook for PPL Electric.

In January 2014, Moody's upgraded its issuer rating, from Baa2 to Baa1, and senior secured rating, from A3 to A2, affirmed its commercial paper rating and revised its outlook to stable for PPL Electric.

(PPL, LKE, LG&E and KU)

In July 2013, S&P confirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds and KU's 2004 Series A, 2006 Series B and 2008 Series A Environmental Facilities Revenue Bonds.

In November 2013, Moody's, S&P and Fitch assigned ratings of A2, A- and A+ to LG&E's \$250 million 4.65% First Mortgage Bonds due 2043 and KU's \$250 million 4.65% First Mortgage Bonds due 2043. Fitch assigned a stable outlook and S&P assigned a recovery rating of 1+ to both notes.

In November 2013, Moody's placed the ratings of LKE, LG&E and KU on review for upgrade.

In December 2013, Fitch affirmed the following ratings with a stable outlook:

- the long-term and short-term issuer default ratings for LKE, LG&E and KU;
- the senior unsecured debt rating for LKE; and
- the secured debt, secured pollution control bonds and commercial paper ratings for LG&E and KU.

In January 2014, Moody's affirmed its ratings and revised its outlook to stable for LKE.

In January 2014, Moody's upgraded its issuer ratings, from Baa1 to A3, and senior secured ratings, from A2 to A1, affirmed its commercial paper ratings and revised its outlook to stable for LG&E and KU.

In February 2014, Moody's affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds , KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds .

Ratings Triggers

(PPL)

As discussed in Note 7 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's, S&P, or Fitch) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event in that company. These notes totaled £3.8 billion (approximately \$6.2 billion) nominal value at December 31, 2013.

(All Registrants except PPL Electric)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral, or permit the counterparty to terminate the contract, if PPL's, PPL Energy Supply's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2013.

Guarantees for Subsidiaries *(PPL and PPL Energy Supply)*

PPL and PPL Energy Supply guarantee certain consolidated affiliate financing arrangements. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, accelerate maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL and PPL Energy Supply believe that these covenants will not limit access to relevant funding sources. See Note 15 to the Financial Statements for additional information about guarantees.

Off-Balance Sheet Arrangements *(All Registrants)*

The Registrants have entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

(All Registrants)

See Notes 1, 18, and 19 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

(PPL, LKE, LG&E, and KU)

LG&E's and KU's retail electric and natural gas rates and municipal wholesale electric rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LG&E and KU sell excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 19 to the Financial Statements for additional information.

(PPL and PPL Electric)

PPL Electric is exposed to market price and volumetric risks from its obligation as PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market price risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement energy supply contracts for the majority of its PLR obligations. These supply contracts transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

(PPL and PPL Energy Supply)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 19 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following tables sets forth the changes in the net fair value of non-trading commodity derivative contracts at December 31. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 473	\$ 1,082
Contracts realized or otherwise settled during the period	(452)	(1,005)
Fair value of new contracts entered into during the period (a)	58	7
Other changes in fair value	28	389
Fair value of contracts outstanding at the end of the period	<u>\$ 107</u>	<u>\$ 473</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at December 31, 2013 based on the level of observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 125	\$ (50)	\$ 7	\$ 4	\$ 86
Prices based on significant unobservable inputs (Level 3)	(13)	27	7		21
Fair value of contracts outstanding at the end of the period	<u>\$ 112</u>	<u>\$ (23)</u>	<u>\$ 14</u>	<u>\$ 4</u>	<u>\$ 107</u>

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2020. The following table sets forth changes in the net fair value of trading commodity derivative contracts at December 31. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2013	2012
Fair value of contracts outstanding at the beginning of the period	\$ 29	\$ (4)
Contracts realized or otherwise settled during the period	(13)	20
Fair value of new contracts entered into during the period (a)	3	17
Other changes in fair value	(8)	(4)
Fair value of contracts outstanding at the end of the period	<u>\$ 11</u>	<u>\$ 29</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at December 31, 2013 based on the level of observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices quoted in active markets for identical instruments	\$ (1)				\$ (1)
Prices based on significant observable inputs (Level 2)	(3)	\$ 9	\$ 3		9
Prices based on significant unobservable inputs (Level 3)	2	(1)	(3)	\$ 5	3
Fair value of contracts outstanding at the end of the period	<u>\$ (2)</u>	<u>\$ 8</u>	<u></u>	<u>\$ 5</u>	<u>\$ 11</u>

VaR Models

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the trading and non-trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for 2013 was as follows.

95% Confidence Level, Five-Day Holding Period	Trading	Non-Trading
Period End	\$ 11	\$ 5
Average for the Period	6	7
High	11	10
Low	2	4

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the trading and non-trading FTR positions was insignificant at December 31, 2013.

Interest Rate Risk (All Registrants)

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates.

The following interest rate hedges were outstanding at December 31.

	2013				2012			
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	
PPL								
Cash flow hedges								
Interest rate swaps (c)	\$ 1,325	\$ 91	\$ (44)	2044	\$ 1,165	\$ (7)	\$ (34)	
Cross-currency swaps (d)	1,262	(31)	(177)	2028	1,262	10	(179)	
Economic hedges								
Interest rate swaps (e)	179	(37)	(4)	2033	179	(58)	(3)	
LKE								
Cash flow hedges								
Interest rate swaps (c)					300	14	(18)	
Economic hedges								
Interest rate swaps (e)	179	(37)	(4)	2033	179	(58)	(3)	
LG&E								
Cash flow hedges								
Interest rate swaps (c)					150	7	(9)	
Economic hedges								
Interest rate swaps (e)	179	(37)	(4)	2033	179	(58)	(3)	
KU								
Cash flow hedges								
Interest rate swaps (c)					150	7	(9)	

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes foreign currency exchange rates.

(c) Changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or liabilities, if recoverable through regulated rates, and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Cross-currency swaps are utilized to hedge the principal and interest payments of WPD's U.S. dollar-denominated senior notes. Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(e) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates at December 31 is shown below.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
2013						
Increase to interest expense of 10% increase in interest rates	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
Increase in fair value of 10% decrease in interest rates	\$ 732	\$ 48	\$ 120	\$ 146	\$ 45	\$ 85
2012						
Increase to interest expense of 10% increase in interest rates	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
Increase in fair value of 10% decrease in interest rates	\$ 611	\$ 52	\$ 93	\$ 113	\$ 27	\$ 67

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars. See Note 1 to the Financial Statements for additional information regarding foreign currency translation.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

The following foreign currency hedges were outstanding at December 31.

	2013				2012			
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	
Net investment								
hedges (b)	£ 301	\$ (20)	\$ (49)	2015	£ 162	\$ (2)	\$ (26)	(26)
Economic								
hedges (c)	1,425	(86)	(222)	2015	1,265	(42)		(192)

- (a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
- (b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP. The positions outstanding exclude the amount of intercompany loans classified as net investment hedges. See Note 19 to the Financial Statements for additional information.
- (c) To economically hedge the translation of expected earnings denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP.

NDT Funds - Securities Price Risk (PPL and PPL Energy Supply)

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At December 31, 2013, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheets. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At December 31, 2013, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$66 million reduction in the fair value of the trust assets, compared with \$49 million at December 31, 2012. See Notes 18 and 23 to the Financial Statements for additional information regarding the NDT funds.

(All Registrants)

Defined Benefit Plans - Securities Price Risk

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of securities price risk on plan assets.

Credit Risk

Credit risk is the risk that the Registrants would incur a loss as a result of nonperformance by counterparties of their contractual obligations. The Registrants maintain credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and require other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, the Registrants, as applicable, have concentrations of suppliers and customers among electric utilities, financial institutions and other energy marketing and trading companies. These concentrations may impact the Registrants' overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

(PPL and PPL Energy Supply)

PPL Energy Supply includes the effect of credit risk on its fair value measurements to reflect the probability that a counterparty will default when contracts are out of the money (from the counterparty's standpoint). In this case, PPL Energy Supply would have to sell into a lower-priced market or purchase in a higher-priced market. When necessary, PPL Energy Supply records an allowance for doubtful accounts to reflect the probability that a counterparty will not pay for deliveries PPL Energy Supply has made but not yet billed, which are reflected in "Unbilled revenues" on the Balance Sheets. PPL Energy Supply has also established a reserve with respect to certain receivables from SMGT, which is reflected in accounts receivable on the Balance Sheets.

(PPL and PPL Electric)

In 2013, the PUC approved PPL Electric's PLR procurement plan for the period of June 2013 through May 2015. To date, PPL Electric has conducted two of its four planned competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2013, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post an insignificant amount of collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See Notes 15, 16, 18 and 19 to the Financial Statements for additional information on the competitive solicitation process, the Agreement, credit concentration and credit risk.

Foreign Currency Translation (PPL)

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2013, changes in this exchange rate resulted in a foreign currency translation gain of \$150 million, which primarily reflected a \$330 million increase to PP&E and goodwill offset by an increase of \$180 million to net liabilities. In 2012, changes in this exchange rate resulted in a foreign currency translation gain of \$99 million, which primarily reflected a \$181 million increase to PP&E offset by an increase of \$82 million to net liabilities. In 2011, changes in this exchange rate resulted in a foreign currency translation loss of \$51 million, which primarily reflected a \$69 million reduction to PP&E offset by a reduction of \$18 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

(All Registrants)

Related Party Transactions

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 16 to the Financial Statements for additional information on related party transactions for PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

See Notes 8, 9 and 10 to the Financial Statements for additional information on the more significant activities.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services.

The following is a discussion of the more significant environmental matters. See Note 15 to the Financial Statements and "Item 1. Business - Environmental Matters" for additional information on environmental matters.

GHG Regulations

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum the EPA was directed to issue a revised proposal for new power plants (a prior proposal was issued in 2012) by September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016.

The EPA's revised proposal for new power plants was published in the Federal Register on January 8, 2014, with comments due on March 10, 2014. The proposed limits for coal plants can only be achieved through capture and sequestration, a technology which is not presently commercially viable and, therefore, effectively preclude the construction of new coal plants. The proposed standards for new gas plants may also not be consistently achievable. Regulation of existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

The Administration's recent increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may lead to more costly regulatory requirements. The White House Office of Management and Budget (OMB) has opened this issue for public comment.

Additionally, the Climate Action Plan goal to prepare the U.S. for the impacts of climate change could affect PPL, PPL Electric, LKE, LG&E and KU and others in the industry as it could result in requirements to modify electricity delivery systems to improve the ability to withstand major storms and substantial capital investment may be needed to meet those requirements.

Climate Change

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage, as applicable, to the Registrants' generation assets, electricity delivery systems, as well as impacts on the Registrants' customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL, PPL Energy Supply, LKE, LG&E and KU have hydroelectric generating facilities or where river water is used to cool their fossil and nuclear (as applicable) powered generators. The Registrants cannot currently predict whether their businesses will experience these potential risks or estimate the cost of their related consequences.

(All Registrants except PPL Electric)

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous waste) under existing federal law. Under a litigation settlement agreement involving certain environmental groups, the EPA has agreed to issue its final rulemaking by the end of 2014. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial and operational impact is expected to be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from regulating CCRs under RCRA and set rules governing state programs. It remains uncertain whether similar legislation will be passed by the U.S. Senate. Recent ash spills that have occurred within the utility industry are adding increased pressure to regulate both active and legacy sites.

Effluent Limitation Guidelines (ELGs)

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized. The proposal contains several alternative approaches, some of which could significantly impact PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's coal-fired plants. The final regulation is expected to be issued in May 2014 but may be delayed. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: requiring installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment), and imposing standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). The final rule is now expected by April 17, 2014. The proposed regulation would apply to nearly all PPL-owned steam electric generation plants in Pennsylvania, Kentucky, and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

MATS

In February 2013, the EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. PPL, PPL Energy Supply, LKE, LG&E and KU are generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls at PPL Energy Supply and approved ECR plans to install additional controls at some of LG&E's and KU's Kentucky plants. Additionally, PPL Energy Supply is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL Energy Supply announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS. The Corette plant asset group was determined to be impaired in December 2013. See "Application of Critical Accounting Policies - Asset Impairment (Excluding Investments)" for additional information. Also, PPL has received approval for one-year compliance extensions for certain plants in Kentucky and Pennsylvania. Other extension requests are under consideration from LG&E, KU and PPL Energy Supply.

LG&E's and KU's anticipated retirements of generating units at the Cane Run and Green River plants are in response to MATS and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrogen oxides and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern U.S. In December 2011, the U.S. District Court for the District of Columbia Circuit (D.C. Circuit Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the D. C. Circuit Court vacated CSAPR and remanded it back to the EPA for further rulemaking, again leaving CAIR in place in the interim. In June 2013 the U.S. Supreme Court granted the EPA's petition for review of the D.C. Circuit Court's decision to vacate CSAPR. Oral arguments before the U.S. Supreme Court were held in December 2013. Prior to a revised transport rule from the EPA, coal-fired generating plants could face tighter emission limitations on nitrogen oxides through state action.

PPL, PPL Energy Supply, LKE, LG&E and KU plants in Pennsylvania and Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The D. C. Circuit Court's August 2012 decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions for nitrogen oxides and sulfur dioxide due to regional haze implementation (see Regional Haze discussion below), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

Regional Haze

Under the EPA's regional haze programs (developed to eliminate man-made visibility degradation by 2064), states are required to make reasonable progress every decade, including the application of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977. For the eastern U.S., the EPA had determined that region-wide reductions under the CSAPR trading program could be utilized by state programs to satisfy BART requirements for sulfur dioxide and nitrogen oxides. However, the August 2012 decision by the D.C. Circuit Court to vacate and remand CSAPR exposes power plants located in the eastern U.S., including PPL Energy Supply's plants in Pennsylvania and LG&E's and KU's plants in Kentucky, to further reductions in those pollutants in accordance with BART requirements.

The EPA signed its final Federal Implementation Plan (FIP) of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for PPL Energy Supply's Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for PPL Energy Supply's Colstrip Units 3 & 4), and tighter emission limits for PPL Energy Supply's Corette plant (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL Energy Supply expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above). Both PPL and environmental groups have appealed the final FIP rules to the U.S. Court of Appeals for the Ninth Circuit.

National Ambient Air Quality Standards (LKE, LG&E and KU)

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2014. Existing environmental plans for LG&E's and KU's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. However, depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant.

(All Registrants)

Competition

See "Competition" under each of PPL's reportable segments in "Item 1. Business - Segment Information" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting the Registrants.

New Accounting Guidance

See Notes 1 and 25 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). Senior management has reviewed with PPL's Audit Committee these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them.

Price Risk Management (All Registrants except PPL Electric)

See "Price Risk Management" in Note 1 to the Financial Statements, as well as "Risk Management" above.

Defined Benefits

(All Registrants)

Certain of the Registrants' subsidiaries sponsor or participate in, as applicable, various qualified funded and non-qualified unfunded defined benefit pension plans and both funded and unfunded other postretirement benefit plans. These plans are applicable to the majority of the Registrants' employees (based on eligibility for their applicable plans). The Registrants and certain of their subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

A summary of plan sponsors by Registrant and whether a Registrant or its subsidiaries sponsor (S) or participate in and receives allocations (P) from those plans is shown in the table below.

Plan Sponsor	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
PPL Services	S	P	P			
WPD (a)	S					
PPL Montana		S				
LKE				S	P	P
LG&E					S	

(a) Does not sponsor or participate in other postretirement benefits plans.

Management makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in AOCI, or in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities, for amounts that are expected to be recovered through regulated customer rates. These amounts in AOCI or regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Return on Plan Assets** - Management projects the long-term rates of return on plan assets using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption. These projected returns reduce the net benefit costs the Registrants record currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

(PPL)

In selecting the discount rate for its U.K. pension plans, WPD starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows are matched against a spot-rate yield curve to determine the assumed discount rate, which uses an iBoxx British pounds sterling denominated corporate bond index as its base. From this base, those bonds with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. An individual bond matching approach, which is used for the U.S. pension plans as discussed below, is not used for the U.K. pension plans because the universe of bonds in the U.K. is not deep enough to adequately support such an approach.

(All Registrants)

In selecting the discount rates for U.S. defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed.

In selecting a rate of compensation increase, plan sponsors consider past experience in light of movements in inflation rates.

The following table provides the weighted-average assumptions used for discount rate, expected return on plan assets and rate of compensation increase at December 31.

Assumption / Registrant	2013	2012
<i>Discount rate</i>		
Pension - PPL (U.S.)	5.12%	4.22%
Pension - PPL (U.K.)	4.41%	4.27%
Pension - PPL Energy Supply	5.18%	4.25%
Pension - LKE	5.18%	4.24%
Pension - LG&E	5.13%	4.20%
Other Postretirement - PPL	4.91%	4.00%
Other Postretirement - PPL Energy Supply	4.51%	3.77%
Other Postretirement - LKE	4.91%	3.99%

Assumption / Registrant	2013	2012
<i>Expected return on plan assets</i>		
Pension - PPL (U.S.)	7.00%	7.03%
Pension - PPL (U.K.)	7.19%	7.16%
Pension - PPL Energy Supply	7.00%	7.00%
Pension - LKE	7.00%	7.10%
Pension - LG&E	7.00%	7.10%
Other Postretirement - PPL	5.96%	5.94%
Other Postretirement - LKE	6.75%	6.76%
<i>Rate of compensation increase</i>		
Pension - PPL (U.S.)	3.97%	3.98%
Pension - PPL (U.K.)	4.00%	4.00%
Pension - PPL Energy Supply	3.94%	3.95%
Pension - LKE	4.00%	4.00%
Other Postretirement - PPL	3.96%	3.97%
Other Postretirement - PPL Energy Supply	3.94%	3.95%
Other Postretirement - LKE	4.00%	4.00%

In selecting health care cost trend rates, plan sponsors consider past performance and forecasts of health care costs. At December 31, 2013, the health care cost trend rates for all plans were 7.6% for 2014, gradually declining to an ultimate trend rate of 5.0% in 2020.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities. At December 31, 2013, the defined benefit plans were recorded in the Registrants' financial statements as follows.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Balance Sheet:						
Regulatory assets/liabilities	\$ 483		\$ 257	\$ 226	\$ 164	\$ 62
Pension liabilities	1,294	\$ 112	96	155	19	11
Other postretirement benefit liabilities	216	47	41	119	73	42
AOCI (pre-tax)	(2,561)	(319)		19		
Statement of Income:						
Defined benefits costs	\$ 169	\$ 51	\$ 21	\$ 40	\$ 18	11
Increase (decrease) from prior year	3	8	(1)			

The following tables reflect changes in certain assumptions based on the Registrants' primary defined benefit plans. The tables reflect either an increase or decrease in each assumption. The inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

Actuarial assumption

Discount Rate	(0.25%)
Expected Return on Plan Assets	(0.25%)
Rate of Compensation Increase	0.25%
Health Care Cost Trend Rate (a)	1%

(a) Only impacts other postretirement benefits.

Actuarial assumption	Increase (Decrease)			
	Defined Benefit Liabilities	AOCI (pre-tax)	Regulatory Assets/Liabilities	Defined Benefit Costs
PPL				
Discount rate	\$ 462	\$ (390)	\$ 72	\$ 39
Expected return on plan assets	n/a	n/a	n/a	27
Rate of compensation increase	67	(56)	11	13
Health care cost trend rate (a)	6	(1)	5	1

Actuarial assumption	Increase (Decrease)			
	Defined Benefit Liabilities	AOCI (pre-tax)	Regulatory Assets/Liabilities	Defined Benefit Costs
PPL Energy Supply				
Discount rate	48	(48)		5
Expected return on plan assets	n/a	n/a	n/a	4
Rate of compensation increase	7	(7)		2
PPL Electric				
Discount rate	38		38	4
Expected return on plan assets	n/a		n/a	3
Rate of compensation increase	6		6	2
LKE				
Discount rates	49	(15)	34	6
Expected return on plan assets	n/a	n/a	n/a	3
Rate of compensation increase	9	(4)	5	2
Health care cost trend rate (a)	5	(1)	4	
LG&E				
Discount rates	19	n/a	19	3
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	2	n/a	2	1
Health care cost trend rate (a)	1	n/a	1	
KU				
Discount rates	15	n/a	15	2
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	3	n/a	3	1
Health care cost trend rate (a)	3	n/a	3	

(a) Only impacts other postretirement benefits.

Asset Impairment (Excluding Investments)

(All Registrants except PPL Electric)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, an impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its estimated fair value. Management must make significant judgments to estimate future cash flows, including the useful lives of the assets, the forward prices for revenue and fuel components in the markets where the assets are utilized, the amount of capital and operations and maintenance spending and management's intended use of the assets. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including an assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in materially different results than those identified and recorded in the financial statements.

(PPL and PPL Energy Supply)

In September 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place the Corette coal-fired plant in Montana in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with MATS requirements. PPL Energy Supply has been monitoring the plant for potential impairment since this announcement and until the fourth quarter of 2013, no impairment was indicated as various price scenarios allowed for recovery of the asset. During the fourth quarter, in connection with the completion of its annual business planning process, management updated its fundamental view for long-term power and gas prices. Based upon this fundamental view, management has altered its expectations regarding the probability that the Corette plant will operate subsequent to initially placing it in long-term reserve status. It is now less likely that the plant will restart after operations are suspended no later than April 2015. As a result, based on an undiscounted cash flow analysis, the carrying amount for Corette was no longer recoverable. PPL Energy Supply performed an internal analysis using an income approach based on discounted cash flows to assess the fair value of the Corette asset group. Assumptions used in the fair value assessment were forward energy prices, expectations for demand for energy in Corette's market and expected operation and maintenance and capital expenditures that were consistent with assumptions used in the business planning process. Through this analysis, PPL Energy Supply determined the fair value of the asset group to be negligible. This resulted in PPL and PPL Energy Supply recording an impairment charge of \$65 million, or \$39 million after-tax for the Corette plant and related excess emission allowances.

The current depressed levels of energy and capacity prices in PJM, as well as management's forward view of these prices using its fundamental pricing models recently updated in conjunction with the annual business planning process, continue to put pressure on the recoverability of PPL Energy Supply's investment in its Pennsylvania coal-fired generation assets. In the fourth quarter of 2013, management tested the Brunner Island and Montour plants for impairment and concluded neither plant was impaired as of December 31, 2013. The recoverability test is very sensitive to forward energy and capacity price assumptions, as well as forecasted operation and maintenance and capital spending. Therefore, a further decline in forecasted long-term energy or capacity prices or changes in environmental laws requiring additional capital or operation and maintenance expenditures, could negatively impact PPL Energy Supply's operations of these facilities and potentially result in future impairment charges for some or all of the carrying value of these plants. The carrying value of the Pennsylvania coal-fired generation assets tested was \$2.7 billion as of December 31, 2013 (\$1.4 billion for Brunner Island and \$1.3 billion for Montour).

See Note 15 to the Financial Statements for additional information on MATS and other environmental requirements for coal-fired generation plants.

(All Registrants, except PPL Electric)

For a long-lived asset classified as held for sale, an impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized in future periods for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, PPL, PPL Energy Supply, LKE, LG&E and KU consider all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and determining the present value of the cash flow streams using risk adjusted discount rates.

Goodwill is tested for impairment at the reporting unit level. PPL has determined its reporting units to be at the same level as its reportable segments. PPL Energy Supply, LKE, LG&E and KU each operate within a single reportable segment and single reporting unit. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the reporting unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, PPL, PPL Energy Supply, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, PPL, PPL Energy Supply, LKE, LG&E and KU determine whether a potential impairment exists by comparing the estimated fair value of a reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill in the fourth quarter of 2013. These evaluations considered the excess of fair value over the carrying value of each reporting unit that was calculated during step one of the quantitative impairment tests performed in the fourth quarter of 2012, and the relevant events and circumstances that occurred since those tests were performed including:

- current year financial performance versus the prior year,
- changes in planned capital expenditures,
- the consistency of forecasted free cash flows,
- earnings quality and sustainability,
- changes in market participant discount rates,
- changes in long-term growth rates,
- changes in PPL's market capitalization, and
- the overall economic and regulatory environments in which these regulated entities operate.

Based on the overall favorable results of these evaluations, management did not conclude it was more likely than not that the fair value of these reporting units were less than their carrying values. As such, the two-step quantitative impairment test was not performed.

PPL (for its Supply segment) and PPL Energy Supply elected to bypass step zero as depressed wholesale market prices for electricity and natural gas have negatively impacted the fair value of these reporting units. Therefore, the goodwill for these reporting units was tested for impairment using the quantitative test in the fourth quarter of 2013, and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of the reporting units. A decrease in the forecasted cash flows of 10%, an increase in the discount rate by 0.25%, or a 10% decrease in the market multiples would not have resulted in an impairment of goodwill for these reporting units.

Loss Accruals *(All Registrants)*

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events, and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual, and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are consulted, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

For PPL, see Note 6 to the Financial Statements for a discussion of the Ofgem Review of Line Loss Calculation, including the increases of \$45 million to this liability recorded in 2013 by WPD.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is "reasonably possible" that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur."

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when new information becomes known, the contingency has been resolved and the actual loss is settled or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.
- Environmental and other litigation contingencies are reduced when the contingency is resolved and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.
- Actions or decisions by certain regulators could result in a better estimate of a previously recorded loss accrual.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, business unit management and other parties.

See Notes 6 and 15 to the Financial Statements for disclosure of loss contingencies accrued and other potential loss contingencies that have not met the criteria for accrual.

Asset Retirement Obligations

(All Registrants, except PPL Electric)

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and amortized to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the statement of income, for changes in the obligation due to the passage of time.

(PPL, LKE, LG&E and KU)

In the case of LG&E and KU, because costs of removal are collected in rates, the depreciation and accretion expenses related to an ARO are recorded as a regulatory asset, such that there is no earnings impact.

(All Registrants, except PPL Electric)

See Note 21 to the Financial Statements for additional information on AROs.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset.

At December 31, 2013, the total recorded balances and information on the most significant recorded AROs were as follows.

	Total ARO Recorded	Most Significant AROs		
		Amount Recorded	% of Total	Description
				Nuclear decommissioning, ash ponds, landfills and natural gas mains
PPL	\$ 705	\$ 533	76	
PPL Energy Supply	404	342	85	Nuclear decommissioning
LKE	252	191	76	Ash ponds, landfills and natural gas mains
LG&E	74	46	62	Ash ponds, landfills and natural gas mains
KU	178	145	81	Ash ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including the settlement dates and the timing of cash flows), the discount rates and the inflation rates. At December 31, 2013, a 10% change to retirement cost, a 0.25% decrease in the discount rate or a 0.25% increase in the inflation rate would not have a significant impact on the ARO liabilities of the Registrants. For PPL and PPL Energy Supply, there would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions. As noted above, these factors do not impact the Statements of Income of LKE, LG&E and KU.

Income Taxes (All Registrants)

Significant management judgment is required in developing the provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and valuation allowances on deferred tax assets.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known as of the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2013, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by as much as the following.

	Increase	Decrease
PPL		\$ 22
PPL Energy Supply		15

These changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the timing and utilization of tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation. In addition, for PPL, this change could also relate to the creditability of foreign taxes and the timing and utilization of foreign tax credits. For PPL Electric, LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

See Note 5 to the Financial Statements for income tax disclosures.

Regulatory Assets and Liabilities

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. WPD's electricity distribution revenues are set every five years (changing to every eight years beginning on April 1, 2015) through price controls that are not directly based on cost recovery. Therefore, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

(All Registrants except PPL Energy Supply)

PPL Electric, LG&E and KU, are subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory asset would be written-off. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

At December 31, 2013, regulatory assets and regulatory liabilities were recorded as reflected in the table below. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

	PPL	PPL Electric	LKE	LG&E	KU
Regulatory assets	\$ 1,279	\$ 778	\$ 501	\$ 320	\$ 181
Regulatory liabilities	1,138	91	1,047	491	556

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

Revenue Recognition - Unbilled Revenue (*PPL Electric, LKE, LG&E and KU*)

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers are billed on cycles which vary based on the timing of the actual meter reads taken throughout the month, estimates are recorded for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the deliveries to customers since the date of the last reading of their meters. The unbilled revenue estimates reflect consideration of factors including daily load models, estimated usage for each customer class, the effect of current and different rate schedules, the meter read schedule, the billing schedule, actual weather data and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. At December 31, unbilled revenues recorded on the Balance Sheets were as follows.

	<u>2013</u>	<u>2012</u>
PPL Electric	\$ 116	\$ 110
LKE	180	156
LG&E	85	72
KU	95	84

Other Information (*All Registrants*)

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services, tax services and other services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Reference is made to "Risk Management" for the Registrants in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Corporation

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Corporation and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PPL Corporation and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2014, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 24, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Corporation

We have audited PPL Corporation and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). PPL Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PPL Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013, and our report dated February 24, 2014, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 24, 2014

Report of Independent Registered Public Accounting Firm

The Board of Managers and Sole Member of PPL Energy Supply, LLC

We have audited the accompanying consolidated balance sheets of PPL Energy Supply, LLC and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Energy Supply, LLC and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 24, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Electric Utilities Corporation

We have audited the accompanying consolidated balance sheets of PPL Electric Utilities Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Electric Utilities Corporation and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 24, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Sole Member of LG&E and KU Energy LLC

We have audited the accompanying consolidated balance sheets of LG&E and KU Energy LLC and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LG&E and KU Energy LLC and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles . Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 24, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder of Louisville Gas and Electric Company

We have audited the accompanying balance sheets of Louisville Gas and Electric Company as of December 31, 2013 and 2012, and the related statements of income, equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Gas and Electric Company at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles .

/s/ Ernst & Young LLP

Louisville, Kentucky
February 24, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder of Kentucky Utilities Company

We have audited the accompanying balance sheets of Kentucky Utilities Company as of December 31, 2013 and 2012, and the related statements of income, equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Utilities Company at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 24, 2014

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,

PPL Corporation and Subsidiaries

(Millions of Dollars, except share data)

	2013	2012	2011
Operating Revenues			
Utility	\$ 7,201	\$ 6,808	\$ 6,292
Unregulated wholesale energy	3,044	4,126	5,212
Unregulated retail energy	1,027	844	726
Energy-related businesses	588	508	507
Total Operating Revenues	<u>11,860</u>	<u>12,286</u>	<u>12,737</u>
Operating Expenses			
Operation			
Fuel	1,944	1,837	1,946
Energy purchases	1,967	2,555	3,253
Other operation and maintenance	2,825	2,835	2,667
Loss on lease termination (Note 8)	697		
Depreciation	1,161	1,100	960
Taxes, other than income	364	366	326
Energy-related businesses	563	484	484
Total Operating Expenses	<u>9,521</u>	<u>9,177</u>	<u>9,636</u>
Operating Income	2,339	3,109	3,101
Other Income (Expense) - net	(23)	(39)	4
Other-Than-Temporary Impairments	1	27	6
Interest Expense	1,006	961	898
Income from Continuing Operations Before Income Taxes	1,309	2,082	2,201
Income Taxes	180	545	691
Income from Continuing Operations After Income Taxes	1,129	1,537	1,510
Income (Loss) from Discontinued Operations (net of income taxes)	2	(6)	2
Net Income	1,131	1,531	1,512
Net Income Attributable to Noncontrolling Interests	1	5	17
Net Income Attributable to PPL Shareowners	<u>\$ 1,130</u>	<u>\$ 1,526</u>	<u>\$ 1,495</u>
Amounts Attributable to PPL Shareowners:			
Income from Continuing Operations After Income Taxes	\$ 1,128	\$ 1,532	\$ 1,493
Income (Loss) from Discontinued Operations (net of income taxes)	2	(6)	2
Net Income	<u>\$ 1,130</u>	<u>\$ 1,526</u>	<u>\$ 1,495</u>
Earnings Per Share of Common Stock:			
Income from Continuing Operations After Income Taxes Available to PPL			
Common Shareowners:			
Basic	\$ 1.85	\$ 2.62	\$ 2.70
Diluted	\$ 1.76	\$ 2.61	\$ 2.70
Net Income Available to PPL Common Shareowners:			
Basic	\$ 1.85	\$ 2.61	\$ 2.71
Diluted	\$ 1.76	\$ 2.60	\$ 2.70
Dividends Declared Per Share of Common Stock	\$ 1.47	\$ 1.44	\$ 1.40
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	608,983	580,276	550,395
Diluted	663,073	581,626	550,952

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	2013	2012	2011
Net income	\$ 1,131	\$ 1,531	\$ 1,512
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of \$4, \$2, (\$2)	138	94	(48)
Available-for-sale securities, net of tax of (\$72), (\$31), (\$6)	67	29	9
Qualifying derivatives, net of tax of (\$41), (\$32), (\$139)	45	39	202
Equity investees' other comprehensive income (loss), net of tax of \$0, (\$1), \$0		2	
Defined benefit plans:			
Prior service costs, net of tax of (\$1), \$0, (\$1)	2	1	(3)
Net actuarial gain (loss), net of tax of (\$73), \$343, \$58	71	(965)	(152)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of \$4, \$1, \$5	(6)	(7)	(7)
Qualifying derivatives, net of tax of \$80, \$278, \$246	(83)	(434)	(370)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0			3
Defined benefit plans:			
Prior service costs, net of tax of (\$4), (\$5), (\$5)	6	10	10
Net actuarial loss, net of tax of (\$49), (\$29), (\$19)	135	79	47
Total other comprehensive income (loss) attributable to PPL Shareowners	375	(1,152)	(309)
Comprehensive income (loss)	1,506	379	1,203
Comprehensive income attributable to noncontrolling interests	1	5	17
Comprehensive income (loss) attributable to PPL Shareowners	\$ 1,505	\$ 374	\$ 1,186

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	2013	2012	2011
Cash Flows from Operating Activities			
Net income	\$ 1,131	\$ 1,531	\$ 1,512
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	1,161	1,100	961
Amortization	222	186	254
Defined benefit plans - expense	176	166	205
Deferred income taxes and investment tax credits	72	424	582
Impairment of assets	65	28	13
Unrealized (gains) losses on derivatives, and other hedging activities	236	27	(314)
Loss on lease termination (Note 8)	426		
Other	80	(27)	(38)
Change in current assets and current liabilities			
Accounts receivable	(165)	7	(89)
Accounts payable	25	(29)	(36)
Unbilled revenues	27	(19)	64
Prepayments	14	(5)	294
Counterparty collateral	(81)	(34)	(190)
Taxes payable	20	24	(104)
Uncertain tax positions	(114)	(4)	6
Regulatory assets and liabilities, net	18	(2)	106
Accrued interest	(3)	32	109
Other	(91)	12	
Other operating activities			
Defined benefit plans - funding	(563)	(607)	(667)
Other assets	7	(33)	(62)
Other liabilities	194	(13)	(99)
Net cash provided by (used in) operating activities	<u>2,857</u>	<u>2,764</u>	<u>2,507</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(4,212)	(3,105)	(2,487)
Expenditures for intangible assets	(95)	(71)	(102)
Proceeds from the sale of certain non-core generation facilities			381
Ironwood Acquisition, net of cash acquired		(84)	
Acquisition of WPD Midlands			(5,763)
Purchases of nuclear plant decommissioning trust investments	(159)	(154)	(169)
Proceeds from the sale of nuclear plant decommissioning trust investments	144	139	156
Proceeds from the sale of other investments		20	163
Net (increase) decrease in restricted cash and cash equivalents	(20)	96	(143)
Other investing activities	47	36	12
Net cash provided by (used in) investing activities	<u>(4,295)</u>	<u>(3,123)</u>	<u>(7,952)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	2,038	1,223	5,745
Retirement of long-term debt	(747)	(108)	(1,210)
Repurchase of common stock	(74)		
Issuance of common stock	1,411	72	2,297
Payment of common stock dividends	(878)	(833)	(746)
Redemption of preference stock of a subsidiary		(250)	
Debt issuance and credit facility costs	(49)	(17)	(102)
Contract adjustment payments on Equity Units	(82)	(94)	(72)
Net increase (decrease) in short-term debt	49	74	(125)
Other financing activities	(37)	(19)	(20)
Net cash provided by (used in) financing activities	<u>1,631</u>	<u>48</u>	<u>5,767</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>8</u>	<u>10</u>	<u>(45)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>201</u>	<u>(301)</u>	<u>277</u>
Cash and Cash Equivalents at Beginning of Period	<u>901</u>	<u>1,202</u>	<u>925</u>
Cash and Cash Equivalents at End of Period	<u>\$ 1,102</u>	<u>\$ 901</u>	<u>\$ 1,202</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 916	\$ 847	\$ 696
Income taxes - net	\$ 128	\$ 73	\$ (76)

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,102	\$ 901
Restricted cash and cash equivalents	83	54
Accounts receivable (less reserve: 2013, \$64; 2012, \$64)		
Customer	923	745
Other	97	79
Unbilled revenues	835	857
Fuel, materials and supplies	702	673
Prepayments	153	166
Deferred taxes	246	30
Price risk management assets	942	1,525
Regulatory assets	33	19
Other current assets	37	19
Total Current Assets	5,153	5,068
Investments		
Nuclear plant decommissioning trust funds	864	712
Other investments	43	47
Total Investments	907	759
Property, Plant and Equipment		
Regulated utility plant	27,755	25,196
Less: accumulated depreciation - regulated utility plant	4,873	4,164
Regulated utility plant, net	22,882	21,032
Non-regulated property, plant and equipment		
Generation	11,881	11,295
Nuclear fuel	591	524
Other	834	726
Less: accumulated depreciation - non-regulated property, plant and equipment	6,172	5,942
Non-regulated property, plant and equipment, net	7,134	6,603
Construction work in progress	3,071	2,397
Property, Plant and Equipment, net (a)	33,087	30,032
Other Noncurrent Assets		
Regulatory assets	1,246	1,483
Goodwill	4,225	4,158
Other intangibles	947	925
Price risk management assets	337	572
Other noncurrent assets	357	637
Total Other Noncurrent Assets	7,112	7,775
Total Assets	\$ 46,259	\$ 43,634

(a) At December 31, 2012, includes \$428 million of PP&E, consisting primarily of "Generation," including leasehold improvements from the consolidation of a VIE that was the owner/lessor of the Lower Mt. Bethel plant. See Note 22 for additional information.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	<u>2013</u>	<u>2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 701	\$ 652
Long-term debt due within one year	315	751
Accounts payable	1,308	1,252
Taxes	114	90
Interest	325	325
Dividends	232	210
Price risk management liabilities	829	1,065
Regulatory liabilities	90	61
Other current liabilities	998	1,219
Total Current Liabilities	<u>4,912</u>	<u>5,625</u>
Long-term Debt	<u>20,592</u>	<u>18,725</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,928	3,387
Investment tax credits	342	328
Price risk management liabilities	415	629
Accrued pension obligations	1,286	2,076
Asset retirement obligations	687	536
Regulatory liabilities	1,048	1,010
Other deferred credits and noncurrent liabilities	583	820
Total Deferred Credits and Other Noncurrent Liabilities	<u>8,289</u>	<u>8,786</u>
Commitments and Contingent Liabilities (Notes 5, 6 and 15)		
Equity		
PPL Shareowners' Common Equity		
Common stock - \$0.01 par value (a)	6	6
Additional paid-in capital	8,316	6,936
Earnings reinvested	5,709	5,478
Accumulated other comprehensive loss	(1,565)	(1,940)
Total PPL Shareowners' Common Equity	<u>12,466</u>	<u>10,480</u>
Noncontrolling Interests		18
Total Equity	<u>12,466</u>	<u>10,498</u>
Total Liabilities and Equity	<u>\$ 46,259</u>	<u>\$ 43,634</u>

(a) 780,000 shares authorized; 630,321 and 581,944 shares issued and outstanding at December 31, 2013 and 2012.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Millions of Dollars)

PPL Shareowners

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non- controlling interests	Total
December 31, 2010 (b)	483,391	\$ 5	\$ 4,602	\$ 4,082	\$ (479)	\$ 268	\$ 8,478
Common stock issued (c)	95,014	1	2,344				2,345
Purchase Contracts (d)			(143)				(143)
Stock-based compensation (f)			10				10
Net income				1,495		17	1,512
Dividends, dividend equivalents, redemptions and distributions (g)				(780)		(17)	(797)
Other comprehensive income (loss)					(309)		(309)
December 31, 2011 (b)	<u>578,405</u>	<u>\$ 6</u>	<u>\$ 6,813</u>	<u>\$ 4,797</u>	<u>\$ (788)</u>	<u>\$ 268</u>	<u>\$ 11,096</u>
Common stock issued (c)	3,543		\$ 99				\$ 99
Common stock repurchased	(4)						
Stock-based compensation (f)			18				18
Net income				\$ 1,526		\$ 5	1,531
Dividends, dividend equivalents, redemptions and distributions (g)			6	(845)		(255)	(1,094)
Other comprehensive income (loss)					\$ (1,152)		(1,152)
December 31, 2012 (b)	<u>581,944</u>	<u>\$ 6</u>	<u>\$ 6,936</u>	<u>\$ 5,478</u>	<u>\$ (1,940)</u>	<u>\$ 18</u>	<u>\$ 10,498</u>
Common stock issued (c)	50,807		\$ 1,437				\$ 1,437
Common stock repurchased (e)	(2,430)		(74)				(74)
Cash settlement of equity forward agreements (e)			(13)				(13)
Stock-based compensation (f)			30				30
Net income				\$ 1,130		\$ 1	1,131
Dividends, dividend equivalents, redemptions and distributions (g)				(899)		(19)	(918)
Other comprehensive income (loss)					\$ 375		375
December 31, 2013 (b)	<u>630,321</u>	<u>\$ 6</u>	<u>\$ 8,316</u>	<u>\$ 5,709</u>	<u>\$ (1,565)</u>	<u>\$</u>	<u>\$ 12,466</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

(b) See Note 24 for disclosure of balances of each component of AOCI.

(c) All years presented include shares of common stock issued through various stock and incentive compensation plans. 2011 includes the April issuance of common stock and 2013 includes the April and July issuances of common stock. See Note 7 for additional information.

(d) Represents \$123 million for the 2011 Purchase Contracts and \$20 million of related fees and expenses, net of tax. See Note 7 for additional information.

(e) See Note 7 for additional information.

(f) 2013, 2012 and 2011 include \$50 million, \$47 million and \$33 million of stock-based compensation expense related to new and existing unvested equity awards, and \$(20) million, \$(29) million and \$(23) million related primarily to the reclassification from "Stock-based compensation" to "Common stock issued" for the issuance of common stock after applicable equity award vesting periods and tax adjustments related to stock-based compensation.

(g) "Earnings reinvested" includes dividends and dividend equivalents on PPL common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests. In December 2013, a distribution to noncontrolling interests was made related to the purchase of the Lower Mt. Bethel plant. See Note 22 for additional information. In June 2012, PPL Electric redeemed all of its outstanding preference stock at par value, which was classified as noncontrolling interest. See Note 3 for additional information.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues			
Unregulated wholesale energy	\$ 3,044	\$ 4,126	\$ 5,212
Unregulated wholesale energy to affiliate	51	78	26
Unregulated retail energy	1,031	848	727
Energy-related businesses	527	448	464
Total Operating Revenues	<u>4,653</u>	<u>5,500</u>	<u>6,429</u>
Operating Expenses			
Operation			
Fuel	1,049	965	1,080
Energy purchases	1,168	1,818	2,283
Energy purchases from affiliate	3	3	3
Other operation and maintenance	1,072	1,041	929
Loss on lease termination (Note 8)	697		
Depreciation	318	285	244
Taxes, other than income	66	69	71
Energy-related businesses	512	432	458
Total Operating Expenses	<u>4,885</u>	<u>4,613</u>	<u>5,068</u>
Operating Income (Loss)	(232)	887	1,361
Other Income (Expense) - net	30	18	23
Other-Than-Temporary Impairments	1	1	6
Interest Income from Affiliates	3	2	8
Interest Expense	171	168	174
Income (Loss) from Continuing Operations Before Income Taxes	(371)	738	1,212
Income Taxes	(142)	263	445
Income (Loss) from Continuing Operations After Income Taxes	(229)	475	767
Income (Loss) from Discontinued Operations (net of income taxes)			2
Net Income (Loss)	(229)	475	769
Net Income (Loss) Attributable to Noncontrolling Interests	1	1	1
Net Income (Loss) Attributable to PPL Energy Supply Member	<u>\$ (230)</u>	<u>\$ 474</u>	<u>\$ 768</u>
Amounts Attributable to PPL Energy Supply Member:			
Income (Loss) from Continuing Operations After Income Taxes	\$ (230)	\$ 474	\$ 766
Income (Loss) from Discontinued Operations (net of income taxes)			2
Net Income (Loss)	<u>\$ (230)</u>	<u>\$ 474</u>	<u>\$ 768</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net income (loss)	\$ (229)	\$ 475	\$ 769
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Available-for-sale securities, net of tax of (\$72), (\$31), (\$6)	67	29	9
Qualifying derivatives, net of tax of \$0, (\$46), (\$164)		68	267
Defined benefit plans:			
Prior service costs, net of tax of (\$1), \$0, (\$2)	2	1	(2)
Net actuarial gain (loss), net of tax of (\$49), \$56, \$13	71	(82)	(22)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of \$4, \$1, \$5	(6)	(7)	(7)
Qualifying derivatives, net of tax of \$84, \$291, \$242	(123)	(463)	(353)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0			3
Defined benefit plans:			
Prior service costs, net of tax of (\$3), (\$2), (\$3)	4	5	4
Net actuarial loss, net of tax of (\$10), (\$2), (\$2)	14	10	4
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	29	(439)	(97)
Comprehensive income (loss)	(200)	36	672
Comprehensive income attributable to noncontrolling interests	1	1	1
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ (201)	\$ 35	\$ 671

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2013	2012	2011
Cash Flows from Operating Activities			
Net income (Loss)	\$ (229)	\$ 475	\$ 769
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	318	285	245
Amortization	156	119	137
Defined benefit plans - expense	51	43	36
Deferred income taxes and investment tax credits	(296)	152	317
Impairment of assets	65	3	13
Unrealized (gains) losses on derivatives, and other hedging activities	171	(41)	(283)
Loss on lease termination (Note 8)	426		
Other	2	19	(65)
Change in current assets and current liabilities			
Accounts receivable	23	(54)	38
Accounts payable	(56)	(22)	(73)
Unbilled revenues	83	33	14
Fuel, materials and supplies	(31)	(29)	(10)
Counterparty collateral	(81)	(34)	(190)
Taxes payable	(31)	(27)	27
Other	(14)	(39)	(8)
Other operating activities			
Defined benefit plans - funding	(113)	(75)	(152)
Other assets	(4)	(41)	(30)
Other liabilities	(30)	17	(9)
Net cash provided by (used in) operating activities	<u>410</u>	<u>784</u>	<u>776</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(583)	(648)	(661)
Proceeds from the sale of certain non-core generation facilities			381
Ironwood Acquisition, net of cash acquired		(84)	
Expenditures for intangible assets	(42)	(45)	(57)
Purchases of nuclear plant decommissioning trust investments	(159)	(154)	(169)
Proceeds from the sale of nuclear plant decommissioning trust investments	144	139	156
Net (increase) decrease in notes receivable from affiliates		198	(198)
Net (increase) decrease in restricted cash and cash equivalents	(22)	104	(128)
Other investing activities	31	21	8
Net cash provided by (used in) investing activities	<u>(631)</u>	<u>(469)</u>	<u>(668)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt			500
Retirement of long-term debt	(747)	(9)	(750)
Contributions from member	1,577	563	461
Distributions to member	(408)	(787)	(316)
Cash included in net assets of subsidiary distributed to member			(325)
Net increase (decrease) in short-term debt	(356)	(44)	50
Other financing activities	(19)	(4)	(10)
Net cash provided by (used in) financing activities	<u>47</u>	<u>(281)</u>	<u>(390)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(174)	34	(282)
Cash and Cash Equivalents at Beginning of Period	413	379	661
Cash and Cash Equivalents at End of Period	<u>\$ 239</u>	<u>\$ 413</u>	<u>\$ 379</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 157	\$ 150	\$ 165
Income taxes - net	\$ 189	\$ 128	\$ 69

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 239	\$ 413
Restricted cash and cash equivalents	68	46
Accounts receivable (less reserve: 2013, \$21; 2012, \$23)		
Customer	233	183
Other	97	31
Accounts receivable from affiliates	45	125
Unbilled revenues	286	369
Fuel, materials and supplies	358	327
Prepayments	20	15
Price risk management assets	860	1,511
Other current assets	27	10
Total Current Assets	2,233	3,030
Investments		
Nuclear plant decommissioning trust funds	864	712
Other investments	37	41
Total Investments	901	753
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,891	11,305
Nuclear fuel	591	524
Other	288	294
Less: accumulated depreciation - non-regulated property, plant and equipment	6,046	5,817
Non-regulated property, plant and equipment, net	6,724	6,306
Construction work in progress	450	987
Property, Plant and Equipment, net (a)	7,174	7,293
Other Noncurrent Assets		
Goodwill	86	86
Other intangibles	266	252
Price risk management assets	328	557
Other noncurrent assets	86	404
Total Other Noncurrent Assets	766	1,299
Total Assets	\$ 11,074	\$ 12,375

(a) At December 31, 2012, includes \$428 million of PP&E, consisting primarily of "Generation," including leasehold improvements from the consolidation of a VIE that was the owner/lessor of the Lower Mt. Bethel plant. See Note 22 for additional information.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt		\$ 356
Long-term debt due within one year	\$ 304	751
Accounts payable	393	438
Accounts payable to affiliates	4	31
Taxes	31	62
Interest	22	31
Price risk management liabilities	750	1,010
Deferred income taxes	9	158
Other current liabilities	269	319
Total Current Liabilities	1,782	3,156
Long-term Debt	2,221	2,521
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,114	1,232
Investment tax credits	205	186
Price risk management liabilities	320	556
Accrued pension obligations	111	293
Asset retirement obligations	393	365
Other deferred credits and noncurrent liabilities	130	218
Total Deferred Credits and Other Noncurrent Liabilities	2,273	2,850
Commitments and Contingent Liabilities (Note 15)		
Equity		
Member's equity	4,798	3,830
Noncontrolling interests		18
Total Equity	4,798	3,848
Total Liabilities and Equity	\$ 11,074	\$ 12,375

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF EQUITY
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	Member's equity	Non- controlling interests	Total
December 31, 2010 (a)	\$ 4,491	\$ 18	\$ 4,509
Net income	768	1	769
Other comprehensive income (loss)	(97)		(97)
Contributions from member	461		461
Distributions	(316)	(1)	(317)
Distribution of membership interest in PPL Global (b)	(1,288)		(1,288)
December 31, 2011 (a)	<u>\$ 4,019</u>	<u>\$ 18</u>	<u>\$ 4,037</u>
Net income	\$ 474	\$ 1	\$ 475
Other comprehensive income (loss)	(439)		(439)
Contributions from member	563		563
Distributions	(787)	(1)	(788)
December 31, 2012 (a)	<u>\$ 3,830</u>	<u>\$ 18</u>	<u>\$ 3,848</u>
Net income (loss)	\$ (230)	\$ 1	\$ (229)
Other comprehensive income (loss)	29		29
Contributions from member	1,577		1,577
Distributions (c)	(408)	(19)	(427)
December 31, 2013 (a)	<u>\$ 4,798</u>	<u>\$</u>	<u>\$ 4,798</u>

(a) See Note 24 for disclosure of balances of each component of AOCI.

(b) See Note 9 for additional information.

(c) In December 2013, a distribution to noncontrolling interests was made related to the purchase of the Lower Mt. Bethel plant. See Note 22 for additional information.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries**

(Millions of Dollars)

	2013	2012	2011
Operating Revenues			
Retail electric	\$ 1,866	\$ 1,760	\$ 1,881
Electric revenue from affiliate	4	3	11
Total Operating Revenues	1,870	1,763	1,892
Operating Expenses			
Operation			
Energy purchases	588	550	738
Energy purchases from affiliate	51	78	26
Other operation and maintenance	531	576	530
Depreciation	178	160	146
Taxes, other than income	103	105	104
Total Operating Expenses	1,451	1,469	1,544
Operating Income	419	294	348
Other Income (Expense) - net	6	9	7
Interest Expense	108	99	98
Income Before Income Taxes	317	204	257
Income Taxes	108	68	68
Net Income (a)	209	136	189
Distributions on Preference Stock		4	16
Net Income Available to PPL	\$ 209	\$ 132	\$ 173

(a) Net income approximates comprehensive income.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2013	2012	2011
Cash Flows from Operating Activities			
Net income	\$ 209	\$ 136	\$ 189
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	178	160	146
Amortization	19	18	8
Defined benefit plans - expense	21	22	18
Deferred income taxes and investment tax credits	127	114	106
Other	(9)	(9)	(7)
Change in current assets and current liabilities			
Accounts receivable	(29)	3	(5)
Accounts payable	12	38	(60)
Unbilled revenues	(6)	(8)	36
Prepayments	36	2	58
Regulatory assets and liabilities	19	(1)	107
Taxes payable	49	12	(23)
Other	(28)	(5)	7
Other operating activities			
Defined benefit plans - funding	(93)	(59)	(113)
Other assets	8	(3)	(28)
Other liabilities	10	(31)	(19)
Net cash provided by (used in) operating activities	<u>523</u>	<u>389</u>	<u>420</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(903)	(624)	(481)
Expenditures for intangible assets	(39)	(9)	(9)
Net (increase) decrease in notes receivable from affiliate	(150)		
Other investing activities	12	20	13
Net cash provided by (used in) investing activities	<u>(1,080)</u>	<u>(613)</u>	<u>(477)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	348	249	645
Retirement of long-term debt			(458)
Contributions from PPL	205	150	100
Redemption of preference stock		(250)	
Payment of common stock dividends to parent	(127)	(95)	(92)
Net increase (decrease) in short-term debt	20		
Other financing activities	(4)	(10)	(22)
Net cash provided by (used in) financing activities	<u>442</u>	<u>44</u>	<u>173</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(115)	(180)	116
Cash and Cash Equivalents at Beginning of Period	<u>140</u>	<u>320</u>	<u>204</u>
Cash and Cash Equivalents at End of Period	<u>\$ 25</u>	<u>\$ 140</u>	<u>\$ 320</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 87	\$ 81	\$ 75
Income taxes - net	\$ (45)	\$ (42)	\$ (44)

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 25	\$ 140
Accounts receivable (less reserve: 2013, \$18; 2012, \$18)		
Customer	284	249
Other	5	5
Accounts receivable from affiliates	4	29
Notes receivable from affiliate	150	
Unbilled revenues	116	110
Materials and supplies	35	39
Prepayments	40	76
Deferred income taxes	85	45
Other current assets	22	4
Total Current Assets	766	697
Property, Plant and Equipment		
Regulated utility plant	6,886	6,286
Less: accumulated depreciation - regulated utility plant	2,417	2,316
Regulated utility plant, net	4,469	3,970
Other, net	2	2
Construction work in progress	591	370
Property, Plant and Equipment, net	5,062	4,342
Other Noncurrent Assets		
Regulatory assets	772	853
Intangibles	211	171
Other noncurrent assets	35	55
Total Other Noncurrent Assets	1,018	1,079
Total Assets	\$ 6,846	\$ 6,118

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	<u>2013</u>	<u>2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 20	
Long-term debt due within one year	10	
Accounts payable	295	\$ 259
Accounts payable to affiliates	57	63
Taxes	51	12
Interest	34	26
Regulatory liabilities	76	52
Other current liabilities	82	93
Total Current Liabilities	625	505
Long-term Debt	2,305	1,967
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,399	1,233
Investment tax credits	2	3
Accrued pension obligations	96	237
Regulatory liabilities	15	8
Other deferred credits and noncurrent liabilities	55	103
Total Deferred Credits and Other Noncurrent Liabilities	1,567	1,584
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	1,340	1,135
Earnings reinvested	645	563
Total Equity	2,349	2,062
Total Liabilities and Equity	\$ 6,846	\$ 6,118

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at December 31, 2013 and 2012.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Millions of Dollars)

	Common stock shares outstanding (a)	Preferred securities	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2010	66,368	\$ 250	\$ 364	\$ 879	\$ 451	\$ 1,944
Net income					189	189
Capital contributions from PPL				100		100
Cash dividends declared on preference stock					(16)	(16)
Cash dividends declared on common stock					(92)	(92)
December 31, 2011	<u>66,368</u>	<u>\$ 250</u>	<u>\$ 364</u>	<u>\$ 979</u>	<u>\$ 532</u>	<u>\$ 2,125</u>
Net income					\$ 136	\$ 136
Redemption of preference stock (b)		\$ (250)		\$ 6	(6)	(250)
Capital contributions from PPL				150		150
Cash dividends declared on preference stock					(4)	(4)
Cash dividends declared on common stock					(95)	(95)
December 31, 2012	<u>66,368</u>	<u>\$</u>	<u>\$ 364</u>	<u>\$ 1,135</u>	<u>\$ 563</u>	<u>\$ 2,062</u>
Net income					\$ 209	\$ 209
Capital contributions from PPL				\$ 205		205
Cash dividends declared on common stock					(127)	(127)
December 31, 2013	<u>66,368</u>	<u>\$</u>	<u>\$ 364</u>	<u>\$ 1,340</u>	<u>\$ 645</u>	<u>\$ 2,349</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

(b) In June 2012, PPL Electric redeemed all of its outstanding preference stock. See Note 3 for additional information.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues	\$ 2,976	\$ 2,759	\$ 2,793
Operating Expenses			
Operation			
Fuel	896	872	866
Energy purchases	217	195	238
Other operation and maintenance	778	778	751
Depreciation	334	346	334
Taxes, other than income	48	46	37
Total Operating Expenses	<u>2,273</u>	<u>2,237</u>	<u>2,226</u>
Operating Income	703	522	567
Other Income (Expense) - net	(7)	(15)	(1)
Other-Than-Temporary Impairments		25	
Interest Expense	144	150	146
Interest Expense with Affiliate	<u>1</u>	<u>1</u>	<u>1</u>
Income (Loss) from Continuing Operations Before Income Taxes	551	331	419
Income Taxes	<u>206</u>	<u>106</u>	<u>153</u>
Income (Loss) from Continuing Operations After Income Taxes	345	225	266
Income (Loss) from Discontinued Operations (net of income taxes)	<u>2</u>	<u>(6)</u>	<u>(1)</u>
Net Income (Loss)	\$ <u>347</u>	\$ <u>219</u>	\$ <u>265</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net income (loss)	\$ 347	\$ 219	\$ 265
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Equity investee's other comprehensive income (loss), net of tax of \$0, (\$1), \$0		1	
Defined benefit plans:			
Prior service costs, net of tax of \$0, \$0, \$1			(2)
Net actuarial gain (loss), net of tax of (\$18), \$13, (\$1)	28	(21)	
Reclassification to net income - (gains) losses, net of tax expense (benefit):			
Defined benefit plans:			
Net actuarial loss, net of tax of \$0, \$0, \$1		1	
Total other comprehensive income (loss)	28	(19)	(2)
Comprehensive income (loss) attributable to member	\$ 375	\$ 200	\$ 263

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2013	2012	2011
Cash Flows from Operating Activities			
Net income	\$ 347	\$ 219	\$ 265
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	334	346	334
Amortization	22	27	27
Defined benefit plans - expense	48	40	51
Deferred income taxes and investment tax credits	254	133	218
Impairment of assets		25	
Other	5	2	(9)
Change in current assets and current liabilities			
Accounts receivable	(91)	(9)	17
Accounts payable	40	1	(32)
Accounts payable to affiliates	1	(1)	
Unbilled revenues	(24)	(10)	24
Fuel, materials and supplies	(1)	8	15
Income tax receivable	1	2	37
Taxes payable	13	1	(2)
Other	22		(1)
Other operating activities			
Defined benefit plans - funding	(168)	(70)	(170)
Settlement of interest rate swaps	86		
Other assets		(5)	(11)
Other liabilities	22	38	18
Net cash provided by (used in) operating activities	<u>911</u>	<u>747</u>	<u>781</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(1,434)	(768)	(477)
Proceeds from the sale of other investments			163
Net (increase) decrease in notes receivable from affiliates	(70)	15	46
Net (increase) decrease in restricted cash and cash equivalents	9	(3)	(9)
Other investing activities	2		
Net cash provided by (used in) investing activities	<u>(1,493)</u>	<u>(756)</u>	<u>(277)</u>
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable with affiliates	(25)	25	
Issuance of long-term debt	496		250
Retirement of long-term debt			(2)
Net increase (decrease) in short-term debt	120	125	(163)
Debt issuance and credit facility costs	(6)	(2)	(8)
Distributions to member	(254)	(155)	(533)
Contributions from member	243		
Net cash provided by (used in) financing activities	<u>574</u>	<u>(7)</u>	<u>(456)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8)	(16)	48
Cash and Cash Equivalents at Beginning of Period	43	59	11
Cash and Cash Equivalents at End of Period	<u>\$ 35</u>	<u>\$ 43</u>	<u>\$ 59</u>

Supplemental Disclosures of Cash Flow Information

Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 137	\$ 139	\$ 126
Income taxes - net	\$ (67)	\$ (45)	\$ (98)

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 35	\$ 43
Accounts receivable (less reserve: 2013, \$22; 2012, \$19)		
Customer	224	133
Other	20	20
Unbilled revenues	180	156
Accounts receivable from affiliates		1
Notes receivable from affiliates	70	
Fuel, materials and supplies	278	276
Prepayments	21	28
Price risk management assets from affiliates		14
Deferred income taxes	159	13
Regulatory assets	27	19
Other current assets	3	4
Total Current Assets	1,017	707
Property, Plant and Equipment		
Regulated utility plant	8,526	8,073
Less: accumulated depreciation - regulated utility plant	778	519
Regulated utility plant, net	7,748	7,554
Other, net	3	3
Construction work in progress	1,793	750
Property, Plant and Equipment, net	9,544	8,307
Other Noncurrent Assets		
Regulatory assets	474	630
Goodwill	996	996
Other intangibles	221	271
Other noncurrent assets	98	108
Total Other Noncurrent Assets	1,789	2,005
Total Assets	\$ 12,350	\$ 11,019

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries**
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 245	\$ 125
Notes payable with affiliates		25
Accounts payable	346	283
Accounts payable to affiliates	3	1
Customer deposits	50	48
Taxes	39	26
Price risk management liabilities	4	5
Regulatory liabilities	14	9
Interest	23	21
Other current liabilities	111	100
Total Current Liabilities	835	643
Long-term Debt	4,565	4,075
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	965	541
Investment tax credits	135	138
Price risk management liabilities	32	53
Accrued pension obligations	152	414
Asset retirement obligations	245	125
Regulatory liabilities	1,033	1,002
Other deferred credits and noncurrent liabilities	238	242
Total Deferred Credits and Other Noncurrent Liabilities	2,800	2,515
Commitments and Contingent Liabilities (Notes 6 and 15)		
Member's equity	4,150	3,786
Total Equity	4,150	3,786
Total Liabilities and Equity	\$ 12,350	\$ 11,019

The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	Member's Equity
December 31, 2010 (a)	\$ 4,011
Net income	265
Distributions to member	(533)
Other comprehensive income (loss)	(2)
December 31, 2011 (a)	\$ 3,741
Net income	\$ 219
Distributions to member	(155)
Other comprehensive income (loss)	(19)
December 31, 2012 (a)	\$ 3,786
Net income	\$ 347
Contributions from member	243
Distributions to member	(254)
Other comprehensive income (loss)	28
December 31, 2013 (a)	\$ 4,150

(a) See Note 24 for disclosure of balances of each component of AOCI.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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**STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company**
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues			
Retail and wholesale	\$ 1,351	\$ 1,247	\$ 1,281
Electric revenue from affiliate	59	77	83
Total Operating Revenues	<u>1,410</u>	<u>1,324</u>	<u>1,364</u>
Operating Expenses			
Operation			
Fuel	367	374	350
Energy purchases	195	163	209
Energy purchases from affiliate	10	12	36
Other operation and maintenance	373	363	363
Depreciation	148	152	147
Taxes, other than income	24	23	18
Total Operating Expenses	<u>1,117</u>	<u>1,087</u>	<u>1,123</u>
Operating Income	293	237	241
Other Income (Expense) - net	(2)	(3)	(2)
Interest Expense	34	42	44
Income Before Income Taxes	257	192	195
Income Taxes	94	69	71
Net Income (a)	<u>\$ 163</u>	<u>\$ 123</u>	<u>\$ 124</u>

(a) Net income equals comprehensive income.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company
(Millions of Dollars)

	2013	2012	2011
Cash Flows from Operating Activities			
Net income	\$ 163	\$ 123	\$ 124
Adjustments to reconcile net income to net cash provided			
by (used in) operating activities			
Depreciation	148	152	147
Amortization	6	11	12
Defined benefit plans - expense	18	18	21
Deferred income taxes and investment tax credits	26	69	51
Other	9	(13)	1
Change in current assets and current liabilities			
Accounts receivable	(23)	(2)	25
Accounts payable	16		(24)
Accounts payable to affiliates	1	(3)	6
Unbilled revenues	(13)	(7)	16
Fuel, materials and supplies	(12)		20
Taxes payable	9	(7)	3
Other	8	(7)	(7)
Other operating activities			
Defined benefit plans - funding	(48)	(27)	(70)
Settlement of interest rate swaps	43		
Other assets	(1)	(21)	(7)
Other liabilities	6	22	7
Net cash provided by (used in) operating activities	<u>356</u>	<u>308</u>	<u>325</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(577)	(286)	(196)
Proceeds from the sale of other investments			163
Net (increase) decrease in restricted cash and cash			
equivalents	<u>10</u>	<u>(3)</u>	<u>(9)</u>
Net cash provided by (used in) investing activities	<u>(567)</u>	<u>(289)</u>	<u>(42)</u>
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable with affiliates			(12)
Issuance of long-term debt	248		
Net increase (decrease) in short-term debt	(35)	55	(163)
Debt issuance and credit facility costs	(3)	(2)	(2)
Payment of common stock dividends to parent	(99)	(75)	(83)
Contributions from parent	86		
Net cash provided by (used in) financing activities	<u>197</u>	<u>(22)</u>	<u>(260)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(14)	(3)	23
Cash and Cash Equivalents at Beginning of Period	<u>22</u>	<u>25</u>	<u>2</u>
Cash and Cash Equivalents at End of Period	<u>\$ 8</u>	<u>\$ 22</u>	<u>\$ 25</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 36	\$ 39	\$ 40
Income taxes - net	\$ 51	\$ 5	\$ 20

The accompanying Notes to Financial Statements are an integral part of the financial statements.

BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 8	\$ 22
Accounts receivable (less reserve: 2013, \$2; 2012, \$1)		
Customer	102	59
Other	9	16
Unbilled revenues	85	72
Accounts receivable from affiliates		14
Fuel, materials and supplies	154	142
Prepayments	7	7
Price risk management assets from affiliates		7
Regulatory assets	17	19
Other current assets	3	1
Total Current Assets	<u>385</u>	<u>359</u>
Property, Plant and Equipment		
Regulated utility plant	3,383	3,187
Less: accumulated depreciation - regulated utility plant	332	220
Regulated utility plant, net	3,051	2,967
Construction work in progress	651	259
Property, Plant and Equipment, net	<u>3,702</u>	<u>3,226</u>
Other Noncurrent Assets		
Regulatory assets	303	400
Goodwill	389	389
Other intangibles	120	144
Other noncurrent assets	35	44
Total Other Noncurrent Assets	<u>847</u>	<u>977</u>
Total Assets	<u>\$ 4,934</u>	<u>\$ 4,562</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	<u>2013</u>	<u>2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 20	\$ 55
Accounts payable	166	117
Accounts payable to affiliates	24	23
Customer deposits	24	23
Taxes	11	2
Price risk management liabilities	4	5
Regulatory liabilities	9	4
Interest	6	5
Other current liabilities	32	34
Total Current Liabilities	296	268
Long-term Debt	1,353	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	582	544
Investment tax credits	38	40
Price risk management liabilities	32	53
Accrued pension obligations	19	102
Asset retirement obligations	68	56
Regulatory liabilities	482	471
Other deferred credits and noncurrent liabilities	104	106
Total Deferred Credits and Other Noncurrent Liabilities	1,325	1,372
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,364	1,278
Earnings reinvested	172	108
Total Equity	1,960	1,810
Total Liabilities and Equity	\$ 4,934	\$ 4,562

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at December 31, 2013 and December 31, 2012.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2010	21,294	\$ 424	\$ 1,278	\$ 19	\$ 1,721
Net income				124	124
Cash dividends declared on common stock				(83)	(83)
December 31, 2011	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 60</u>	<u>\$ 1,762</u>
Net income				\$ 123	\$ 123
Cash dividends declared on common stock				(75)	(75)
December 31, 2012	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 108</u>	<u>\$ 1,810</u>
Net income				\$ 163	\$ 163
Capital contributions from LKE			86		86
Cash dividends declared on common stock				(99)	(99)
December 31, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,364</u>	<u>\$ 172</u>	<u>\$ 1,960</u>

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars)

	2013	2012	2011
Operating Revenues			
Retail and wholesale	\$ 1,625	\$ 1,512	\$ 1,512
Electric revenue from affiliate	10	12	36
Total Operating Revenues	1,635	1,524	1,548
Operating Expenses			
Operation			
Fuel	529	498	516
Energy purchases	22	32	29
Energy purchases from affiliate	59	77	83
Other operation and maintenance	382	384	362
Depreciation	186	193	186
Taxes, other than income	24	23	19
Total Operating Expenses	1,202	1,207	1,195
Operating Income	433	317	353
Other Income (Expense) - net	(3)	(8)	(1)
Other-Than-Temporary Impairments		25	
Interest Expense	70	69	70
Income Before Income Taxes	360	215	282
Income Taxes	132	78	104
Net Income (a)	\$ 228	\$ 137	\$ 178

(a) Net income approximates comprehensive income.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Millions of Dollars)

	2013	2012	2011
Cash Flows from Operating Activities			
Net income	\$ 228	\$ 137	\$ 178
Adjustments to reconcile net income to net cash provided			
by (used in) operating activities			
Depreciation	186	193	186
Amortization	14	14	13
Defined benefit plans - expense	18	11	14
Deferred income taxes and investment tax credits	69	99	108
Impairment of assets		25	
Other	(3)	10	(10)
Change in current assets and current liabilities			
Accounts receivable	(37)	(17)	22
Accounts payable	23	1	2
Accounts payable to affiliates	(8)		(12)
Unbilled revenues	(11)	(3)	8
Fuel, materials and supplies	10	7	(5)
Taxes payable	7	15	(14)
Other	10	6	(3)
Other operating activities			
Defined benefit plans - funding	(65)	(21)	(50)
Settlement of interest rate swaps	43		
Other assets	1	(3)	(2)
Other liabilities	10	26	9
Net cash provided by (used in) operating activities	<u>495</u>	<u>500</u>	<u>444</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(855)	(480)	(279)
Other investing activities	2		
Net cash provided by (used in) investing activities	<u>(853)</u>	<u>(480)</u>	<u>(279)</u>
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable with affiliates			(10)
Issuance of long-term debt	248		
Net increase (decrease) in short-term debt	80	70	
Debt issuance and credit facility costs	(3)		(3)
Payment of common stock dividends to parent	(124)	(100)	(124)
Contributions from parent	157		
Net cash provided by (used in) financing activities	<u>358</u>	<u>(30)</u>	<u>(137)</u>
Net Increase (Decrease) in Cash and Cash Equivalents		(10)	28
Cash and Cash Equivalents at Beginning of Period	21	31	3
Cash and Cash Equivalents at End of Period	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 31</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 61	\$ 62	\$ 60
Income taxes - net	\$ 47	\$ (39)	\$ 16

The accompanying Notes to Financial Statements are an integral part of the financial statements.

BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 21	\$ 21
Accounts receivable (less reserve: 2013, \$4; 2012, \$2)		
Customer	122	74
Other	9	13
Unbilled revenues	95	84
Accounts receivable from affiliates		7
Fuel, materials and supplies	124	134
Prepayments	4	10
Price risk management assets from affiliates		7
Regulatory assets	10	
Other current assets	6	6
Total Current Assets	391	356
Property, Plant and Equipment		
Regulated utility plant	5,143	4,886
Less: accumulated depreciation - regulated utility plant	446	299
Regulated utility plant, net	4,697	4,587
Other, net	1	1
Construction work in progress	1,139	490
Property, Plant and Equipment, net	5,837	5,078
Other Noncurrent Assets		
Regulatory assets	171	230
Goodwill	607	607
Other intangibles	101	127
Other noncurrent assets	56	57
Total Other Noncurrent Assets	935	1,021
Total Assets	\$ 7,163	\$ 6,455

The accompanying Notes to Financial Statements are an integral part of the financial statements.

BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	<u>2013</u>	<u>2012</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 150	\$ 70
Accounts payable	159	147
Accounts payable to affiliates	25	33
Customer deposits	26	25
Taxes	33	26
Regulatory liabilities	5	5
Interest	11	10
Other current liabilities	36	33
Total Current Liabilities	445	349
Long-term Debt	2,091	1,842
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	658	587
Investment tax credits	97	98
Accrued pension obligations	11	104
Asset retirement obligations	177	69
Regulatory liabilities	551	531
Other deferred credits and noncurrent liabilities	89	92
Total Deferred Credits and Other Noncurrent Liabilities	1,583	1,481
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,505	2,348
Accumulated other comprehensive income (loss)	1	1
Earnings reinvested	230	126
Total Equity	3,044	2,783
Total Liabilities and Equity	\$ 7,163	\$ 6,455

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at December 31, 2013 and December 31, 2012.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

STATEMENTS OF EQUITY
Kentucky Utilities Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2010	37,818	\$ 308	\$ 2,348	\$ 35		\$ 2,691
Net income				178		178
Cash dividends declared on common stock				(124)		(124)
December 31, 2011	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 89</u>	<u>\$</u>	<u>\$ 2,745</u>
Net income				\$ 137		\$ 137
Cash dividends declared on common stock				(100)		(100)
Other comprehensive income (loss)					1	1
December 31, 2012 (b)	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 126</u>	<u>\$ 1</u>	<u>\$ 2,783</u>
Net income				\$ 228		\$ 228
Capital contributions from LKE			157			157
Cash dividends declared on common stock				(124)		(124)
December 31, 2013 (b)	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,505</u>	<u>\$ 230</u>	<u>\$ 1</u>	<u>\$ 3,044</u>

- (a) Shares in thousands. All common shares of KU stock are owned by LKE.
(b) See Note 24 for disclosure of balances of each component of AOCI.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

COMBINED NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(All Registrants)

General

Capitalized terms and abbreviations appearing in the combined notes to financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for its related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

Business and Consolidation

(PPL)

PPL is an energy and utility holding company that, through its subsidiaries, is primarily engaged in: 1) the regulated distribution of electricity in the U.K.; 2) the regulated generation, transmission, distribution and sale of electricity and the regulated distribution and sale of natural gas, primarily in Kentucky; 3) the regulated transmission, distribution and sale of electricity in Pennsylvania; and 4) the competitive generation and marketing of electricity in portions of the northeastern and northwestern U.S. Headquartered in Allentown, PA, PPL's principal subsidiaries are PPL Global, LKE (including its principal subsidiaries, LG&E and KU), PPL Electric and PPL Energy Supply (including its principal subsidiaries, PPL EnergyPlus and PPL Generation). PPL's corporate level financing subsidiary is PPL Capital Funding.

WPD, a subsidiary of PPL Global, through indirect wholly owned subsidiaries operates regulated distribution networks providing electricity service in the U.K. WPD serves end-users in Wales and southwest and central England. Its principal subsidiaries are WPD (South Wales), WPD (South West), WPD (East Midlands) and WPD (West Midlands).

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently referred to as WPD Midlands), from subsidiaries of E.ON AG. WPD Midlands' operating results are included in PPL's results of operations for the full year of 2013 and 2012, but as PPL is consolidating WPD Midlands on a one-month lag, eight months of operating results are included in PPL's results of operations for 2011.

See Note 10 for additional information regarding the acquisition of WPD Midlands.

PPL consolidates WPD, including WPD Midlands, on a one-month lag. Material intervening events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

(PPL and PPL Energy Supply)

PPL Energy Supply is an energy company conducting business primarily through its principal subsidiaries PPL Generation and PPL EnergyPlus. PPL Generation owns and operates a portfolio of competitive domestic power generating assets. These power plants are located in Pennsylvania and Montana and use well-diversified fuel sources including coal, uranium, natural gas, oil and water. PPL EnergyPlus sells electricity produced by PPL Generation subsidiaries, participates in wholesale market load-following auctions, and markets various energy products and commodities such as: capacity, transmission, FTRs, coal, natural gas, oil, uranium, emission allowances, RECs and other commodities in competitive wholesale and competitive retail markets, primarily in the northeastern and northwestern U.S.

On April 13, 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. See Note 10 for additional information.

(PPL and PPL Electric)

PPL Electric is a cost-based rate-regulated utility subsidiary of PPL. PPL Electric's principal business is the regulated transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania and the regulated supply of electricity to retail customers in that territory as a PLR.

(PPL, LKE, LG&E and KU)

LKE is a utility holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU. LG&E and KU are engaged in the regulated generation, transmission, distribution and sale of electricity. LG&E also engages in the regulated distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia (under the Old Dominion Power name) and in Tennessee under the KU name.

(PPL, PPL Energy Supply and LKE)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of various businesses that were sold or distributed. See Note 9 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations.

(All Registrants)

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for VIEs. The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE, and thus are the primary beneficiary of the entity. For PPL and PPL Energy Supply, see Note 22 for information regarding a previously consolidated VIE. Investments in entities in which a company has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated. Any noncontrolling interests are reflected in the financial statements.

The financial statements of PPL, PPL Energy Supply, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 14 for additional information.

Regulation

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set by Ofgem for a given time period through price control reviews that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. As a result, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

(All Registrants except PPL Energy Supply)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Rates are generally established based on a historical or future test period adjusted to exclude unusual or nonrecurring items. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 6 for additional details regarding regulatory matters.

Accounting Records *(All Registrants except PPL Energy Supply)*

The system of accounts for domestic regulated entities is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

(All Registrants)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

Changes in Classification

The classification of certain amounts in the 2012 and 2011 financial statements have been changed to conform to the current presentation. The changes in classification did not affect the Registrants' net income or equity.

Earnings Per Share (PPL)

EPS is computed using the two-class method, which is an earnings allocation method for computing EPS that treats a participating security as having rights to earnings that would otherwise have been available to common shareowners. Share-based payment awards that provide recipients a non-forfeitable right to dividends or dividend equivalents are considered participating securities.

Price Risk Management

(All Registrants except PPL Electric)

Energy and energy-related contracts are used to hedge the variability of expected cash flows associated with the generating units and marketing activities, as well as for trading purposes at PPL Energy Supply. Interest rate contracts are used to hedge exposures to changes in the fair value of debt instruments and to hedge exposures to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain energy and energy-related contracts meet the definition of a derivative, while others do not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative energy contracts have been excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. All other contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value. These contracts are recorded as "Price risk management assets" and "Price risk management liabilities" on the Balance Sheets. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities." PPL considers intra-month transactions to be spot activity, which is not accounted for as a derivative.

Energy and energy-related contracts are assigned a strategy and accounting classification. Processes exist that allow for subsequent review and validation of the contract information. See Note 19 for more information. The accounting department provides the traders and the risk management department with guidelines on appropriate accounting classifications for various contract types and strategies. Some examples of these guidelines include, but are not limited to:

- Physical coal, limestone, lime, uranium, electric transmission, gas transportation, gas storage and renewable energy credit contracts not traded on an exchange are not derivatives due to the lack of net settlement provisions.
- Only contracts where physical delivery is deemed probable throughout the entire term of the contract can qualify for NPNS.
- Physical transactions that permit cash settlement and financial transactions do not qualify for NPNS because physical delivery cannot be asserted; however, these transactions can receive cash flow hedge treatment if they effectively hedge the volatility in the future cash flows for energy-related commodities.
- Certain purchased option contracts or net purchased option collars may receive cash flow hedge treatment.
- Derivative transactions that do not qualify for NPNS or cash flow hedge treatment, or for which NPNS or cash flow hedge treatment is not elected, are recorded at fair value through earnings.

A similar process is also followed by the treasury department as it relates to interest rate and foreign currency derivatives. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions entered into to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions entered into to hedge the value of a net investment of foreign operations can be designated as net investment hedges.
- Derivative transactions that do not qualify for cash flow or net investment hedge treatment are marked to fair value through earnings. These transactions generally include foreign currency swaps and options to hedge GBP earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.
- Derivative transactions may be marked to fair value through regulatory assets/liabilities at PPL Electric, LG&E and KU if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the classification of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL Energy Supply reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in "Unregulated wholesale energy" on the Statements of Income.

See Notes 18 and 19 for additional information on derivatives.

(PPL and PPL Electric)

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, NPNS has been elected for these contracts. See Notes 18 and 19 for additional information.

Revenue

Utility Revenue (PPL)

For the years ended December 31, the Statements of Income "Utility" line item contains rate-regulated revenue from the following:

	2013	2012	2011
Domestic electric and gas revenue (a)	\$ 4,842	\$ 4,519	\$ 4,674
U.K. electric revenue (b)	2,359	2,289	1,618
Total	<u>\$ 7,201</u>	<u>\$ 6,808</u>	<u>\$ 6,292</u>

(a) Represents revenue from regulated generation, transmission and/or distribution in Pennsylvania, Kentucky, Virginia and Tennessee, including regulated wholesale revenue.

(b) Represents electric distribution revenue from the operation of WPD's distribution networks. 2011 includes eight months of revenue for WPD Midlands.

Revenue Recognition

(All Registrants)

Operating revenues, except for certain energy and energy-related contracts that meet the definition of derivative instruments and "Energy-related businesses," are recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' meters are read and bills are rendered throughout the month, rather than all being read at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Unbilled wholesale energy revenues are recorded at month-end to reflect estimated amounts until actual dollars and MWhs are confirmed and invoiced. Any difference between estimated and actual revenues is adjusted the following month.

Certain PPL subsidiaries participate primarily in the PJM RTO, as well as in other RTOs and ISOs. In PJM, PPL EnergyPlus is a marketer, a load-serving entity and a seller for PPL Energy Supply's generation subsidiaries. A function of interchange accounting is to match participants' MWh entitlements (generation plus scheduled bilateral purchases) against their MWh obligations (load plus scheduled bilateral sales) during every hour of every day. If the net result during any given hour is an entitlement, the participant is credited with a spot-market sale to the RTO at the respective market price for that hour; if the net result is an obligation, the participant is charged with a spot-market purchase at the respective market price for that hour. PPL Energy Supply records the hourly net sales in its Statements of Income as "Unregulated wholesale energy" if in a net sales position and "Energy purchases" if in a net purchase position.

(PPL)

WPD's revenue is primarily from charges to suppliers to use its distribution system to deliver electricity to the end-user. WPD's allowed revenue is not dependent on volume delivered over each price control period. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a given period. Under recoveries are recovered and recorded in the next regulatory year. Over-recoveries are reflected in the current period as a liability and are not included in revenue.

(PPL and PPL Energy Supply)

PPL Energy Supply records non-derivative energy marketing activity in the period when the energy is delivered. Generally, sales contracts held for non-trading purposes are reported gross on the Statements of Income within "Unregulated wholesale energy" and "Unregulated retail energy." However, non-trading physical sales and purchases of electricity at major market delivery points (which is any delivery point with liquid pricing available, such as the pricing hub for PJM West), are netted and reported in the Statements of Income within "Unregulated wholesale energy" or "Energy purchases," depending on the net hourly position. Certain energy and energy-related contracts that meet the definition of derivative instruments are recorded at fair value with subsequent changes in fair value recognized as revenue or expense (see Note 19), unless hedge accounting is applied or NPNS is elected. If derivatives meet cash flow hedging criteria, changes in fair value are recorded in AOCI. The unrealized and realized results of derivative and non-derivative contracts that are designated as proprietary trading activities are reported net on the Statements of Income within "Unregulated wholesale energy."

"Energy-related businesses" revenue primarily includes revenue from PPL Energy Supply's mechanical contracting and engineering subsidiaries. These subsidiaries record revenue from construction contracts on the percentage-of-completion method of accounting, measured by the actual cost incurred to date as a percentage of the estimated total cost for each contract. Accordingly, costs and estimated earnings in excess of billings on uncompleted contracts are recorded within "Unbilled revenues" on the Balance Sheets, and billings in excess of costs and estimated earnings on uncompleted contracts are recorded within "Other current liabilities" on the Balance Sheets. The amount of costs and estimated earnings in excess of billings was \$14 million and \$12 million at December 31, 2013 and 2012, and the amount of billings in excess of costs and estimated earnings was \$75 million and \$70 million at December 31, 2013 and 2012.

Accounts Receivable

(All Registrants)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. See Note 10 for information related to the acquisition of WPD Midlands.

(PPL, PPL Energy Supply and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During 2013, 2012 and 2011, PPL Electric purchased \$985 million, \$848 million and \$875 million of accounts receivable from unaffiliated third parties. During 2013, 2012 and 2011, PPL Electric purchased \$294 million, \$313 million and \$264 million of accounts receivable from PPL EnergyPlus.

Allowance for Doubtful Accounts (All Registrants)

Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs, the age of the receivable, counterparty creditworthiness and economic conditions. Specific events, such as bankruptcies, are also considered. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when it is known they will be received.

The changes in the allowance for doubtful accounts were:

	Balance at Beginning of Period	Additions		Deductions (a)	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
PPL					
2013	\$ 64	\$ 39	\$ 4 (d)	\$ 43	\$ 64
2012	54	55 (b)		45	64
2011	55	65 (b)		66 (c)	54
PPL Energy Supply					
2013	\$ 23	\$ 1		\$ 3	\$ 21
2012	15	12 (b)		4	23
2011	20	14 (b)		19 (c)	15
PPL Electric					
2013	\$ 18	\$ 32		\$ 32	\$ 18
2012	17	32		31	18
2011	17	33		33	17
LKE					
2013	\$ 19	\$ 4	\$ 4 (d)	\$ 5	\$ 22
2012	17	9		7	19
2011	17	15		15	17
LG&E					
2013	\$ 1	\$ 2	\$ 1 (d)	\$ 2	\$ 2
2012	2	2		3	1
2011	2	5		5	2
KU					
2013	\$ 2	\$ 3	\$ 3 (d)	\$ 4	\$ 4
2012	2	4		4	2
2011	6	6		10	2

(a) Primarily related to uncollectible accounts written off.

(b) Includes amounts related to the SMGT bankruptcy. See Note 15 for additional information.

- (c) Includes amounts related to the June 2011, FERC approved settlement agreement between PPL and the California ISO related to the sales made to the California ISO during the period October 2000 through June 2001 that were not paid to PPL subsidiaries. Therefore, the receivable and the related allowance for doubtful accounts were reversed and the settlement recorded.
- (d) Primarily related to capital projects, thus the provision was recorded as an adjustment to construction work in progress.

Cash

(All Registrants)

Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Restricted Cash and Cash Equivalents

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. The change in restricted cash and cash equivalents is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, the current portion of restricted cash and cash equivalents is shown as "Restricted cash and cash equivalents" for PPL and PPL Energy Supply and included in "Other current assets" for PPL Electric, LKE, LG&E and KU while the noncurrent portion is included in "Other noncurrent assets" for all Registrants.

(All Registrants except KU)

At December 31, the balances of restricted cash and cash equivalents included the following.

	PPL		PPL Energy Supply		PPL Electric		LKE		LG&E	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Margin deposits posted to counterparties	\$ 67	\$ 43	\$ 67	\$ 43						
Cash collateral posted to counterparties	22	32					\$ 22	\$ 32	\$ 22	\$ 32
Low carbon network fund (a)	27	14								
Funds deposited with a trustee (b)	12	13			\$ 12	\$ 13				
Ironwood debt service reserves	17	17	17	17						
Other	11	16	1	3						
Total	\$ 156	\$ 135	\$ 85	\$ 63	\$ 12	\$ 13	\$ 22	\$ 32	\$ 22	\$ 32

- (a) Funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.
- (b) Funds deposited with a trustee to defease PPL Electric's 1945 First Mortgage Bonds.

Fair Value Measurements (All Registrants)

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities including investments in the NDT funds and defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

The Registrants classify fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.

- **Level 3** - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, the Registrants' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

Investments

(All Registrants)

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Other current assets" on the Balance Sheets.

Investments in Debt and Equity Securities

Investments in debt securities are classified as held-to-maturity and measured at amortized cost when there is an intent and ability to hold the securities to maturity. Debt and equity securities held principally to capitalize on fluctuations in their value with the intention of selling them in the near-term are classified as trading. All other investments in debt and equity securities are classified as available-for-sale. Both trading and available-for-sale securities are carried at fair value. The specific identification method is used to calculate realized gains and losses on debt and equity securities. Any unrealized gains and losses on trading securities are included in earnings.

The criteria for determining whether a decline in fair value of a debt security is other than temporary and whether the other-than-temporary impairment is recognized in earnings or reported in OCI require that when a debt security is in an unrealized loss position and:

- there is an intent or a requirement to sell the security before recovery, the other-than-temporary impairment is recognized currently in earnings; or
- there is no intent or requirement to sell the security before recovery, the portion of the other-than-temporary impairment that is considered a credit loss, if any, is recognized currently in earnings and the remainder of the other-than-temporary impairment is reported in OCI, net of tax.

Unrealized gains and losses on available-for-sale equity securities are reported, net of tax, in OCI. When an equity security's decline in fair value below amortized cost is determined to be an other-than-temporary impairment, the unrealized loss is recognized currently in earnings. See Notes 18 and 23 for additional information on investments in debt and equity securities.

Equity Method Investment (PPL, LKE and KU)

Investments in entities over which PPL, LKE and KU have the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting and are reported in "Other Investments" on PPL's Balance Sheet and in "Other noncurrent assets" on LKE's and KU's Balance Sheets. In accordance with the accounting guidance for equity method investments, the recoverability of the investment is periodically assessed. If an identified event or change in circumstances requires an impairment evaluation, the fair value of the investment is assessed. The difference between the carrying amount of the investment and its estimated fair value is recognized as an impairment loss when the loss in value is deemed other-than-temporary and such loss is included in "Other-Than-Temporary Impairments" on the Statements of Income.

KU owns 20% of the common stock of EEI, which is accounted for as an equity method investment. During 2012, KU recorded losses of \$8 million from its share of EEI's operating results. In December 2012, KU concluded that an other-than-temporary decline in the value of its investment in EEI had occurred. KU recorded an impairment charge of \$25 million (\$15 million, after-tax) which reduced the investment balance to zero, the estimated fair value at December 31, 2013 and 2012. See Note 18 for additional information.

Cost Method Investment (LKE, LG&E and KU)

LG&E and KU each have an investment in OVEC, which is accounted for using the cost method. The investment is recorded in "Other noncurrent assets" on the LKE, LG&E and KU Balance Sheets and in "Other investments" on the PPL Balance Sheets. LG&E and KU and ten other electric utilities are equity owners of OVEC. OVEC's power is currently supplied to LG&E and KU and 11 other companies affiliated with the various owners. LG&E and KU own 5.63% and 2.5% of OVEC's common stock. Pursuant to a power purchase agreement, LG&E and KU are contractually entitled to their ownership percentage of OVEC's output, which is approximately 120 MW for LG&E and approximately 53 MW for KU.

LG&E's and KU's combined investment in OVEC is not significant. The direct exposure to loss as a result of LG&E's and KU's involvement with OVEC is generally limited to the value of their investments; however, LG&E and KU may be conditionally responsible for a pro-rata share of certain OVEC obligations. As part of PPL's acquisition of LKE, the value of the power purchase contract was recorded as an intangible asset with an offsetting regulatory liability, both of which are being amortized using the units-of-production method until March 2026, the expiration date of the agreement. See Notes 15 and 20 for additional discussion on the power purchase agreement.

Long-Lived and Intangible Assets

Property, Plant and Equipment

(All Registrants)

PP&E is recorded at original cost, unless impaired. PP&E acquired in business combinations, such as the Ironwood and WPD Midlands acquisitions, is recorded at fair value at the time of acquisition, which establishes its original cost. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost for constructed assets includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs associated with planned major maintenance projects are accrued in advance of the period in which the work is performed. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. See "Asset Retirement Obligations" below and Note 6 for additional information. PPL Electric records net cost of removal when incurred as a regulatory asset. The regulatory asset is subsequently amortized through depreciation over a five-year period, which is recoverable in customer rates in accordance with regulatory practices.

(All Registrants except PPL Energy Supply)

AFUDC is capitalized at PPL Electric as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. LG&E and KU generally do not record AFUDC as a return is provided on construction work in progress.

(PPL and PPL Energy Supply)

Nuclear fuel-related costs, including fuel, conversion, enrichment, fabrication and assemblies, are capitalized as PP&E. Such costs are amortized as the fuel is spent using the units-of-production method and included in "Fuel" on the Statements of Income.

PPL Energy Supply capitalizes interest costs as part of construction costs. Capitalized interest, excluding AFUDC for PPL, is as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>
2013	\$ 46	\$ 37
2012	53	47
2011	51	47

Depreciation

(All Registrants)

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.

Following are the weighted-average rates of depreciation at December 31.

	<u>2013</u>					
	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Regulated utility plant	2.94		2.61	4.07	4.52	3.77
Non-regulated PP&E - Generation	3.10	3.10				
	<u>2012</u>					
	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Regulated utility plant	3.12		2.57	4.39	4.91	4.06
Non-regulated PP&E - Generation	3.05	3.05				

(PPL, LKE, LG&E and KU)

The KPSC approved new lower depreciation rates for LG&E and KU as part of the rate-case settlement agreement reached in November 2012. The new rates became effective January 1, 2013 and resulted in lower depreciation of approximately \$22 million (\$8 million for LG&E and \$14 million for KU) in 2013, exclusive of net additions to PP&E.

(All Registrants)

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider the expected use of the asset; the expected useful life of other assets to which the useful life of the intangible asset may relate; legal, regulatory, or contractual provisions that may limit the useful life; the company's historical experience as evidence of its ability to support renewal or extension; the effects of obsolescence, demand, competition, and other economic factors; and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

PPL and PPL Energy Supply account for RECs as intangible assets. PPL and PPL Energy Supply buy and/or sell RECs and also create RECs through owned renewable energy generation facilities. In any period, PPL and PPL Energy Supply can be a net purchaser or seller of RECs depending on their contractual obligations to purchase or deliver RECs and the production of RECs from their renewable energy generation facilities. The carrying value of RECs created from their renewable energy generation facilities is initially recorded at zero value and purchased RECs are initially recorded based on their purchase price. When RECs are consumed to satisfy an obligation to deliver RECs to meet a state's Renewable Portfolio Standard Obligation or when RECs are sold to third parties, they are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of RECs are not diminished until they are consumed, RECs are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in "Energy purchases" on the Statements of Income. Gains and losses on the sale of RECs are included in "Other operation and maintenance" on the Statements of Income.

PPL, PPL Energy Supply, LKE, LG&E and KU account for emission allowances as intangible assets. PPL, PPL Energy Supply, LKE, LG&E and KU are allocated emission allowances by states based on their generation facilities' historical emissions experience, and have purchased emission allowances generally when it is expected that additional allowances will be needed. The carrying value of allocated emission allowances is initially recorded at zero value and purchased allowances are initially recorded based on their purchase price. When consumed or sold, emission allowances are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of emission allowances are not diminished until they are consumed, emission allowances are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in "Fuel" on the Statements of Income. Gains and losses on the sale of emission allowances are included in "Other operation and maintenance" on the Statements of Income.

Asset Impairment (Excluding Investments)

The Registrants review long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable. See Note 18 for a discussion of impairments related to certain intangible assets.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value. See Notes 15 and 18 for a discussion of the Corette coal-fired plant in Montana which was determined to be impaired in the fourth quarter of 2013.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell.

PPL Energy Supply's Brunner Island and Montour coal-fired generation plants in Pennsylvania were tested for impairment in the fourth quarter of 2013 and it was concluded that neither plant was impaired as of December 31, 2013. The recoverability test is very sensitive to forward energy and capacity price assumptions as well as forecasted operation and maintenance and capital spending. Therefore, a further decline in forecasted long-term energy or capacity prices or changes in environmental laws requiring additional capital or operations and maintenance costs, could negatively impact PPL Energy Supply's operations of these facilities and potentially result in future impairment charges for some or all of the carrying value of these plants. The carrying value of these assets was \$2.7 billion as of December 31, 2013 (\$1.4 billion for Brunner Island and \$1.3 billion for Montour).

PPL, PPL Energy Supply, LKE, LG&E and KU review goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed. PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's reporting units are at the operating segment level.

PPL, PPL Energy Supply, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if management concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill in the fourth quarter of 2013 and determined that it was not more likely than not that the fair values of their reporting units were less than their carrying values.

PPL, for its Supply segment, and PPL Energy Supply elected to bypass step zero and quantitatively tested the goodwill of these reporting units for impairment in the fourth quarter of 2013 and no impairment was recognized.

Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income to reflect changes in the obligation due to the passage of time. The accretion and depreciation expenses recorded by LG&E and KU are recorded as a regulatory asset, such that there is no earnings impact.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset. See Note 21 for additional information on AROs.

Compensation and Benefits

Defined Benefits (All Registrants)

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, for LG&E, KU and PPL Electric, to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

See Note 13 for a discussion of defined benefits.

Stock-Based Compensation

(All Registrants except LG&E and KU)

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Stock options that vest in installments are valued as a single award. PPL grants stock options with an exercise price that is not less than the fair value of PPL's common stock on the date of grant. See Note 12 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets.

Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Energy Supply, PPL Electric and LKE includes an allocation of PPL Services' expense.

Taxes

Income Taxes

(All Registrants)

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return.

Significant management judgment is required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and valuation allowances on deferred tax assets.

Significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Registrants use a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Registrants in future periods.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

The Registrants record valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. The Registrants consider the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If the Registrants determine that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if the Registrants determine that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The Registrants defer investment tax credits when the credits are utilized and amortize the deferred amounts over the average lives of the related assets.

The Registrants recognize interest and penalties in "Income Taxes" on their Statements of Income.

See Note 5 for additional discussion regarding income taxes.

(All Registrants except PPL Energy Supply)

The provision for PPL, PPL Electric, LKE, LG&E and KU's deferred income taxes for regulated assets is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulated assets and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheet in noncurrent "Regulatory assets" or "Regulatory liabilities."

(All Registrants except PPL)

The income tax provision for PPL Energy Supply, PPL Electric, LKE, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if PPL Energy Supply, PPL Electric, LKE, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes. At December 31, the following intercompany tax receivables (payables) were recorded.

	<u>2013</u>	<u>2012</u>
PPL Energy Supply	\$ 44	\$ (38)
PPL Electric	(19)	22
LKE	(28)	(12)
LG&E	(8)	5
KU	(27)	(15)

Taxes, Other Than Income (All Registrants)

The Registrants present sales taxes in "Other current liabilities" and PPL presents value-added taxes in "Taxes" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 5 for details on taxes included in "Taxes, other than income" on the Statements of Income.

Other

Leases

(All Registrants)

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 11 for a discussion of arrangements under which PPL Energy Supply, LG&E and KU are lessees for accounting purposes.

Fuel, Materials and Supplies

(All Registrants)

Fuel, natural gas stored underground and materials and supplies are valued at the lower of cost or market using the average cost method. Fuel costs for electric generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 6 for further discussion of the fuel adjustment clause and gas supply clause.

(All Registrants except PPL Electric)

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31.

	<u>PPL</u>		<u>PPL Energy Supply</u>		<u>LKE</u>		<u>LG&E</u>		<u>KU</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Fuel	\$ 305	\$ 284	\$ 163	\$ 135	\$ 141	\$ 149	\$ 64	\$ 61	\$ 77	\$ 88
Natural gas stored underground (a)	49	50	2	8	48	42	48	42	47	46
Materials and supplies	348	339	193	184	89	85	42	39	124	134
	<u>\$ 702</u>	<u>\$ 673</u>	<u>\$ 358</u>	<u>\$ 327</u>	<u>\$ 278</u>	<u>\$ 276</u>	<u>\$ 154</u>	<u>\$ 142</u>	<u>\$ 124</u>	<u>\$ 134</u>

(a) The majority of LKE's and LG&E's natural gas stored underground is held to serve retail customers. The majority of PPL Energy Supply's natural gas stored underground is available for resale.

Guarantees (All Registrants)

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 15 for further discussion of recorded and unrecorded guarantees.

Treasury Stock (PPL and PPL Electric)

PPL and PPL Electric restore all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions (PPL)

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in AOCI.

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. See Note 17 for additional information.

New Accounting Guidance Adopted (All Registrants)

Improving Disclosures about Offsetting Balance Sheet Items

Effective January 1, 2013, the Registrants retrospectively adopted accounting guidance issued to enhance disclosures about derivative instruments that either (1) offset on the balance sheet or (2) are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the balance sheet.

The adoption of this guidance resulted in enhanced disclosures but did not have a significant impact on the Registrants. See Note 19 for the new disclosures.

Testing Indefinite-Lived Intangible Assets for Impairment

Effective January 1, 2013, the Registrants prospectively adopted accounting guidance that allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of an indefinite-lived intangible asset. If, based on this assessment, the entity determines that it is more likely than not that the fair value of the indefinite-lived intangible asset exceeds the carrying amount, a quantitative impairment test does not need to be performed. If the entity concludes otherwise, a quantitative impairment test must be performed by determining the fair value of the asset and comparing it with the carrying value. The entity would record an impairment charge, if necessary.

The adoption of this guidance did not have a significant impact on the Registrants.

Reporting Amounts Reclassified Out of AOCI

Effective January 1, 2013, the Registrants prospectively adopted accounting guidance issued to improve the reporting of reclassifications out of AOCI. The Registrants are required to provide information about the effects on net income of significant amounts reclassified out of AOCI by their respective statement of income line item, if the item is required to be reclassified to net income in its entirety. For items not reclassified to net income in their entirety, the Registrants are required to reference other disclosures that provide greater detail about these reclassifications.

The adoption of this guidance resulted in enhanced disclosures but did not have a significant impact on the Registrants. See Note 24 for the new disclosures.

2. Segment and Related Information

(PPL)

PPL is organized into four segments: U.K. Regulated, Kentucky Regulated, Pennsylvania Regulated and Supply. PPL's segments are split between its regulated and competitive businesses with its regulated businesses further segmented by geographic location.

The U.K. Regulated segment consists of PPL Global which primarily includes WPD's regulated electricity distribution operations and certain costs, such as U.S. income taxes, administrative costs and allocated financing costs. The U.K. Regulated segment includes the operating results and assets of WPD Midlands since the April 1, 2011 acquisition date, recorded on a one-month lag. The U.K. Regulated segment is also allocated certain WPD Midlands acquisition-related costs and financing costs. See Note 10 for additional information regarding the acquisition.

The Kentucky Regulated segment consists of the operations of LKE, which owns and operates regulated public utilities engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas, representing primarily the activities of LG&E and KU. In addition, certain financing costs are allocated to the Kentucky Regulated segment.

The Pennsylvania Regulated segment includes the regulated electricity delivery operations of PPL Electric. In addition, certain financing costs are allocated to the Pennsylvania Regulated segment.

The Supply segment consists primarily of the activities of PPL Energy Supply's subsidiaries, PPL Generation and PPL EnergyPlus. PPL Generation owns and operates competitive domestic power plants to generate electricity and acquires and develops competitive domestic generation projects. PPL EnergyPlus markets and trades electricity, natural gas, and other energy-related products in competitive wholesale and retail markets. In addition, certain financing and other costs are allocated to the Supply segment.

"Corporate and Other" primarily includes financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs, which is presented to reconcile segment information to PPL's consolidated results.

In 2013, costs included in the Corporate and Other category increased, as anticipated, primarily due to an increase in financing at PPL Capital Funding not directly attributable to a particular segment. PPL's growth in rate-regulated businesses provides the organization an enhanced corporate-level financing alternative, through PPL Capital Funding, that further enables PPL to cost-effectively support targeted credit profiles across all of PPL's rated companies. As a result, PPL plans to further utilize PPL Capital Funding in addition to continued direct financing by the operating companies. The financing costs associated primarily with PPL Capital Funding's new securities issuances, with certain exceptions including the remarketing of the debt component of the Equity Units, have not been directly assigned or allocated to any segment and generally have been reflected in Corporate and Other in 2013.

Financial data for the segments are:

Income Statement Data	2013	2012	2011
Revenues from external customers by product			
U.K. Regulated			
Utility service (a)	\$ 2,359	\$ 2,289	\$ 1,618
Energy-related businesses	44	47	35
Total	2,403	2,336	1,653
Kentucky Regulated			
Utility service (a)	2,976	2,759	2,793
Pennsylvania Regulated			
Utility service (a)	1,866	1,760	1,881
Supply			
Energy (b)	4,075	4,970	5,938
Energy-related businesses	527	461	472
Total	4,602	5,431	6,410
Corporate and Other	13		
Total	11,860	12,286	12,737
Intersegment electric revenues			
Pennsylvania Regulated	4	3	11
Supply (c)	51	79	26
Depreciation			
U.K. Regulated	300	279	218
Kentucky Regulated	334	346	334
Pennsylvania Regulated	178	160	146
Supply	318	289	245
Corporate and Other	31	26	17
Total	1,161	1,100	960
Amortization (d)			
U.K. Regulated	19	15	83
Kentucky Regulated	22	27	27
Pennsylvania Regulated	19	18	7
Supply	156	126	137
Corporate and Other	6		
Total	222	186	254

Income Statement Data	2013	2012	2011
Unrealized (gains) losses on derivatives and other hedging activities (b)			
U.K. Regulated	44	52	(8)
Kentucky Regulated	12	11	9
Supply	180	(36)	(315)
Total	236	27	(314)
Interest Expense			
U.K. Regulated	425	421	391
Kentucky Regulated	212	219	217
Pennsylvania Regulated	108	99	98
Supply	228	222	192
Corporate and Other	33		
Total	1,006	961	898
Income from Continuing Operations Before Income Taxes			
U.K. Regulated	993	953	358
Kentucky Regulated	484	263	349
Pennsylvania Regulated	317	204	257
Supply (b) (g)	(428)	662	1,237
Corporate and Other	(57)		
Total	1,309	2,082	2,201
Income Taxes (e)			
U.K. Regulated	71	150	33
Kentucky Regulated	179	80	127
Pennsylvania Regulated	108	68	68
Supply	(157)	247	463
Corporate and Other	(21)		
Total	180	545	691
Deferred income taxes and investment tax credits (f)			
U.K. Regulated	(45)	26	(39)
Kentucky Regulated	254	136	218
Pennsylvania Regulated	127	114	106
Supply	(296)	150	299
Corporate and Other	32		
Total	72	426	584
Net Income Attributable to PPL Shareowners			
U.K. Regulated	922	803	325
Kentucky Regulated	307	177	221
Pennsylvania Regulated	209	132	173
Supply (b) (g)	(272)	414	776
Corporate and Other	(36)		
Total	\$ 1,130	\$ 1,526	\$ 1,495
Cash Flow Data	2013	2012	2011
Expenditures for long-lived assets			
U.K. Regulated	\$ 1,280	\$ 1,016	\$ 862
Kentucky Regulated	1,434	768	465
Pennsylvania Regulated	942	633	490
Supply	568	736	739
Corporate and Other	59		
Total	\$ 4,283	\$ 3,153	\$ 2,556
Balance Sheet Data	As of December 31,		
	2013	2012	
Total Assets			
U.K. Regulated	\$ 15,895	\$ 14,073	
Kentucky Regulated	12,016	10,670	
Pennsylvania Regulated	6,846	6,023	
Supply	11,408	12,868	
Corporate and Other (h)	94		
Total	\$ 46,259	\$ 43,634	

	2013	2012	2011
Geographic Data			
Revenues from external customers			
U.K.	\$ 2,403	\$ 2,336	\$ 1,653
U.S.	9,457	9,950	11,084
Total	\$ 11,860	\$ 12,286	\$ 12,737

	As of December 31,	
	2013	2012
Long-Lived Assets		
U.K.	\$ 11,145	\$ 9,951
U.S.	22,638	20,776
Total	\$ 33,783	\$ 30,727

- (a) See Note 1 for additional information on Utility Revenue.
- (b) Includes unrealized gains and losses from economic activity. See Note 19 for additional information.
- (c) See "PLR Contracts/Purchase of Accounts Receivable" in Note 16 for a discussion of the basis of accounting between reportable segments.
- (d) Represents non-cash expense items that include amortization of nuclear fuel, regulatory assets, debt discounts and premiums, debt issuance costs, emission allowances and RECs.
- (e) Represents both current and deferred income taxes, including investment tax credits.
- (f) Represents a non-cash expense item that is also included in "Income Taxes."
- (g) Includes a charge of \$697 million (\$413 million after tax) for the termination of the lease of the Colstrip coal-fired electric generating facility. See Note 8 for additional information.
- (h) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

(All Registrants except PPL)

PPL Energy Supply, PPL Electric, LKE, LG&E and KU each operate within a single reportable segment.

3. Preferred Securities

(PPL)

In June 2012, PPL Electric redeemed all of its preference stock at par value, without premium (\$250 million in the aggregate). Related dividend requirements of \$4 million for 2012 and \$16 million for 2011 have been included in "Net Income Attributable to Noncontrolling Interests" on the Statements of Income.

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2013, 2012, or 2011.

(PPL Electric)

PPL Electric is authorized to issue up to 20,629,936 shares of preferred stock. No PPL Electric preferred stock was issued or outstanding in 2013, 2012, or 2011. Prior to October 31, 2013, PPL Electric was authorized to issue up to 10 million shares of preference stock. PPL Electric had 2.5 million shares of 6.25% Series Preference Stock (Preference Shares) issued and outstanding at December 31, 2011. In June 2012, PPL Electric redeemed all 2.5 million shares of its outstanding Preference Shares, par value of \$100 per share. The price paid for the redemption was the par value, without premium (\$250 million in the aggregate).

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a \$25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2013, 2012 or 2011.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock and 2,000,000 shares of preference stock without par value. KU had no preferred or preference stock issued or outstanding in 2013, 2012 or 2011.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock method or If-Converted Method, as applicable. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended December 31 used in the EPS calculation are:

	2013	2012	2011
Income (Numerator)			
Income from continuing operations after income taxes attributable to PPL shareowners	\$ 1,128	\$ 1,532	\$ 1,493
Less amounts allocated to participating securities	6	8	6
Less issuance costs on subsidiary's preferred securities redeemed		6	
Income from continuing operations after income taxes available to PPL common shareowners - Basic	1,122	1,518	1,487
Plus interest charges (net of tax) related to Equity Units (a)	44		
Income from continuing operations after income taxes available to PPL common shareowners - Diluted	\$ 1,166	\$ 1,518	\$ 1,487
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted			
	\$ 2	\$ (6)	\$ 2
Net income attributable to PPL shareowners	\$ 1,130	\$ 1,526	\$ 1,495
Less amounts allocated to participating securities	6	8	6
Less issuance costs on subsidiary's preferred securities redeemed		6	
Net income available to PPL common shareowners - Basic	1,124	1,512	1,489
Plus interest charges (net of tax) related to Equity Units	44		
Net income available to PPL common shareowners - Diluted	\$ 1,168	\$ 1,512	\$ 1,489
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	608,983	580,276	550,395
Add incremental non-participating securities:			
Share-based payment awards (b)	1,062	563	400
Equity Units (a)	52,568		
Forward sale agreements and purchase contracts (b)	460	787	157
Weighted-average shares - Diluted EPS	663,073	581,626	550,952
Basic EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	\$ 1.85	\$ 2.62	\$ 2.70
Income (loss) from discontinued operations (net of income taxes)		(0.01)	0.01
Net Income	\$ 1.85	\$ 2.61	\$ 2.71
Diluted EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	\$ 1.76	\$ 2.61	\$ 2.70
Income (loss) from discontinued operations (net of income taxes)		(0.01)	
Net Income	\$ 1.76	\$ 2.60	\$ 2.70

(a) In 2013, the If-Converted Method was applied to the Equity Units prior to settlement.

(b) The Treasury Stock Method was applied to non-participating share-based payment awards, forward sale agreements and the 2010 Purchase Contracts for 2012 and 2011.

For the year ended December 31, PPL issued common stock related to stock-based compensation plans, ESOP and DRIP as follows:

(Shares in thousands)

2013

Stock-based compensation plans (a)	1,552
ESOP	275
DRIP	549

(a) Includes stock options exercised, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

For the years ended December 31, the following were excluded from the computations of diluted EPS because the effect would have been antidilutive.

(Shares in thousands)

	2013	2012	2011
Stock options	4,446	5,293	5,084
Performance units	55	58	2
Restricted stock units	29		

See Note 7 for additional information on the 2011 and 2010 Equity Units, including the issuance of PPL common stock to settle the 2010 Purchase Contracts, the April and May 2013 settlements of forward sale agreements and information on the repurchase of shares of PPL common stock that offset the 2013 issuances of common stock under stock-based compensation plans, ESOP and DRIP.

5. Income and Other Taxes

(PPL)

"Income from Continuing Operations Before Income Taxes" included the following.

	2013	2012	2011
Domestic income	\$ 196	\$ 994	\$ 1,715
Foreign income	1,113	1,088	486
Total	<u>\$ 1,309</u>	<u>\$ 2,082</u>	<u>\$ 2,201</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 6 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and certain foreign jurisdictions in which PPL's operations have historically been profitable.

Significant components of PPL's deferred income tax assets and liabilities were as follows:

	2013	2012
Deferred Tax Assets		
Deferred investment tax credits	\$ 137	\$ 130
Regulatory obligations	144	124
Accrued pension costs	140	276
Federal loss carryforwards	331	524
State loss carryforwards	304	305
Federal and state tax credit carryforwards	332	287
Foreign capital loss carryforwards	467	525
Foreign loss carryforwards	6	6
Foreign - pensions	202	254
Foreign - regulatory obligations	26	27
Foreign - other	12	16
Contributions in aid of construction	137	134
Domestic - other	211	239
Valuation allowances	(663)	(706)
Total deferred tax assets	<u>1,786</u>	<u>2,141</u>

	2013	2012
Deferred Tax Liabilities		
Domestic plant - net	4,073	3,967
Taxes recoverable through future rates	151	141
Unrealized gain on qualifying derivatives	37	122
Other regulatory assets	244	319
Reacquired debt costs	34	40
Foreign plant - net	859	937
Domestic - other	78	66
Total deferred tax liabilities	5,476	5,592
Net deferred tax liability	\$ 3,690	\$ 3,451

At December 31, PPL had the following loss and tax credit carryforwards.

	2013	Expiration
Loss carryforwards		
Federal net operating losses (a)	\$ 952	2028-2032
State net operating losses (a) (b)	5,011	2014-2033
State capital losses (c)	125	2014-2016
Foreign net operating losses (d)	30	Indefinite
Foreign capital losses (e)	2,333	Indefinite
Credit carryforwards		
Federal investment tax credit	245	2025-2033
Federal alternative minimum tax credit	32	Indefinite
Federal foreign tax credit	17	2017-2023
Federal - other	35	2016-2033
State - other	5	2022

- (a) Includes an insignificant amount of federal and state net operating loss carryforwards from excess tax deductions related to stock compensation for which a tax benefit will be recorded in Equity when realized.
- (b) A valuation allowance of \$185 million has been recorded against the deferred tax assets for these losses.
- (c) A valuation allowance of \$5 million has been recorded against the deferred tax assets for these losses.
- (d) A valuation allowance of \$6 million has been recorded against the deferred tax assets for these losses.
- (e) A valuation allowance of \$467 million has been recorded against the deferred tax assets for these losses.

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were as follows:

	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
2013	\$ 706	\$ 29		\$ 72 (a)	\$ 663
2012	724	18	10	46 (a)	706
2011	464	190	112 (b)	42 (a)	724

- (a) The reductions of the U.K. statutory income tax rate in 2013, 2012 and 2011 resulted in \$67 million, \$46 million and \$35 million in reductions in deferred tax assets and the corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Acts of 2013, 2012 and 2011.
- (b) Primarily related to a \$101 million valuation allowance that was recorded against certain deferred tax assets as a result of the 2011 acquisition of WPD Midlands. See Note 10 for additional information on the acquisition.

PPL Global does not pay or record U.S. income taxes on the undistributed earnings of WPD, with the exception of certain financing entities, as management has determined that the earnings are indefinitely reinvested. Historically, dividends paid by WPD have been distributions from current year's earnings. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings, and WPD would have to issue debt or access credit facilities to fund any distributions in excess of current earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate distributions from WPD in excess of some portion of future WPD earnings. The cumulative undistributed earnings are included in "Earnings Reinvested" on the Balance Sheets. The amounts considered indefinitely reinvested at December 31, 2013 and 2012 were \$2.9 billion and \$2.0 billion. If the WPD undistributed earnings were remitted as dividends, PPL Global could be subject to additional U.S. taxes, net of allowable foreign tax credits. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings in the event of repatriation to the U.S.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:

	2013	2012	2011
Income Tax Expense (Benefit)			
Current - Federal	\$ (75)		\$ 54
Current - State	1	\$ (2)	(20)
Current - Foreign	181	121	73
Total Current Expense (Benefit)	107	119	107
Deferred - Federal	73	553	558
Deferred - State	45	103	127
Deferred - Foreign	(53)	35	(23)
Total Deferred Expense (Benefit), excluding operating loss carryforwards	65	691	662
Investment tax credit, net - Federal	(10)	(10)	(10)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal (a)	36	(195)	(30)
Deferred - State	(18)	(60)	(38)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	18	(255)	(68)
Total income taxes from continuing operations	\$ 180	\$ 545	\$ 691
Total income tax expense - Federal	\$ 24	\$ 348	\$ 572
Total income tax expense (benefit) - State	28	41	69
Total income tax expense - Foreign	128	156	50
Total income taxes from continuing operations	\$ 180	\$ 545	\$ 691

- (a) A 2012 Federal income tax return adjustment was recorded in 2013 related to a reduction in the 2012 NOL recorded in the filed return. The reduction was primarily due to PPL's decision, at the time of filing, to utilize regular modified accelerated cost recovery system (MACRS) depreciation rates for certain non-regulated assets otherwise eligible for bonus tax depreciation.

In the table above, the following income tax expense (benefits) are excluded from income taxes from continuing operations.

	2013	2012	2011
Discontinued operations	\$ 1	\$ (4)	\$ 2
Stock-based compensation recorded to Additional Paid-in Capital	(2)	(1)	3
Issuance costs of Purchase Contracts recorded to Additional Paid-in Capital			(9)
Valuation allowance on state deferred taxes related to issuance costs of Purchase Contracts recorded to Additional Paid-in Capital	(2)		4
Other comprehensive income	159	(526)	(144)
Valuation allowance on state deferred taxes recorded to other comprehensive income	(7)		7
Total	\$ 149	\$ (531)	\$ (137)

	2013	2012	2011
Reconciliation of Income Tax Expense			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 458	\$ 729	\$ 770
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	(7)	27	63
State valuation allowance adjustments (a)	24	13	36
Impact of lower U.K. income tax rates (b)	(129)	(110)	(33)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	9	26	(26)
Federal and state tax reserves adjustments (d)	(43)	(1)	39
Foreign tax reserves adjustments (e)	(2)	(5)	(141)
Federal and state income tax return adjustments (a) (f)	(5)	16	(17)
Foreign income tax return adjustments	(4)	(6)	
Impact of the U.K. Finance Acts on deferred tax balances (b)	(97)	(75)	(69)
Federal income tax credits (g)	(9)	(12)	(13)
Depreciation not normalized (a)	(8)	(11)	(20)
Foreign valuation allowance adjustments (e)			147
State deferred tax rate change (h)	15	(19)	(26)
Net operating loss carryforward adjustments (i)		(9)	
Intercompany interest on U.K. financing entities (j)	(10)	(9)	(8)
Other	(12)	(9)	(11)
Total increase (decrease)	(278)	(184)	(79)
Total income taxes from continuing operations	\$ 180	\$ 545	\$ 691
Effective income tax rate	13.8%	26.2%	31.4%

- (a) During 2013, PPL recorded \$23 million of state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income at PPL Energy Supply over the remaining carryforward period of Pennsylvania net operating losses.

During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL recorded \$43 million in state deferred income tax expense related to deferred tax valuation allowances during 2011.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed into service before January 1, 2012. The placed-in-service deadline was extended to January 1, 2013 for property that had a cost in excess of \$1 million, had a production period longer than one year and had a tax life of at least ten years. PPL's tax deduction for 100% bonus regulated tax depreciation was zero in 2013 and was significantly lower in 2012 than in 2011.

- (b) The U.K. Finance Act 2013, enacted in July 2013, reduced the U.K. statutory income tax rate from 23% to 21% effective April 1, 2014 and from 21% to 20% effective April 1, 2015. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2013 related to both rate decreases.

The U.K. Finance Act 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2012 related to both rate decreases.

The U.K. Finance Act 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2011 related to both rate decreases.

- (c) During 2013, PPL recorded \$25 million of income tax expense resulting from increased taxable dividends offset by a \$19 million income tax benefit associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that was reflected on an amended 2010 U.S. tax return.

During 2012, PPL recorded a \$23 million adjustment to federal income tax expense related to the recalculation of 2010 U.K. earnings and profits.

During 2011, PPL recorded a \$28 million federal income tax benefit related to U.K. pension contributions.

- (d) In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its federal income tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result, and with the finalization of other issues, PPL recorded a \$42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in 2011. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition and oral argument was held in February 2013. On May 20, 2013, the Supreme Court reversed the Third Circuit's opinion and ruled that the WPT is a creditable tax. As a result of the Supreme Court ruling, PPL recorded a tax benefit of \$44 million during 2013, of which \$19 million relates to interest.

PPL recorded a tax benefit of \$7 million during 2013 and \$6 million during 2012 and 2011 to federal and state income tax reserves related to stranded cost securitization. The reserve balance at December 31, 2013 related to stranded costs securitization is zero.

- (e) During 2012, PPL recorded a foreign tax benefit following resolution of a U.K. tax issue related to interest expense.

During 2011, WPD reached an agreement with HMRC related to the amount of the capital losses that resulted from prior years' restructuring in the U.K. and recorded a \$147 million foreign tax benefit for the reversal of tax reserves related to the capital losses. Additionally, WPD recorded a \$147 million valuation allowance for the amount of capital losses that, more likely than not, will not be utilized.

- (f) During 2012, PPL recorded \$16 million in federal and state income tax expense related to the filing of the 2011 federal and state income tax returns. Of this amount, \$5 million relates to the reversal of prior years' state income tax benefits related to regulated depreciation. PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL adopted the safe harbor method with the filing of its 2011 federal income tax return.

During 2011, PPL recorded \$17 million in federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of this amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts and \$3 million in tax benefits related to the flow-through impact of Pennsylvania regulated state tax depreciation.

- (g) During 2013, 2012 and 2011, PPL recorded a deferred tax benefit related to investment tax credits on progress expenditures related to hydroelectric plant expansions. See Note 8 for additional information.
- (h) During 2013, 2012 and 2011, PPL recorded adjustments related to its December 31 state deferred tax liabilities as a result of annual changes in state apportionment and the impact on the future estimated state income tax rate.
- (i) During 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
- (j) During 2013, 2012 and 2011, PPL recorded income tax benefits related to interest expense on intercompany loans.

	2013	2012	2011
Taxes, other than income			
State gross receipts	\$ 135	\$ 135	\$ 140
State utility realty	2	2	(9)
State capital stock	2	7	18
Foreign property	147	147	113
Domestic property and other	78	75	64
Total	<u>\$ 364</u>	<u>\$ 366</u>	<u>\$ 326</u>

(PPL Energy Supply)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. jurisdictions in which PPL Energy Supply's operations have historically been profitable.

Significant components of PPL Energy Supply's deferred income tax assets and liabilities were as follows:

	2013	2012
Deferred Tax Assets		
Deferred investment tax credits	\$ 84	\$ 75
Accrued pension costs	39	94
Federal loss carryforwards	28	51
Federal tax credit carryforwards	131	113
State loss carryforwards	80	79
Other	69	68
Valuation allowances	(78)	(74)
Total deferred tax assets	353	406
Deferred Tax Liabilities		
Plant - net	1,392	1,579
Unrealized gain on qualifying derivatives	38	173
Other	46	44
Total deferred tax liabilities	1,476	1,796
Net deferred tax liability	\$ 1,123	\$ 1,390

At December 31, PPL Energy Supply had the following loss and tax credit carryforwards.

	2013	Expiration
Loss carryforwards		
Federal net operating losses	\$ 80	2031-2032
State net operating losses (a)	1,204	2014-2033
Credit carryforwards		
Federal investment tax credit	120	2031-2033
Federal - other	9	2031-2033

(a) A valuation allowance of \$78 million has been recorded against the deferred tax assets for these losses.

Federal alternative minimum tax credit carryforwards were insignificant at December 31, 2013.

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
2013	\$ 74	\$ 4			\$ 78
2012	72	2			74
2011	408	22		\$ 358 (a)	72

(a) During 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Funding. See Note 9 for additional information.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income (Loss) from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:

	2013	2012	2011
Income Tax Expense (Benefit)			
Current - Federal	\$ 134	\$ 89	\$ 139
Current - State	21	22	(12)
Total Current Expense (Benefit)	155	111	127
Deferred - Federal	(287)	193	251
Deferred - State	(27)	10	70
Total Deferred Expense (Benefit), excluding operating loss carryforwards	(314)	203	321
Investment tax credit, net - federal	(5)	(2)	(3)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal (a)	22	(48)	
Deferred - State		(1)	
Total Tax Expense (Benefit) of Operating Loss Carryforwards	22	(49)	
Total income taxes from continuing operations (b)	<u>\$ (142)</u>	<u>\$ 263</u>	<u>\$ 445</u>
Total income tax expense - Federal	\$ (136)	\$ 232	\$ 387
Total income tax expense (benefit) - State	(6)	31	58
Total income taxes from continuing operations (b)	<u>\$ (142)</u>	<u>\$ 263</u>	<u>\$ 445</u>

- (a) A 2012 federal income tax return adjustment was recorded in 2013 related to a reduction in the 2012 NOL recorded in the filed return. The reduction was primarily due to PPL's decision, at the time of filing, to utilize regular MACRS depreciation rates for certain non-regulated assets otherwise eligible for bonus tax depreciation.
- (b) Excludes current and deferred federal, state and foreign tax expense (benefit) recorded to Discontinued Operations of \$3 million in 2011. Also, excludes federal, state and foreign tax expense (benefit) recorded to OCI of \$47 million in 2013, \$(267) million in 2012 and \$(83) million in 2011. The deferred tax benefit of operating loss carryforwards was insignificant for 2011.

	2013	2012	2011
Reconciliation of Income Tax Expense			
Federal income tax on Income (Loss) from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ (130)	\$ 258	\$ 424
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	(22)	33	60
State valuation allowance adjustments (a)	4	2	22
State deferred tax rate change (b)	15	(19)	(26)
Federal and state tax reserves adjustments (c)	6	(2)	2
Federal and state income tax return adjustments (d)	(1)	4	(22)
Federal income tax credits (e)	(8)	(12)	(12)
Other	(6)	(1)	(3)
Total increase (decrease)	(12)	5	21
Total income taxes from continuing operations	<u>\$ (142)</u>	<u>\$ 263</u>	<u>\$ 445</u>
Effective income tax rate	38.3%	35.6%	36.7%

- (a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL Energy Supply recorded state deferred income tax expense related to deferred tax valuation allowances during 2011.
- (b) During 2013, 2012 and 2011, PPL Energy Supply recorded adjustments related to its December 31 state deferred tax liabilities as a result of annual changes in state apportionment and the impact on the future estimated state income tax rate.
- (c) During 2013, PPL Energy Supply reversed \$3 million in tax benefits related to a 2008 change in method of accounting for certain expenditures for tax purposes and recorded \$4 million in federal tax expense related to differences in over (under) payment interest rates applied to audit claims as a result of the U.S. Supreme Court decision related to Windfall Profits Tax.
- (d) During 2011, PPL Energy Supply recorded federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of this amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts.
- (e) During 2013, 2012 and 2011, PPL Energy Supply recorded a deferred tax benefit related to investment tax credits on progress expenditures related to hydroelectric plant expansions. See Note 8 for additional information.

	2013	2012	2011
Taxes, other than income			
State gross receipts	\$ 37	\$ 35	\$ 31
State capital stock	1	5	12
Property and other	28	29	28
Total	<u>\$ 66</u>	<u>\$ 69</u>	<u>\$ 71</u>

(PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulated liabilities" on the Balance Sheets.

Significant components of PPL Electric's deferred income tax assets and liabilities were as follows.

	2013	2012
Deferred Tax Assets		
Accrued pension costs	\$ 42	\$ 81
Contributions in aid of construction	109	106
Regulatory obligations	38	24
State loss carryforwards	35	39
Federal loss carryforwards	72	81
Other	45	46
Total deferred tax assets	<u>341</u>	<u>377</u>
Deferred Tax Liabilities		
Electric utility plant - net	1,366	1,229
Taxes recoverable through future rates	129	122
Reacquired debt costs	23	27
Other regulatory assets	129	174
Other	8	12
Total deferred tax liabilities	<u>1,655</u>	<u>1,564</u>
Net deferred tax liability	<u>\$ 1,314</u>	<u>\$ 1,187</u>

At December 31, PPL Electric had the following loss carryforwards.

	2013	Expiration
Loss carryforwards		
Federal net operating losses	\$ 206	2031-2032
State net operating losses	534	2030-2032

Credit carryforwards were insignificant at December 31, 2013.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:

	2013	2012	2011
Income Tax Expense (Benefit)			
Current - Federal	\$ (15)	\$ (28)	\$ (25)
Current - State	(4)	(18)	(13)
Total Current Expense (Benefit)	<u>(19)</u>	<u>(46)</u>	<u>(38)</u>
Deferred - Federal	109	162	123
Deferred - State	16	42	25
Total Deferred Expense (Benefit), excluding operating loss carryforwards	<u>125</u>	<u>204</u>	<u>148</u>
Investment tax credit, net - Federal	(1)	(1)	(2)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	4	(72)	(12)
Deferred - State	(1)	(17)	(28)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	<u>3</u>	<u>(89)</u>	<u>(40)</u>
Total income tax expense	<u>\$ 108</u>	<u>\$ 68</u>	<u>\$ 68</u>
Total income tax expense - Federal	\$ 97	\$ 61	\$ 84
Total income tax expense (benefit) - State	11	7	(16)
Total income tax expense	<u>\$ 108</u>	<u>\$ 68</u>	<u>\$ 68</u>

	2013	2012	2011
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 111	\$ 71	\$ 90
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	16	9	12
Amortization of investment tax credit	(1)	(1)	(2)
Federal and state tax reserves adjustments (a)	(9)	(8)	(9)
Federal and state income tax return adjustments (b)	(1)	7	(4)
Depreciation not normalized (c)	(6)	(8)	(17)
Other	(2)	(2)	(2)
Total increase (decrease)	(3)	(3)	(22)
Total income tax expense	\$ 108	\$ 68	\$ 68
Effective income tax rate	34.1%	33.3%	26.5%

- (a) PPL Electric recorded a tax benefit of \$7 million during 2013 and \$6 million during 2012 and 2011 to federal and state income tax reserves related to stranded cost securitization. The reserve balance at December 31, 2013 related to stranded costs securitization is zero.
- (b) PPL Electric changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL Electric adopted the safe harbor method with the filing of its 2011 federal income tax return and recorded a \$5 million adjustment to federal and state income tax expense resulting from the reversal of prior years' state income tax benefits related to regulated depreciation.

During 2011, PPL Electric recorded a \$5 million federal and state income tax benefit as a result of filing its 2010 federal and state income tax returns. Of this amount, \$3 million in tax benefits related to the flow-through impact of Pennsylvania regulated 100% bonus tax depreciation.

- (c) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed into service before January 1, 2012. The placed in service deadline was extended to January 1, 2013 for property that had a cost in excess of \$1 million, had a production period longer than one year and had a tax life of at least ten years. PPL Electric's tax deduction for 100% bonus depreciation was zero in 2013 and was significantly lower in 2012 than in 2011.

	2013	2012	2011
Taxes, other than income			
State gross receipts	\$ 98	\$ 101	\$ 109
State utility realty (a)	2	2	(10)
State capital stock	1	1	4
Property and other	2	1	1
Total	\$ 103	\$ 105	\$ 104

- (a) 2011 includes PURTA tax that was refunded to PPL Electric customers in 2011.

(LKE)

The provision for LKE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC, TRA and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LKE's deferred income tax assets and liabilities were as follows:

	2013	2012
Deferred Tax Assets		
Net operating loss carryforward	\$ 222	\$ 376
Tax credit carryforwards	179	170
Regulatory liabilities	107	99
Accrued pension costs	26	42
Capital loss carryforward	4	5
Income taxes due to customers	23	26
Deferred investment tax credits	52	54
Other	57	41
Valuation allowances	(4)	(5)
Total deferred tax assets	666	808
Deferred Tax Liabilities		
Plant - net	1,327	1,171
Regulatory assets	133	152
Other	12	13
Total deferred tax liabilities	1,472	1,336
Net deferred tax liability	\$ 806	\$ 528

LKE expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, LKE had the following loss and tax credit carryforwards.

	2013	Expiration
Loss carryforwards		
Federal net operating losses	\$ 523	2028-2032
State net operating losses	1,024	2028-2032
State capital losses	106	2014-2016
Credit carryforwards		
Federal investment tax credit	125	2025-2028
Federal alternative minimum tax credit	28	Indefinite
Federal - other	26	2016-2033
State - other	9	2022

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2013	\$ 5		\$ 1 (a)	\$ 4
2012	5			5
2011	6		1 (a)	5

(a) Primarily related to the expiration of state capital loss carryforwards.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income (Loss) from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2013	2012	2011
Income Tax Expense (Benefit)			
Current - Federal	\$ (59)	\$ (32)	\$ (71)
Current - State	10	2	6
Total Current Expense (Benefit)	(49)	(30)	(65)
Deferred - Federal	244	185	208
Deferred - State	20	15	16
Total Deferred Expense, excluding benefits of operating loss carryforwards	264	200	224
Investment tax credit, net - Federal	(4)	(6)	(6)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(4)	(46)	
Deferred - State	(1)	(12)	
Total Tax Benefit of Operating Loss Carryforwards	(5)	(58)	
Total income tax expense from continuing operations (a)	\$ 206	\$ 106	\$ 153
Total income tax expense - Federal	\$ 177	\$ 101	\$ 131
Total income tax expense - State	29	5	22
Total income tax expense from continuing operations (a)	\$ 206	\$ 106	\$ 153

(a) Excludes current and deferred federal and state tax expense (benefit) recorded to Discontinued Operations of \$1 million in 2013, \$(4) million in 2012, and \$(1) million in 2011. Also, excludes deferred federal and state tax expense (benefit) recorded to OCI of \$18 million in 2013, \$(12) million in 2012 and \$(1) million in 2011.

	2013	2012	2011
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 193	\$ 116	\$ 147
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	20	6	15
Amortization of investment tax credit	(4)	(6)	(5)
Net operating loss carryforward (a)	(3)	(9)	(4)
Other	(3)	(1)	(4)
Total increase (decrease)	13	(10)	6
Total income tax expense from continuing operations	\$ 206	\$ 106	\$ 153
Effective income tax rate	37.4%	32.0%	36.5%

(a) During 2012, LKE recorded adjustments to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

	2013	2012	2011
Taxes, other than income			
Property and other	\$ 48	\$ 46	\$ 37
Total	<u>\$ 48</u>	<u>\$ 46</u>	<u>\$ 37</u>

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LG&E's deferred income tax assets and liabilities were as follows:

	2013	2012
Deferred Tax Assets		
Regulatory liabilities	\$ 59	\$ 54
Deferred investment tax credits	15	16
Income taxes due to customers	19	21
Other	28	9
Total deferred tax assets	<u>121</u>	<u>100</u>
Deferred Tax Liabilities		
Plant - net	585	526
Regulatory assets	83	86
Accrued pension costs	24	27
Other	8	9
Total deferred tax liabilities	<u>700</u>	<u>648</u>
Net deferred tax liability	<u>\$ 579</u>	<u>\$ 548</u>

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2013, LG&E had \$10 million of federal net operating loss carryforwards that expire in 2032 and \$22 million of state net operating loss carryforwards that expire in 2030.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2013	2012	2011
Income Tax Expense (Benefit)			
Current - Federal	\$ 52	\$ (2)	\$ 12
Current - State	16	3	8
Total Current Expense (Benefit)	<u>68</u>	<u>1</u>	<u>20</u>
Deferred - Federal	33	65	52
Deferred - State	(2)	6	2
Total Deferred Expense, excluding benefits of operating loss carryforwards	<u>31</u>	<u>71</u>	<u>54</u>
Investment tax credit, net - Federal	(2)	(3)	(3)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(3)		
Total Tax Benefit of Operating Loss Carryforwards	<u>(3)</u>		
Total income tax expense	<u>\$ 94</u>	<u>\$ 69</u>	<u>\$ 71</u>
Total income tax expense - Federal	\$ 80	\$ 60	\$ 61
Total income tax expense - State	14	9	10
Total income tax expense	<u>\$ 94</u>	<u>\$ 69</u>	<u>\$ 71</u>

	2013	2012	2011
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at			
statutory tax rate - 35%	\$ 90	\$ 67	\$ 68
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	10	5	7
Amortization of investment tax credit	(2)	(3)	(3)
Other	(4)		(1)
Total increase (decrease)	4	2	3
Total income tax expense	\$ 94	\$ 69	\$ 71
Effective income tax rate	36.6%	35.9%	36.4%

	2013	2012	2011
Taxes, other than income			
Property and other	\$ 24	\$ 23	\$ 18
Total	\$ 24	\$ 23	\$ 18

(KU)

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC, TRA and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2013	2012
Deferred Tax Assets		
Regulatory liabilities	\$ 47	\$ 45
Deferred investment tax credits	38	38
Net operating loss carryforward	23	20
Income taxes due to customers	4	5
Accrued pension costs		(5)
Other	8	7
Total deferred tax assets	120	110
Deferred Tax Liabilities		
Plant - net	721	623
Regulatory assets	50	65
Other	4	5
Total deferred tax liabilities	775	693
Net deferred tax liability	\$ 655	\$ 583

KU expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2013, KU had \$65 million of federal net operating loss carryforwards that expire in 2032.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2013	2012	2011
Income Tax Expense (Benefit)			
Current - Federal	\$ 51	\$ (20)	\$ (8)
Current - State	12	(1)	4
Total Current Expense (Benefit)	63	(21)	(4)
Deferred - Federal	66	111	101
Deferred - State	8	11	10
Total Deferred Expense, excluding benefits of operating loss carryforwards	74	122	111
Investment tax credit, net - Federal	(2)	(3)	(3)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(3)	(20)	
Total Tax Benefit of Operating Loss Carryforwards	(3)	(20)	
Total income tax expense (a)	\$ 132	\$ 78	\$ 104
Total income tax expense - Federal	\$ 112	\$ 68	\$ 90
Total income tax expense - State	20	10	14
Total income tax expense (a)	\$ 132	\$ 78	\$ 104

(a) Excludes deferred federal and state tax (benefit) recorded to OCI of less than \$1 million in 2013 and \$1 million in 2012.

	2013	2012	2011
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at			
statutory tax rate - 35%	\$ 126	\$ 75	\$ 99
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	14	6	9
Amortization of investment tax credit	(2)	(3)	(3)
Other	(6)		(1)
Total increase (decrease)	6	3	5
Total income tax expense	\$ 132	\$ 78	\$ 104
Effective income tax rate	36.7%	36.3%	36.9%
Taxes, other than income			
Property and other	\$ 24	\$ 23	\$ 19
Total	\$ 24	\$ 23	\$ 19

Unrecognized Tax Benefits (All Registrants)

Changes to unrecognized tax benefits were as follows:

	2013	2012
PPL		
Beginning of period	\$ 92	\$ 145
Additions based on tax positions of prior years	3	15
Reductions based on tax positions of prior years	(32)	(61)
Additions based on tax positions related to the current year		7
Reductions based on tax positions related to the current year		(3)
Settlements	(30)	(2)
Lapse of applicable statute of limitation	(11)	(9)
End of period	\$ 22	\$ 92
PPL Energy Supply		
Beginning of period	\$ 30	\$ 28
Additions based on tax positions of prior years		4
Reductions based on tax positions of prior years	(15)	(2)
End of period	\$ 15	\$ 30
PPL Electric		
Beginning of period	\$ 26	\$ 73
Reductions based on tax positions of prior years	(17)	(43)
Additions based on tax positions related to the current year		5
Lapse of applicable statute of limitation	(9)	(9)
End of period	\$ 26	\$ 26

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant at December 31, 2013 and December 31, 2012.

At December 31, 2013, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For PPL Electric, LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

	Increase	Decrease
PPL	\$	\$ 22
PPL Energy Supply		15

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

At December 31, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	<u>2013</u>	<u>2012</u>
PPL	\$ 21	\$ 38
PPL Energy Supply	14	13
PPL Electric		3

At December 31, the following receivable (payable) balances were recorded for interest related to tax positions. The amounts for LKE, LG&E and KU were insignificant.

	<u>2013</u>	<u>2012</u>
PPL	\$ 15	\$ (16)
PPL Energy Supply	15	17
PPL Electric	3	1

The following interest expense (benefit) was recognized in income taxes. The amounts for LKE, LG&E and KU were insignificant.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
PPL	\$ (30)	\$ (4)	\$ 27
PPL Energy Supply	5	(4)	6
PPL Electric	(7)	(4)	(5)

PPL or its subsidiaries file tax returns in five major tax jurisdictions. The income tax provisions for PPL Energy Supply, PPL Electric, LKE, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Energy Supply or its subsidiaries indirectly or directly file tax returns in three major tax jurisdictions, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2013, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows:

	PPL					
	<u>PPL</u>	<u>Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
U.S. (federal) (a)	1997 and prior	1997 and prior	1997 and prior	10/31/2010 and prior	10/31/2010 and prior	10/31/2010 and prior
Pennsylvania (state)	2009 and prior	2009 and prior	2008 and prior			
Kentucky (state)	2008 and prior			2010 and prior	2010 and prior	2010 and prior
Montana (state)	2009 and prior	2009 and prior				
U.K. (foreign)	2011 and prior					

(a) For LKE, LG&E, and KU, the ten month period ending October 31, 2010 remains open under the standard three year statute of limitations; however, the IRS has completed its audit of these periods under the Compliance Assurance Process, effectively closing them to audit adjustments. No issues remain outstanding.

Other (PPL, PPL Energy Supply and PPL Electric)

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for Pennsylvania operations. PPL made the same change for its Montana operations for the 2009 tax year. In 2011, the IRS issued guidance on repair expenditures related to network assets providing a safe harbor method of determining whether the repair expenditures can be currently deducted for tax purposes. On April 30, 2013, the IRS issued Revenue Procedure 2013-24 providing guidance to taxpayers to determine whether expenditures to maintain, replace or improve steam or electric generation property must be capitalized for tax purposes. PPL believes that this guidance will not have a material impact on PPL's current treatment of such expenditures. The IRS may assert, and ultimately conclude, that PPL's deduction for generation-related expenditures should be less than the amount determined by PPL. PPL believes that it has established adequate reserves for this contingency.

6. Utility Rate Regulation

Regulatory Assets and Liabilities

(All Registrants except PPL Energy Supply)

As discussed in Note 1 and summarized below, PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to that item will be recovered or refunded within a year of the balance sheet date.

WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities. See Note 1 for additional information.

(PPL, LKE, LG&E and KU)

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC, VSCC and TRA.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including adjustments for certain net investments and costs recovered separately through other means. As such, LG&E and KU generally earn a return on regulatory assets.

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of coal contracts, power purchases and emission allowances. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at LKE's acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate-making impact of the fair value adjustments. LG&E's and KU's customer rates will continue to reflect the original contracted prices for these contracts.

(PPL, LKE and KU)

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates. Therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates. Therefore, no return is earned on the related assets.

(PPL and PPL Electric)

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related plant and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

(All Registrants except PPL Energy Supply)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	2013	2012	2013	2012
Current Regulatory Assets:				
Environmental cost recovery	\$ 7	\$ 1		
Gas supply clause	10	11		
Fuel adjustment clause	2	6		
Demand side management	8	1		
Other	6		\$ 6	
Total current regulatory assets	\$ 33	\$ 19	\$ 6	
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 509	\$ 730	\$ 257	\$ 362
Taxes recoverable through future rates	306	293	306	293
Storm costs	147	168	53	59
Unamortized loss on debt	85	96	57	65
Interest rate swaps	44	67		
Accumulated cost of removal of utility plant	98	71	98	71
AROs	44	26		
Other	13	32	1	3
Total noncurrent regulatory assets	\$ 1,246	\$ 1,483	\$ 772	\$ 853

Current Regulatory Liabilities:				
Generation supply charge	\$ 23	\$ 27	\$ 23	\$ 27
Environmental cost recovery		4		
Gas supply clause	3	4		
Transmission service charge	8	6	8	6
Transmission formula rate	20		20	
Fuel adjustment clause	4	1		
Universal Service Rider	10	17	10	17
Storm damage expense	14		14	
Gas line tracker	6			
Other	2	2	1	2
Total current regulatory liabilities	\$ 90	\$ 61	\$ 76	\$ 52
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 688	\$ 679		
Coal contracts (a)	98	141		
Power purchase agreement - OVEC (a)	100	108		
Net deferred tax assets	30	34		
Act 129 compliance rider	15	8	\$ 15	\$ 8
Defined benefit plans	26	17		
Interest rate swaps	86	14		
Other	5	9		
Total noncurrent regulatory liabilities	\$ 1,048	\$ 1,010	\$ 15	\$ 8

	LKE		LG&E		KU	
	2013	2012	2013	2012	2013	2012
Current Regulatory Assets:						
Environmental cost recovery	\$ 7	\$ 1	\$ 2	\$ 1	\$ 5	
Gas supply clause	10	11	10	11		
Fuel adjustment clause	2	6	2	6		
Demand side management	8	1	3	1	5	
Total current regulatory assets	\$ 27	\$ 19	\$ 17	\$ 19	\$ 10	
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 252	\$ 368	\$ 164	\$ 232	\$ 88	\$ 136
Storm costs	94	109	51	59	43	50
Unamortized loss on debt	28	31	18	20	10	11
Interest rate swaps	44	67	44	67		
AROs	44	26	21	15	23	11
Other	12	29	5	7	7	22
Total noncurrent regulatory assets	\$ 474	\$ 630	\$ 303	\$ 400	\$ 171	\$ 230

	LKE		LG&E		KU	
	2013	2012	2013	2012	2013	2012
Current Regulatory Liabilities:						
Environmental cost recovery		\$ 4			\$ 4	\$ 4
Gas supply clause	\$ 3	4	\$ 3	4		
Fuel adjustment clause	4	1			\$ 4	1
Gas line tracker	6		6			
Other	1				1	
Total current regulatory liabilities	\$ 14	\$ 9	\$ 9	\$ 4	\$ 5	\$ 5
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal						
of utility plant	\$ 688	\$ 679	\$ 299	\$ 297	\$ 389	\$ 382
Coal contracts (a)	98	141	43	61	55	80
Power purchase agreement - OVEC (a)	100	108	69	75	31	33
Net deferred tax assets	30	34	26	28	4	6
Defined benefit plans	26	17			26	17
Interest rate swaps	86	14	43	7	43	7
Other	5	9	2	3	3	6
Total noncurrent regulatory liabilities	\$ 1,033	\$ 1,002	\$ 482	\$ 471	\$ 551	\$ 531

(a) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

(All Registrants except PPL Energy Supply)

Defined Benefit Plans

Defined benefit plan regulatory assets and liabilities represent the portion of unrecognized transition obligation, prior service cost and net actuarial losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and generally, are amortized over the average remaining service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is re-measured. Of the regulatory asset and liability balances recorded, costs of \$28 million for PPL, \$9 million for PPL Electric, \$19 million for LKE, \$13 million for LG&E and \$6 million for KU are expected to be amortized into net periodic defined benefit costs in 2014.

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC, as applicable, the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer and amortize such costs for regulatory accounting and reporting purposes. Once such authority is granted, PPL Electric, LG&E and KU can request recovery of those expenses in a base rate case.

Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric. Such costs are being amortized through 2040 for PPL, LKE and KU, and through 2035 for LG&E.

Accumulated Cost of Removal of Utility Plant

LG&E and KU accrue for costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred. See Note 1 for additional information.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the deferral of costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

(PPL and PPL Electric)

Generation Supply Charge

The generation supply charge is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply (energy and capacity and ancillary services), as well as administration of the acquisition process. In addition, the generation supply charge contains a reconciliation mechanism whereby any over- or under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarter.

Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Transmission Formula Rate

PPL Electric's transmission revenues are billed in accordance with a FERC-approved open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is based on prior year expenditures and forecasted current calendar year transmission plant additions. An adjustment to the prior year expenditures is recorded as a regulatory asset or liability.

Universal Service Rider (USR)

PPL Electric's distribution rates permit recovery of applicable costs associated with the universal service programs provided to PPL Electric's residential customers. Universal service programs include low-income programs, such as OnTrack and Winter Relief Assistance Program (WRAP). OnTrack is a special payment program for low-income households within the federal poverty level that have difficulty paying their electric bills. This program is funded by residential customers and administered by community-based organizations. Customers who participate in OnTrack receive assistance in the form of reduced payment arrangements, protection against termination of electric service and referrals to other community programs and services. The WRAP program reduces electric bills and improves living comfort for low-income customers by providing services such as weatherization measures and energy education services. The USR is applied to distribution charges for each customer who receives distribution service under PPL Electric's residential service rate schedules. The USR contains a reconciliation mechanism whereby any over- or under-recovery from the current year is refunded to or recovered from residential customers through the adjustment factor determined for the subsequent year.

Storm Damage Expense

In accordance with the PUC's December 2012 final rate case order, PPL Electric proposed the establishment of a Storm Damage Expense Rider with the PUC. The matter remains open before the PUC. Based on 2013 actual storm experience, PPL Electric established a \$14 million regulatory liability at December 31, 2013 for revenues collected from customers to cover storm costs in excess of actual storm costs incurred.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, Phase I of PPL Electric's energy efficiency and conservation plan was approved by a PUC order in October 2009. The order allows PPL Electric to recover the maximum \$250 million cost of the program ratably over the life of the plan, from January 1, 2010 through May 31, 2013. Phase II of PPL's energy efficiency and conservation plan allows PPL Electric to recover the maximum \$185 million cost of the program over the three year period beginning June 1, 2013 through May 31, 2016. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered at the end of the program. See below under "Regulatory Matters - Pennsylvania Activities" for additional information on Act 129.

(PPL, LKE, LG&E and KU)

Environmental Cost Recovery

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements which apply to coal combustion wastes and by-products from coal-fired electric generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered within 12 months. As a result of the settlement agreement in the 2012 rate case, beginning in 2013, LG&E and KU will receive a 10.25% return on equity for all ECR projects included in the 2009 and 2011 compliance plans. In 2012 and 2011, LG&E and KU were authorized to receive a 10.63% return on equity for projects associated with the 2009 compliance plan and a 10.10% return on equity for projects associated with the 2011 compliance plan.

Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause includes a separate natural gas procurement incentive mechanism, which allows LG&E's rates to be adjusted annually to share variances between actual costs and market indices between the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are typically recovered within 18 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel to generate electricity, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel adjustment clause and, to the extent appropriate, reestablish the fuel charge included in base rates. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

Demand Side Management

LG&E's and KU's DSM programs consist of energy efficiency programs which are intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. LG&E's and KU's rates contain a DSM provision which includes a rate recovery mechanism that provides for concurrent recovery of DSM costs, and allows for the recovery of DSM revenues from lost sales associated with the DSM programs. Additionally, LG&E and KU earn an approved return on equity for capital expenditures associated with the residential and commercial load management/demand conservation programs. The cost of DSM programs is assigned only to the class or classes of customers that benefit from the programs.

Interest Rate Swaps

(PPL, LKE, LG&E and KU)

In November 2012 and April 2013, LG&E and KU entered into forward-starting interest rate swaps with PPL that hedged the interest payments on new debt that was expected to be issued in 2013. In September 2013, these hedges were terminated and LG&E and KU entered into new forward-starting interest rate swaps with PPL, effectively extending the start date of the prior hedges from September 2013 to December 2013. All of these swaps had terms identical to forward-starting swaps entered into by PPL with third parties. New debt totaling \$500 million was issued in November 2013 (LG&E and KU each issued \$250 million) and the hedges issued in September were terminated in November 2013. Net cash settlements of \$86 million (LG&E and KU each received \$43 million) were received on the swaps that were terminated in September and November, which are included in "Cash Flows from Operating Activities" on the Statements of Cash Flows. Net realized gains on these swaps will be returned through regulated rates. As such, the net settlements were reclassified from AOCI to regulatory liabilities and are being recognized in "Interest Expense" on the Statements of Income over the life of the newly issued debt. For the year ended December 31, 2013, there was no hedge ineffectiveness recorded for the interest rate derivatives. See Note 19 for additional information related to the forward-starting interest rate swaps.

(PPL, LKE and LG&E)

In addition to the hedges terminated as a result of the debt issuance, realized amounts associated with LG&E's interest rate swaps, including a terminated swap contract from 2008, are recoverable through rates based on an order from the KPSC. LG&E's unrealized losses and gains are recorded as a regulatory asset or liability until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033. Amortization of the gain or loss related to the 2008 terminated swap contract is to be recovered through 2035, as approved by the KPSC.

AROs

As discussed in Note 1, the accretion and depreciation expenses related to LG&E's and KU's AROs are recorded as a regulatory asset, such that there is no earnings impact. When an asset with an ARO is retired, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Gas Line Tracker

In the 2012 rate case order, the KPSC approved the GLT rate recovery mechanism. The GLT authorizes LG&E to recover its incremental operating expenses and depreciation, and to earn a 10.25% return on equity for capital associated with the five year gas service riser and leak mitigation program. As part of this program, LG&E makes necessary repairs and assumes ownership of natural gas lines. LG&E annually files projected costs in October to become effective on the first billing cycle in January. After the completion of a plan year, LG&E submits a balancing adjustment filing to the KPSC to amend rates charged for the differences between the actual costs and actual GLT charges for the preceding year.

Coal Contracts

As a result of purchase accounting associated with PPL's acquisition of LKE, LG&E's and KU's coal contracts were recorded at fair value on the Balance Sheets with offsets to regulatory assets for those contracts with unfavorable terms relative to current market prices and offsets to regulatory liabilities for those contracts with favorable terms relative to current market prices. These regulatory assets and liabilities are being amortized over the same terms as the related contracts, which expire at various times through 2016.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition.

Regulatory Liability Associated with Net Deferred Tax Assets

LG&E's and KU's regulatory liabilities associated with net deferred tax assets represent the future revenue impact from the reversal of deferred income taxes required primarily for unamortized investment tax credits. These regulatory liabilities are recognized when the offsetting deferred tax assets are recognized. For general-purpose financial reporting, these regulatory liabilities and the deferred tax assets are not offset; rather, each is displayed separately.

Regulatory Matters

U.K. Activities (PPL)

Ofgem Review of Line Loss Calculation

Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentives and penalties for the DPCR4. WPD had a \$74 million liability recorded at December 31, 2013, compared with \$94 million at December 31, 2012. In the fourth quarter of 2012, based on applying the preferred methodology indicated by Ofgem in a consultation issued in November 2012, the liability was reduced by \$79 million with a credit recorded in "Utility" revenue on the Statement of Income. In July 2013, Ofgem issued a decision paper on the process to follow for closing out the line loss calculation. Subsequent to the July 2013 decision paper, WPD received additional information from Ofgem. As a result, during 2013, WPD recorded increases of \$45 million to the liability with reductions to "Utility" revenue on the Statement of Income. Other changes to the liability in 2013 included reductions of \$66 million resulting from refunds being included in tariffs and foreign exchange movements. The potential loss exposure is estimated to be in the range of \$74 million to \$213 million as of December 31, 2013. PPL cannot predict the outcome of this matter.

European Market Infrastructure Regulation

Regulation No. 648/2012 of the European Parliament and of the Council, commonly referred to as the European Market Infrastructure Regulation (EMIR), entered into force on August 16, 2012 and the European Commission adopted most of the Regulatory Technical Standards without modification in December 2012. The EMIR establishes certain transaction clearing and other recordkeeping requirements for parties to over-the-counter derivatives transactions. Included in the derivative transactions that are subject to EMIR are certain interest rate and currency derivative contracts utilized by WPD. Although the EMIR will potentially impose significant additional recordkeeping requirements on WPD, the effect of the EMIR is not currently expected to have a significant adverse impact on WPD's financial condition or results of operation.

Kentucky Activities

(PPL, LKE, LG&E and KU)

Rate Case Proceedings

In December 2012, the KPSC approved a rate case settlement agreement providing for increases in annual base electricity rates of \$34 million for LG&E and \$51 million for KU and an increase in annual base gas rates of \$15 million for LG&E and authorizes a 10.25% return on equity. The approved rates became effective January 1, 2013.

(PPL, LKE and LG&E)

CPCN Filings

In January 2014, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to build a NGCC generating unit at KU's Green River generating site and a solar generating facility at the E. W. Brown generating site.

Storm Costs

In August 2011, a strong storm hit LG&E's service area causing significant damage and widespread outages for approximately 139,000 customers. LG&E filed an application with the KPSC in September 2011, requesting approval of a regulatory asset recorded to defer, for future recovery, \$8 million in incremental operation and maintenance expenses related to the storm restoration. An order was received in December 2011 granting the request. On December 20, 2012, the KPSC, in the approval of the unanimous rate case settlement agreement, authorized regulatory asset recovery effective January 1, 2013, over a five year period.

Pennsylvania Activities (PPL and PPL Electric)

Rate Case Proceeding

In December 2012, the PUC approved a total distribution revenue increase of about \$71 million for PPL Electric, including a 10.4% allowed return on equity. The approved rates became effective January 1, 2013.

Storm Damage Expense Rider

In its December 28, 2012 final rate case order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider (SDER). In March 2013, PPL Electric filed its proposed SDER with the PUC and, as part of that filing, requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy. PPL Electric proposed that the SDER become effective January 1, 2013 at a zero rate with qualifying storm costs incurred in 2013 and the 2012 Hurricane Sandy costs included in rates effective January 1, 2014. In April 2013, parties filed comments opposing the SDER. PPL Electric and several other parties filed reply comments in May 2013. In November 2013, the PUC suspended the effective date of the rider to February 28, 2014 and requested additional comments and reply comments on PPL Electric's proposal. Comments and reply comments have been filed. On February 10, 2014, PPL Electric agreed to an additional suspension of the effective date of the rider to May 1, 2014. This matter remains pending before the PUC.

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are subject to significant penalties.

Under Act 129, EDCs must file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. EDCs are able to recover the costs (capped at 2.0% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's Phase I EE&C Plan ending May 31, 2013.

Act 129 required EDCs to reduce overall electricity consumption by 1.0% by May 2011 and by 3.0% by May 2013, and reduce peak demand by 4.5% by May 2013. The overall consumption reduction is measured against PUC-forecasted consumption for the twelve months ended May 31, 2010. The peak demand reduction was required to occur for the 100 hours of highest demand, which is determined by actual demand reduction during the June 2012 through September 2012 period. PPL Electric believes it has met the May 2011 and May 2013 overall electricity consumption requirements, and the peak demand reduction requirement based on the results of its November 15, 2013 Act 129 Final Annual Report. PPL Electric does not expect the PUC to formally determine compliance for either the 2011 or 2013 requirements until after the first quarter of 2014.

Act 129 requires the PUC to evaluate the costs and benefits of the EE&C program by November 30, 2013 and adopt additional reductions if the benefits of the program exceed the costs. In August 2012, after receiving input from stakeholders, the PUC issued a Final Implementation Order establishing a three-year Phase II program, ending May 31, 2016, with individual consumption reduction targets for each EDC. PPL Electric's Phase II reduction target is 2.1% of the total energy consumption forecasted by the PUC for the twelve months ended May 31, 2010. The PUC did not establish demand reduction targets for the Phase II program. PPL Electric filed its Phase II EE&C Plan with the PUC on November 15, 2012 and, in March 2013, the PUC approved PPL Electric's Phase II EE&C Plan with minor modifications. PPL Electric filed a Revised Phase II EE&C Plan on May 13, 2013 pursuant to the PUC's March Order. On July 11, 2013, the PUC issued an Order approving PPL Electric's Revised Phase II EE&C Plan. PPL Electric began its Phase II Plan implementation on June 1, 2013. In November 2013, PPL Electric filed 40 modifications to its Phase II Plan which contains programs designed to meet PPL Electric's target of reducing total energy consumption by 2.1%. Parties have filed comments and reply comments on PPL Electric's proposal.

Act 129 also requires Default Service Providers (DSP) to provide electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

The PUC approved PPL Electric's DSP procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric has concluded all competitive solicitations to procure power for its PLR obligations under that plan.

The PUC directed all EDCs to file default service procurement plans for the period June 1, 2013 through May 31, 2015. PPL Electric filed its plan in May 2012. In that plan, PPL Electric proposed a process to obtain supply for its default service customers and a number of initiatives designed to encourage more customers to purchase electricity from the competitive retail market. In January 2013, the PUC approved PPL Electric's plan with modifications. PPL Electric filed revised retail competition initiatives and a revised plan consistent with the PUC's January order, and in May 2013, the PUC approved that filing with minor changes. PPL Electric began implementing its revised plan on June 1, 2013. PPL Electric anticipates filing its default service procurement plan for the period beginning June 1, 2015 in the second quarter of 2014.

Smart Meter Rider

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric continues to conduct pilot projects to evaluate additional applications of its current advanced metering technology pursuant to the requirements of Act 129. PPL Electric recovers the cost of its pilot projects through a cost recovery mechanism, the Smart Meter Rider (SMR). In August 2013, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter Plan during 2013 and its planned actions for 2014. PPL Electric also submitted revised SMR charges that became effective January 1, 2014. PPL Electric will submit its final Smart Meter Plan by June 30, 2014.

PUC Investigation of Retail Electricity Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market to be conducted in two phases. Phase one addressed the status of the existing retail market and explored potential changes. Questions issued by the PUC for phase one of the investigation focused primarily on default service issues. Phase two was initiated in July 2011 to develop specific proposals for changes to the retail market and default service model. From December 2011 through the end of 2012, the PUC issued several orders and other pronouncements related to the investigation. A final implementation order was issued in February 2013, and the PUC created several working groups to address continuing competitive issues. Although the final implementation order contains provisions that will require numerous modifications to PPL Electric's current default service model for retail customers, those modifications are not expected to have a material adverse effect on PPL Electric's results of operations.

Distribution System Improvement Charge

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC.

In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC. The PUC approved the LTIP on January 10, 2013 and, on January 15, 2013, PPL Electric filed a petition requesting permission to establish a DSIC. Several parties filed responses to PPL Electric's petition. In an order entered on May 23, 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four technical recovery calculation issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. The case remains pending before the PUC.

Storm Costs

During 2012, PPL Electric experienced several PUC-reportable storms, including Hurricane Sandy, resulting in total restoration costs of \$81 million, of which \$61 million were initially recorded in "Other operation and maintenance" on the Statement of Income. In particular, in late October 2012, PPL Electric experienced widespread significant damage to its distribution network from Hurricane Sandy resulting in total restoration costs of \$66 million, of which \$50 million were initially recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric had storm insurance coverage, the costs incurred from Hurricane Sandy exceeded the policy limits. Probable insurance recoveries recorded during 2012 were \$18.25 million, of which \$14 million were included in "Other operation and maintenance" on the Statement of Income. At December 31, 2013 and 2012, respectively, \$29 million and \$28 million was included on the Balance Sheets as a regulatory asset. In February 2013, PPL Electric received an order from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Sandy. See "Storm Damage Expense Rider" above for information regarding PPL Electric's plan to file a proposed Storm Damage Expense Rider with the PUC.

PPL Electric experienced several PUC-reportable storms during 2011 including Hurricane Irene and a late October snow storm. Total restoration costs were \$84 million, of which \$54 million were initially recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric had storm insurance coverage with a PPL affiliate, the costs associated with the unusually high number of PUC-reportable storms exceeded policy limits. Probable insurance recoveries recorded during 2011 were \$26.5 million, of which \$16 million were included in "Other operation and maintenance" on the Statements of Income. In December 2011, PPL Electric received orders from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Irene and a late October 2011 snowstorm. PPL Electric recorded a regulatory asset of \$25 million in December 2011 (offset to "Other operation and maintenance" on the Statement of Income). The PUC granted PPL Electric's recovery of the 2011 storm costs in its final order in the 2012 rate case. Recovery began in January 2013 and will continue over a five-year period.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form 1, filed under the FERC's Uniform System of Accounts.

PPL Electric initiated its formula rate 2012, 2011 and 2010 Annual Updates. Each update was subsequently challenged by a group of municipal customers, which challenges have been opposed by PPL Electric. In August 2011, the FERC issued an order substantially rejecting the 2010 formal challenge and the municipal customers filed a request for rehearing of that order. In September 2012, the FERC issued an order setting for evidentiary hearings and settlement judge procedures a number of issues raised in the 2010 and 2011 formal challenges. Settlement conferences were held in late 2012 and early 2013. In February 2013, the FERC issued an order setting for evidentiary hearings and settlement judge procedures a number of issues in the 2012 formal challenge and consolidated that challenge with the 2010 and 2011 challenges. PPL Electric filed a request for rehearing of the February order which remains pending before the FERC. PPL Electric and the group of municipal customers have exchanged confidential settlement proposals and PPL Electric anticipates that there will be additional settlement conferences held in 2014. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings, which remain pending before the FERC.

In May 2013, PPL Electric filed its 2013 Annual Update with rates proposed to become effective on June 1, 2013. The rates became effective as proposed, and no party has filed a challenge to the 2013 updated rates.

FERC Formula Rates (KU)

In May 2013, KU submitted to the FERC the annual adjustments to the formula rate, which incorporated certain proposed increases. These rates became effective as of July 1, 2013.

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include such a true-up. KU's application proposed an authorized return on equity of 10.7%. Subject to regulatory approval, the new formula rate may become effective during the second quarter of 2014.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backup to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Energy Supply, PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	Expiration Date	December 31, 2013				December 31, 2012	
		Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backup
PPL							
U.K.							
PPL WW Syndicated							
Credit Facility (a) (d)	Dec. 2016	£ 210	£ 103		£ 107	£ 106	
WPD (South West)							
Syndicated Credit Facility (a) (d)	Jan. 2017	245			245		
WPD (East Midlands)							
Syndicated Credit Facility (a) (b) (d)	Apr. 2016	300			300		
WPD (West Midlands)							
Syndicated Credit Facility (a) (b) (d)	Apr. 2016	300			300		
Uncommitted Credit Facilities		84		£ 5	79		£ 4
Total U.K. Credit Facilities (c)		£ 1,139	£ 103	£ 5	£ 1,031	£ 106	£ 4
U.S.							
PPL Capital Funding							
Syndicated Credit Facility (d) (e) (g)	Nov. 2018	\$ 300	\$ 270		\$ 30		
PPL Energy Supply							
Syndicated Credit Facility (d) (e)	Nov. 2017	\$ 3,000		\$ 29	\$ 2,971		\$ 499
Letter of Credit Facility (e)	Mar. 2014	150		138	12		132
Uncommitted Credit Facilities (e)		175		77	98		40
Total PPL Energy Supply Credit Facilities		\$ 3,325		\$ 244	\$ 3,081		\$ 671
PPL Electric							
Syndicated Credit Facility (d) (e)	Oct. 2017	\$ 300		\$ 21	\$ 279		\$ 1
LKE							
Syndicated Credit Facility (d) (e) (g)	Oct. 2018	\$ 75	\$ 75				
LG&E							
Syndicated Credit Facility (d) (e)	Nov. 2017	\$ 500		\$ 20	\$ 480		\$ 55
KU							
Syndicated Credit Facility (d) (e)	Nov. 2017	\$ 400		\$ 150	\$ 250		\$ 70
Letter of Credit Facility (d) (e) (f)	May 2016	198		198			198
Total KU Credit Facilities		\$ 598		\$ 348	\$ 250		\$ 268

- The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
- Under these facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing.
- PPL WW's amounts borrowed at December 31, 2013 and 2012 were USD-denominated borrowings of \$166 million and \$171 million, which equated to £103 million and £106 million at the time of the borrowings and bore interest at 1.87% and 0.85%. At December 31, 2013, the unused capacity of WPD's credit facilities was approximately \$1.7 billion.
- Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

- (e) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 65% for PPL Energy Supply and 70% for PPL, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, as it relates to the syndicated credit facilities and subject to certain conditions, PPL Energy Supply may request that its facility's capacity be increased by up to \$500 million, PPL Electric and KU each may request up to a \$100 million increase in its facility's capacity and LKE may request up to a \$25 million increase in its facility's capacity.
- (f) KU's letter of credit facility agreement allows for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.
- (g) PPL Capital Funding's and LKE's borrowings at December 31, 2013 bore interest at 1.79% and 1.67%, respectively.

PPL Energy Supply, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	December 31, 2013				December 31, 2012	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Energy Supply		\$ 750		\$ 750	0.50%	\$ 356
PPL Electric	0.23%	300	\$ 20	280		
LG&E	0.29%	350	20	330	0.42%	55
KU	0.32%	350	150	200	0.42%	70
Total		\$ 1,750	\$ 190	\$ 1,560		\$ 481

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At December 31, 2013, PPL Energy Supply has not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an \$800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees, which had an aggregate carrying value of \$2.7 billion at December 31, 2013. The facility expires in November 2018, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at December 31, 2013.

(All Registrants except PPL)

See Note 16 for discussion of intercompany borrowings.

2011 Bridge Facility (PPL)

In March 2011, concurrently and in connection with entering into the agreement to acquire WPD Midlands, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into a 364-day unsecured £3.6 billion bridge facility to fund the acquisition and pay certain fees and expenses in connection with the acquisition. During 2011, PPL incurred \$44 million of fees in connection with establishing the 2011 Bridge Facility, which is reflected in "Interest Expense" on the Statement of Income. On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. Borrowings bore interest at approximately 2.62%, determined by one-month LIBOR rates plus a spread, based on PPL Capital Funding's senior unsecured debt rating and the length of time from the date of the acquisition closing that borrowings were outstanding. See Note 10 for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately \$2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011. In April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings then-outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands).

In anticipation of the repayment of a portion of the borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 19 for additional information.

Long-term Debt (All Registrants)

	Weighted-Average Rate	Maturities	December 31,	
			2013	2012
PPL				
U.S.				
Senior Unsecured Notes (a)	4.31%	2014 - 2043	\$ 5,568	\$ 4,506
Senior Secured Notes/First Mortgage Bonds (b) (c) (d) (e)	3.80%	2015 - 2043	5,823	5,587
Junior Subordinated Notes	5.29%	2019 - 2073	1,908	2,608
Other	6.95%	2014 - 2020	15	15
Total U.S. Long-term Debt			13,314	12,716
U.K.				
Senior Unsecured Notes (f)	5.53%	2016 - 2040	6,872	6,111
Index-linked Senior Unsecured Notes (g)	1.83%	2043 - 2056	749	608
Total U.K. Long-term Debt (h)			7,621	6,719
Total Long-term Debt Before Adjustments			20,935	19,435
Fair market value adjustments			23	78
Unamortized premium and (discount), net			(51)	(37)
Total Long-term Debt			20,907	19,476
Less current portion of Long-term Debt			315	751
Total Long-term Debt, noncurrent			\$ 20,592	\$ 18,725
PPL Energy Supply				
Senior Unsecured Notes (a)	5.32%	2014 - 2038	\$ 2,493	\$ 2,581
Senior Secured Notes (b)	8.86%	2025	49	663
Other	6.00%	2020	5	5
Total Long-term Debt Before Adjustments			2,547	3,249
Fair market value adjustments			(22)	22
Unamortized premium and (discount), net				1
Total Long-term Debt			2,525	3,272
Less current portion of Long-term Debt			304	751
Total Long-term Debt, noncurrent			\$ 2,221	\$ 2,521
PPL Electric				
Senior Secured Notes/First Mortgage Bonds (c) (d)	4.63%	2015 - 2043	\$ 2,314	\$ 1,964
Other	7.38%	2014	10	10
Total Long-term Debt Before Adjustments			2,324	1,974
Unamortized discount			(9)	(7)
Total Long-term Debt			2,315	1,967
Less current portion of Long-term Debt			10	
Total Long-term Debt, noncurrent			\$ 2,305	\$ 1,967
LKE				
Senior Unsecured Notes	3.31%	2015 - 2021	\$ 1,125	\$ 1,125
Senior Secured Notes/First Mortgage Bonds (c) (e)	3.18%	2015 - 2043	3,460	2,960
Total Long-term Debt Before Adjustments			4,585	4,085
Fair market value adjustments			(1)	7
Unamortized discount			(19)	(17)
Total Long-term Debt			\$ 4,565	\$ 4,075
LG&E				
Senior Secured Notes/First Mortgage Bonds (c) (e)	2.77%	2015 - 2043	\$ 1,359	\$ 1,109
Total Long-term Debt Before Adjustments			1,359	1,109
Fair market value adjustments			(1)	6
Unamortized discount			(5)	(3)
Total Long-term Debt			\$ 1,353	\$ 1,112

	Weighted-Average Rate	Maturities	December 31,	
			2013	2012
KU				
Senior Secured Notes/First Mortgage Bonds (c) (e)	3.44%	2015 - 2043	\$ 2,101	\$ 1,851
Total Long-term Debt Before Adjustments			2,101	1,851
Fair market value adjustments			1	1
Unamortized discount			(11)	(10)
Total Long-term Debt			\$ 2,091	\$ 1,842

- (a) Includes \$300 million of 5.70% REset Put Securities due 2035 (REPS). The REPS bear interest at a rate of 5.70% per annum to, but excluding, October 15, 2015 (Remarketing Date). The REPS are required to be put by existing holders on the Remarketing Date either for (a) purchase and remarketing by a designated remarketing dealer or (b) repurchase by PPL Energy Supply. If the remarketing dealer elects to purchase the REPS for remarketing, it will purchase the REPS at 100% of the principal amount, and the REPS will bear interest on and after the Remarketing Date at a new fixed rate per annum determined in the remarketing. PPL Energy Supply has the right to terminate the remarketing process. If the remarketing is terminated at the option of PPL Energy Supply or under certain other circumstances, including the occurrence of an event of default by PPL Energy Supply under the related indenture or a failed remarketing for certain specified reasons, PPL Energy Supply will be required to pay the remarketing dealer a settlement amount as calculated in accordance with the related remarketing agreement.
- (b) 2012 includes lease financing consolidated through a VIE which was repaid in 2013. See Note 22 for additional information.
- (c) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately \$5.1 billion and \$4.3 billion at December 31, 2013 and 2012.

Includes LG&E's first mortgage bonds that are secured by the lien of the LG&E 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was \$3.2 billion and \$2.7 billion at December 31, 2013 and December 31, 2012.

Includes KU's first mortgage bonds that are secured by the lien of the KU 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was \$5.1 billion and \$4.4 billion at December 31, 2013 and December 31, 2012.

- (d) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (c) above. This amount includes \$224 million that may be redeemed at par beginning in 2015 and \$90 million that may be redeemed, in whole or in part, at par beginning in October 2020 and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.
- (e) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (c) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2013, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled \$321 million for LKE, comprised of \$294 million and \$27 million for LG&E and KU. At December 31, 2013, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled \$604 million for LKE, comprised of \$280 million and \$324 million for LG&E and KU.

Several series of the tax-exempt revenue bonds are insured by monoline bond insurers whose ratings were reduced due to exposures relating to insurance of sub-prime mortgages. Of the bonds outstanding, \$231 million are in the form of insured auction rate securities (\$135 million for LG&E and \$96 million for KU), wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. During 2008, interest rates increased, and LG&E and KU experienced failed auctions when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. As noted above, the instruments governing these auction rate bonds permit LG&E and KU to convert the bonds to other interest rate modes.

Certain variable rate tax-exempt revenue bonds totaling \$348 million at December 31, 2013 (\$120 million for LG&E and \$228 million for KU), are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

- (f) Includes £225 million (\$368 million at December 31, 2013) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.
- (g) The principal amount of the notes issued by WPD (South West) and WPD (East Midlands) is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2012 to 2013 was an increase of approximately £12 million (\$20 million) resulting from inflation. In addition, this amount includes £225 million (\$368 million at December 31, 2013) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.
- (h) Includes £3.8 billion (\$6.2 billion at December 31, 2013) of notes that may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's, S&P or Fitch) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt for the periods 2014 through 2018 and thereafter are as follows.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
2014	\$ 314	\$ 304	\$ 10			
2015	1,304	304	100	\$ 900	\$ 250	\$ 250
2016	814	354				
2017	104	4				
2018	653	403				
Thereafter	17,746	1,178	2,214	3,685	1,109	1,851
Total	\$ 20,935	\$ 2,547	\$ 2,324	\$ 4,585	\$ 1,359	\$ 2,101

Long-term Debt and Equity Securities Activities

(PPL)

In connection with an April 2012 registered public offering of 9.9 million shares of PPL common stock, PPL entered into forward sale agreements with two counterparties. In conjunction with that offering, the underwriters exercised an overallotment option and PPL entered into additional forward sale agreements covering 591 thousand shares of PPL common stock.

In April 2013, PPL settled the initial forward sale agreements by issuing 8.4 million shares of PPL common stock and cash settling the remaining 1.5 million shares. PPL received net cash proceeds of \$205 million, which was calculated based on an initial forward price of \$27.02 per share, reduced during the period the contracts were outstanding as specified in the forward sale agreements. PPL used the net proceeds to repay short-term debt obligations and for other general corporate purposes. In May 2013, PPL cash settled the forward sale agreements covering the 591 thousand remaining shares for \$4 million.

In March 2013, PPL Capital Funding issued \$450 million of 5.90% Junior Subordinated Notes due 2073. PPL Capital Funding received proceeds of \$436 million, net of underwriting fees, which were loaned to or invested in affiliates of PPL Capital Funding and used to fund their capital expenditures and for other general corporate purposes.

In September and October 2013, WPD (East Midlands) issued £40 million and £25 million aggregate principal amount of 1.676% Index-linked Senior Notes due 2052, which equated to \$64 million and \$40 million at the time of issuance. The proceeds were used to fund capital expenditures and for other general corporate purposes.

In October 2013, WPD (West Midlands) issued £400 million aggregate principal amount of 3.875% Senior Notes due 2024. WPD (West Midlands) received proceeds of £394 million, which equated to \$637 million at the time of issuance, net of a discount and underwriting fees. The net proceeds will be used to fund capital expenditures and for other general corporate purposes.

In 2013, PPL repurchased 2.4 million shares of its common stock for \$74 million to offset the 2013 issuances of common stock under stock-based compensation plans, ESOP and DRIP. These repurchases were recorded as a reduction to "Additional paid-in capital" on the Balance Sheet.

(PPL and PPL Energy Supply)

In February 2013, PPL Energy Supply completed an offer to exchange up to all, but not less than a majority, of PPL Ironwood's 8.857% Senior Secured Bonds due 2025 (Ironwood Bonds), for newly issued PPL Energy Supply Senior Notes, Series 4.60% due 2021. A total of \$167 million aggregate principal amount of outstanding Ironwood Bonds was exchanged for \$212 million aggregate principal amount of Senior Notes, Series 4.60% due 2021. This transaction was accounted for as a modification of the existing debt; therefore, the amount of debt on the Balance Sheet remained at \$167 million and will be accreted to \$212 million over the life of the new Senior Notes. No gain or loss was recorded and the exchange was considered non-cash activity that was excluded from the 2013 Statement of Cash Flows.

In July 2013, PPL Energy Supply repaid the entire \$300 million principal amount of its 6.30% Senior Notes upon maturity.

In December 2013, the entire \$284 million and \$153 million principal amounts of the 8.05% and 8.30% Senior Notes were repaid upon maturity in connection with the Lower Mt. Bethel lease termination. See Note 22 for additional information.

(PPL and PPL Electric)

In July 2013, PPL Electric issued \$350 million of 4.75% First Mortgage Bonds due 2043. PPL Electric received proceeds of \$345 million, net of a discount and underwriting fees, which were used for capital expenditures, to fund pension obligations and for other general corporate purposes.

(PPL, LKE, LG&E and KU)

In November 2013, LG&E and KU each issued \$250 million of 4.65% First Mortgage Bonds due 2043. LG&E and KU each received proceeds of \$246 million, net of discounts and underwriting fees, which were used for repayment of short-term debt, including commercial paper, for capital expenditures and for other general corporate purposes.

(PPL)

2010 Equity Units

During 2013, several events occurred related to the 2010 Equity Units. In May 2013, PPL Capital Funding remarketed \$1.150 billion of 4.625% Junior Subordinated Notes due 2018 that were originally issued in June 2010 as a component of PPL's 2010 Equity Units. In connection with the remarketing, PPL Capital Funding issued \$300 million of 2.04% Junior Subordinated Notes due 2016 and \$850 million of 2.77% Junior Subordinated Notes due 2018, which were simultaneously exchanged for three tranches of Senior Notes: \$250 million of 1.90% Senior Notes due 2018, \$600 million of 3.40% Senior Notes due 2023 and \$300 million of 4.70% Senior Notes due 2043. The transaction was accounted for as a debt extinguishment, resulting in a \$10 million loss on extinguishment of the Junior Subordinated Notes, recorded to "Interest Expense" on the Statement of Income. The transaction was considered non-cash activity that was excluded from the 2013 Statement of Cash Flows. Additionally, in July 2013, PPL issued 40 million shares of common stock at \$28.73 per share to settle the 2010 Purchase Contracts. PPL received net cash proceeds of \$1.150 billion, which were used to repay short-term and long-term debt obligations and for other general corporate purposes.

2011 Equity Units

In April 2011, in connection with the acquisition of WPD Midlands, PPL issued 92 million shares of its common stock at a public offering price of \$25.30 per share, for a total of \$2.328 billion. Proceeds from the issuance were \$2.258 billion, net of the \$70 million underwriting discount. PPL also issued 19.55 million 2011 Equity Units at a stated amount per unit of \$50.00 for a total of \$978 million. Proceeds from the issuance were \$948 million, net of the \$30 million underwriting discount. PPL used the net proceeds to repay PPL Capital Funding's borrowings under the 2011 Bridge Facility, as discussed above, to pay certain acquisition-related fees and expenses and for general corporate purposes.

Each 2011 Equity Unit consists of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019 (2019 Notes).

Each 2011 Purchase Contract obligates the holder to purchase, and PPL to sell, for \$50.00 a number of shares of PPL common stock to be determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to May 1, 2014, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds approximately \$30.99, then 1.6133 shares (a minimum of 31,540,015 shares);
- if the average VWAP is less than approximately \$30.99 but greater than \$25.30, a number of shares of common stock having a value, based on the average VWAP, equal to \$50.00; and
- if the average VWAP is less than or equal to \$25.30, then 1.9763 shares (a maximum of 38,636,665 shares).

If holders elect to settle the 2011 Purchase Contract prior to May 1, 2014, they will receive 1.6133 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change. In addition to the maximum shares noted above, up to 1.2 million shares could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change.

A holder's ownership interest in the 2019 Notes is pledged to PPL to secure the holder's obligation under the related 2011 Purchase Contract. If a holder of a 2011 Purchase Contract chooses at any time no longer to be a holder of the 2019 Notes, such holder's obligation under the 2011 Purchase Contract must be secured by a U.S. Treasury security.

Each 2011 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.43% per year on the \$50.00 stated amount of the 2011 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2011 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 8.75% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2019 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2019 Notes initially bear interest at 4.32% and are not subject to redemption prior to May 2016. Beginning May 2016, PPL Capital Funding may, at its option, redeem the 2019 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2019 Notes are expected to be remarketed in 2014 into two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of \$250 million and 50% of the aggregate principal amount of the 2019 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. Upon a successful remarketing, the interest rate on the 2019 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the 2019 Notes will have the right to put their notes to PPL Capital Funding on May 1, 2014 for an amount equal to the principal amount plus accrued interest. In January 2014, PPL Capital Funding elected to conduct an optional remarketing of the 2019 Notes that will occur between January 30, 2014 and April 15, 2014.

Prior to May 2016, PPL Capital Funding may elect at one or more times to defer interest payments on the 2019 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and May 2016. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2019 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2019 Notes by PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2019 Notes as of the date of their issuance.

In the financial statements, the proceeds from the sale of the 2011 Equity Units were allocated to the 2019 Notes and the 2011 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2019 Notes were recorded at \$978 million, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of \$123 million was recorded to other liabilities representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital for the issuance of the 2011 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2011 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that was excluded from the Statement of Cash Flows in 2011. See Note 4 for EPS considerations related to the 2011 Purchase Contracts.

Legal Separateness *(All Registrants)*

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions, Capital Contributions and Related Restrictions

(PPL)

In November 2013, PPL declared its quarterly common stock dividend, payable January 2, 2014, at 36.75 cents per share (equivalent to \$1.47 per annum). In February 2014, PPL declared its quarterly common stock dividend, payable April 1, 2014, at 37.25 cents per share (equivalent to \$1.49 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. Subject to certain exceptions, PPL may not declare or pay any dividend or distribution on its capital stock until any deferred interest payments on its 4.32% Junior Subordinated Notes due 2019 have been paid and deferred contract adjustment payments on PPL's 2011 Purchase Contracts have been paid. At December 31, 2013, no payments were deferred on any series of junior subordinated notes or the 2011 Purchase Contracts.

(All Registrants except PPL Energy Supply)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its dividends to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2013, net assets of \$2.5 billion (\$1.0 billion for LG&E and \$1.5 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of \$2.5 billion (\$1.0 billion for LG&E and \$1.5 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

(PPL)

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(All Registrants except PPL)

The following distributions and capital contributions occurred in 2013:

	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Dividends/distributions paid to parent/member	\$ 408	\$ 127	\$ 254	\$ 99	\$ 124
Capital contributions received from parent/member	1,577	205	243	86	157

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See Note 9 for information on discontinued operations. See Note 10 for information on completed acquisitions.

Development

(PPL, LKE, LG&E and KU)

Cane Run Unit 7 Construction

In September 2011, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to build Cane Run Unit 7. In May 2012, the KPSC issued an order approving the request. LG&E will own a 22% undivided interest, and KU will own a 78% undivided interest in the new NGCC generating unit. A formal request for recovery of the costs associated with the construction was not included in the CPCN application but certain Cane Run Unit 7 construction work in progress has been included in base rates and the remaining capital costs are expected to be included in future rate proceedings. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

In conjunction with this construction and to meet new, more stringent EPA regulations with a 2015 compliance date, LG&E and KU anticipate retiring five older coal-fired electric generating units at the Cane Run and Green River plants, which have a combined summer capacity rating of 724 MW. In addition, KU retired a 12 MW unit at the Haefling plant in December 2013 and the remaining 71 MW unit at the Tyrone plant in February 2013. There were no significant gains or losses related to the 2013 retirements.

Future Capacity Needs

In January 2014, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to construct a NGCC unit at KU's Green River generating site (Green River Unit 5) and a solar generating facility at the E. W. Brown generating site. Subject to finalizing details, regulatory applications, permitting and construction schedules, Green River Unit 5 is expected to have approximately 700 MW of capacity at an estimated cost of \$700 million and is planned to be operational in 2018. Green River Unit 5 will be jointly owned by LG&E and KU, with LG&E owning a 40% undivided interest and KU owning a 60% undivided interest. The solar generating facility is expected to have approximately 10 MW of capacity at an estimated cost of \$36 million and is planned to be operational in 2016. The solar generating facility will be jointly owned by LG&E and KU, with LG&E owning a 36% undivided interest and KU owning a 64% undivided interest.

(PPL and PPL Energy Supply)

Hydroelectric Expansion Projects

In 2009, in light of the availability of tax incentives and potential federal loan guarantees for renewable projects contained in the Economic Stimulus Package, PPL Energy Supply filed an application with the FERC to expand capacity at its Holtwood and Rainbow hydroelectric facilities, which the FERC approved. In the first quarter of 2013, the Rainbow hydroelectric redevelopment project in Great Falls, Montana, which increased total capacity to 63 MW, was placed in service. In the fourth quarter of 2013, the 125 MW Holtwood project was placed in service.

PPL Energy Supply believes that the projects are eligible for either investment tax credits or Section 1603 Treasury grants. As of December 31, 2013, PPL Energy Supply had recognized investment tax credits for both projects and continued to evaluate the desirability of obtaining Treasury grants in lieu of the investment tax credits.

As of December 31, 2013, PPL Energy Supply had recorded cumulative deferred investment tax credits of \$60 million and \$117 million for the Rainbow and Holtwood hydroelectric facilities. The credits reduced PPL Energy Supply's tax liability and are amortized over the life of the related assets.

In January 2014, the U.S. Department of Treasury awarded \$56 million for Specified Energy Property in Lieu of Tax Credits for the Rainbow project. PPL Energy Supply has accepted and will account for the receipt of the \$56 million grant in 2014. PPL Energy Supply is required to recapture \$60 million of investment tax credits previously recorded related to the Rainbow project as a result of the grant receipt. The accounting for the grant receipt and recapture of investment tax credits is not expected to have a significant impact on the financial statements in 2014.

Bell Bend COLA

In 2008, a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) submitted a COLA to the NRC for the proposed Bell Bend nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant.

In 2008, PPL Bell Bend submitted Parts I and II of an application for a federal loan guarantee for Bell Bend to the DOE. In February 2014, the DOE announced the first loan guarantee for a nuclear project in Georgia. Eight of the ten applicants that submitted Part II applications remain active in the DOE program; however, the DOE has stated that the \$18.5 billion currently appropriated to support new nuclear projects would not likely be enough for more than three projects. PPL Bell Bend submits quarterly application updates for Bell Bend to the DOE to remain active in the loan guarantee application process.

The NRC continues to review the COLA. PPL Bell Bend does not expect to complete the COLA review process with the NRC prior to 2016. PPL Bell Bend has made no decision to proceed with construction and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized to spend up to \$224 million on the COLA and other permitting costs necessary for construction, which is expected to be sufficient to fund the project through receipt of the license. At December 31, 2013 and December 31, 2012, \$173 million and \$154 million of costs, which includes capitalized interest, associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL Bell Bend believes that the estimated fair value of the COLA currently exceeds the costs expected to be capitalized associated with the licensing application.

Regional Transmission Line Expansion Plan (PPL and PPL Electric)

Susquehanna-Roseland

In 2007, PJM directed the construction of a new 150-mile, 500-kV transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line was needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM directed PPL Electric to construct the Pennsylvania portion of the Susquehanna-Roseland line and Public Service Electric & Gas Company to construct the New Jersey portion of the line.

Construction activities have been underway on the 101-mile route in Pennsylvania since 2012. The line is expected to be completed before the peak summer demand period of 2015. At December 31, 2013, PPL Electric's estimated share of the project cost was \$630 million. At December 31, 2013, \$377 million of costs were capitalized and are included on the Balance Sheet primarily in "Construction work in progress."

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line that includes three new substations and upgrades to adjacent facilities). The FERC granted the incentive for inclusion in rate base of all prudently incurred construction work in progress (CWIP) costs but denied the requested incentive for a 100 basis point adder to the return on equity. The order required a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project, which PPL Electric submitted to the FERC in March 2013 and the FERC subsequently approved in April 2013.

In December 2012, PPL Electric submitted an application to the PUC requesting permission to site and construct the project. A number of parties protested the application, which was subsequently assigned to an Administrative Law Judge (ALJ). Evidentiary hearings were held in July 2013. In October 2013, the ALJ concluded that PPL met its burden on all issues, and recommended that the PUC approve the siting application, two zoning petitions, and the remaining eminent domain applications. On January 9, 2014, the PUC issued a Final Order approving the Application. No party has filed an appeal of the PUC's decision and the deadline for such appeals has passed. PPL Electric expects the project to be completed in 2017. At December 31, 2013, PPL Electric's estimated cost of the project was \$335 million, most of which qualifies for the CWIP incentive treatment.

Other (PPL and PPL Energy Supply)

Montana Transactions

In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern its hydroelectric generating facilities located in Montana with a generation capacity of 633 MW for \$900 million in cash, subject to certain adjustments. The sale, which is not expected to close before the second half of 2014, includes 11 hydroelectric power facilities and related assets. The sale is subject to closing conditions, including receipt of regulatory approvals by the FERC and the Montana Public Service Commission and certain third-party consents. Due to the uncertainties related to certain of these conditions as of December 31, 2013, the sale did not meet the applicable accounting criteria for the assets and liabilities included in the transaction to be classified as held for sale on the balance sheet.

To facilitate the sale, on December 20, 2013, PPL Montana terminated its operating lease arrangement related to partial interests in Units 1, 2 and 3 of the Colstrip coal-fired electric generating facility and acquired those interests, collectively, for \$271 million. At lease termination, the existing lease-related assets on the balance sheet consisting primarily of prepaid rent and leasehold improvements were written-off and the acquired Colstrip assets were recorded at fair value as of the acquisition date. PPL and PPL Energy Supply recorded a charge of \$697 million (\$413 million after-tax) for the termination of the lease included in "Loss on lease termination" on the 2013 Statements of Income. The \$271 million payment is reflected in "Cash Flows from Operating Activities" on the 2013 Statements of Cash Flow.

9. Discontinued Operations

Sale of Certain Non-core Generation Facilities (PPL and PPL Energy Supply)

In 2011, PPL Energy Supply subsidiaries completed the sale of their ownership interests in certain non-core generation facilities, which were included in the Supply segment, for \$381 million. The transaction included the natural gas-fired facilities in Wallingford, Connecticut and University Park, Illinois and an equity interest in Safe Harbor Water Power Corporation, which owns a hydroelectric facility in Conestoga, Pennsylvania. There was no significant impact on earnings in 2011 from the operation of this business or as a result of the sale.

Distribution of Membership Interest in PPL Global to Parent (PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its entire membership interest in PPL Global to its parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011, and no gains or losses were recognized on the distribution.

The amount of cash and cash equivalents of PPL Global at the time of the distribution was reflected as a financing activity in the 2011 Statement of Cash Flows.

10. Business Acquisitions

Ironwood Acquisition (PPL and PPL Energy Supply)

On April 13, 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition of all of the equity interests of two subsidiaries of The AES Corporation, AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which together own and operate, the Ironwood Facility. The Ironwood Facility began operation in 2001 and, since 2008, PPL EnergyPlus has supplied natural gas for the facility and received the facility's full electricity output and capacity value pursuant to a tolling agreement that expires in 2021. The acquisition provides PPL Energy Supply, through its subsidiaries, operational control of additional combined-cycle gas generation in PJM.

The fair value of the consideration paid for this acquisition was as follows.

Aggregate enterprise consideration	\$	326
Less: Fair value of long-term debt outstanding assumed through consolidation (a)		258
Plus: Restricted cash debt service reserves		17
Cash consideration paid for equity interests (including working capital adjustments)	\$	<u>85</u>

- (a) The long-term debt assumed through consolidation consisted of \$226 million aggregate principal amount of 8.857% senior secured bonds to be fully repaid by December 31, 2025, plus \$8 million of debt service reserve loans, and a \$24 million fair value adjustment. See Note 7 for information on the February 2013 exchange of a portion of long-term debt assumed through consolidation.

Purchase Price Allocation

The following table summarizes the allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed through consolidation, and the effective settlement of the tolling agreement through consolidation.

PP&E	\$	505
Long-term debt (current and noncurrent) (a)		(258)
Tolling agreement (b)		(170)
Other net assets (a)		8
Net identifiable assets acquired	\$	<u>85</u>

(a) Represents non-cash activity excluded from the 2012 Statement of Cash Flows.

(b) Prior to the acquisition, PPL EnergyPlus had recorded primarily an intangible asset, which represented its rights to and the related accounting for the tolling agreement with PPL Ironwood, LLC. On the acquisition date, PPL Ironwood, LLC recorded a liability, recognized at fair value, for its obligation to PPL EnergyPlus. The tolling agreement assets of PPL EnergyPlus and the tolling agreement liability of PPL Ironwood, LLC eliminate in consolidation for PPL and PPL Energy Supply as a result of the acquisition, and therefore the agreement is considered effectively settled. The difference between the tolling agreement assets and liability resulted in an insignificant loss on the effective settlement of the agreement.

Acquisition of WPD Midlands (PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash of \$5.8 billion, including the repayment of \$1.7 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and approximately \$800 million of long-term debt assumed through consolidation. WPD Midlands operates two regulated distribution networks that serve 5 million end-users in the Midlands area of England. The acquisition increased the regulated portion of PPL's business and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability. Further, since the service territories of WPD (South Wales), WPD (South West) and WPD Midlands are contiguous, cost savings, efficiencies and other benefits have been achieved from the combined operations of these entities.

The fair value of the consideration paid for this acquisition was as follows (in billions).

Aggregate enterprise consideration	\$	6.6
Less: Fair value of long-term debt outstanding assumed through consolidation		0.8
Total cash consideration paid		<u>5.8</u>
Less: Funds used to repay pre-acquisition affiliate indebtedness		1.7
Cash consideration paid for Central Networks' outstanding ordinary share capital	\$	<u>4.1</u>

The total cash consideration paid was primarily funded by borrowings under the 2011 Bridge Facility on the date of acquisition. Subsequently, PPL repaid those borrowings in 2011 using proceeds from the permanent financing, including issuances of common stock and 2011 Equity Units, as well as proceeds from the issuance of debt by PPL WEM, WPD (East Midlands) and WPD (West Midlands). See Note 7 for additional information.

Purchase Price Allocation

The following table summarizes (in billions) the allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	\$	0.2
PP&E		4.9
Intangible assets		0.1
Other noncurrent assets		0.1
Current liabilities (b)		(0.4)
PPL WEM affiliate indebtedness		(1.7)
Long-term debt (current and noncurrent) (b)		(0.8)
Other noncurrent liabilities (b)		(0.7)
Net identifiable assets acquired		<u>1.7</u>
Goodwill		2.4
Net assets acquired	\$	<u>4.1</u>

(a) Includes gross contractual amount of the accounts receivable acquired of \$122 million, which approximates fair value.

(b) Represents non-cash activity excluded from the 2011 Statement of Cash Flows.

The purchase price allocation resulted in goodwill of \$2.4 billion that was assigned to the U.K. Regulated segment. The goodwill is attributable to the expected continued growth of a rate-regulated business with a defined service area operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from a contiguous service area with WPD (South West) and WPD (South Wales), as well as the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance in capital cost efficiency, system reliability and customer service. The goodwill is not deductible for U.K. income tax purposes.

Separation Benefits - U.K. Regulated Segment

In connection with the 2011 acquisition, PPL completed a reorganization designed to transition WPD Midlands from a functional operating structure to a regional operating structure requiring a smaller combined support structure, reducing duplication and implementing more efficient procedures. As a result of the reorganization, 729 employees of WPD Midlands were terminated.

The separation benefits, before income taxes, associated with the reorganization were as follows.

Severance compensation	\$	61
Early retirement deficiency costs (ERDC) under applicable pension plans		46
Outplacement services		1
Total separation benefits	\$	<u>108</u>

In connection with the reorganization, WPD Midlands recorded \$93 million of the total expected separation benefits in 2011, of which \$48 million related to severance compensation and \$45 million related to ERDC. WPD Midlands recorded an additional \$15 million of total separation benefits in 2012, of which \$13 million related to severance compensation and \$2 million related to ERDC. The accrued severance compensation is reflected in "Other current liabilities" and the ERDC reduced "Other noncurrent assets" on the Balance Sheets. All separation benefits are included in "Other operation and maintenance" on the Statements of Income.

The changes in the carrying amounts of accrued severance were as follows.

	2012	2011
Accrued severance at beginning of period	\$ 21	
Severance compensation	13	\$ 48
Severance paid	(34)	(27)
Accrued severance at end of period	<u>\$ 21</u>	<u>\$ 21</u>

In addition to the reorganization costs noted above, an additional \$9 million was recorded in 2011 for ERDC payable under applicable pension plans and severance compensation for certain employees who separated from the WPD Midlands companies, but were not part of the reorganization. These separation benefits are also included in "Other operation and maintenance" on the Statement of Income.

Other

WPD Midlands 2011 financial results included in PPL's Statement of Income and included in the U.K. Regulated segment were as follows.

Operating Revenues	\$	790
Net Income Attributable to PPL Shareowners		137

Pro forma Information

The pro forma financial information, which includes WPD Midlands as if the acquisition had occurred January 1, 2010, is as follows.

	2011
Operating Revenues - PPL consolidated pro forma (unaudited)	\$ 13,140
Net Income Attributable to PPL Shareowners - PPL consolidated pro forma (unaudited)	1,800

The pro forma financial information presented above has been derived from the historical combined financial statements of WPD Midlands, which was acquired on April 1, 2011. Income (loss) from discontinued operations (net of income taxes), which was not significant for 2011, was excluded from the pro forma amounts above.

The pro forma financial information presented above includes adjustments to depreciation, net periodic pension costs, interest expense and the related income tax effects to reflect the impact of the acquisition. The pre-tax nonrecurring credits (expenses) presented in the following table were directly attributable to the acquisition and adjustments were included in the calculation of pro forma operating revenue and net income to remove the effect of these nonrecurring items and the related income tax effects.

	Income Statement Line Item	2011
WPD Midlands acquisition		
2011 Bridge Facility costs (a)	Interest Expense	\$ (44)
Foreign currency loss on 2011 Bridge Facility (b)	Other Income (Expense) - net	(57)
Net hedge gains associated with the 2011 Bridge Facility (c)	Other Income (Expense) - net	55
Hedge ineffectiveness (d)	Interest Expense	(12)
U.K. stamp duty tax (e)	Other Income (Expense) - net	(21)
Separation benefits (f)	Other operation and maintenance	(102)
Other acquisition-related adjustments	(g)	(77)

- (a) The 2011 Bridge Facility costs, primarily commitment and structuring fees, were incurred to establish a bridge facility for purposes of funding the WPD Midlands acquisition purchase price.
- (b) The 2011 Bridge Facility was denominated in GBP. The amount includes a \$42 million foreign currency loss on PPL Capital Funding's repayment of its 2011 Bridge Facility borrowing and a \$15 million foreign currency loss associated with proceeds received on the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011 that were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility.
- (c) The repayment of borrowings on the 2011 Bridge Facility was economically hedged to mitigate the effects of changes in foreign currency exchange rates with forward contracts to purchase GBP, which resulted in net hedge gains.
- (d) The hedge ineffectiveness includes a combination of ineffectiveness associated with closed out interest rate swaps and a charge recorded as a result of certain interest rate swaps failing hedge effectiveness testing, both associated with the acquisition financing.
- (e) The U.K. stamp duty tax represents a tax on the transfer of ownership of property in the U.K. incurred in connection with the acquisition.
- (f) See "Separation Benefits - U.K. Regulated Segment" above.
- (g) Primarily includes acquisition-related advisory, accounting and legal fees recorded in "Other Income (Expense) - net" and contract termination costs, rebranding costs and relocation costs recorded in "Other operation and maintenance."

11. Leases

Lessee Transactions

(PPL and PPL Energy Supply)

Kerr Dam

Under the Kerr Hydroelectric Project No. 5 joint operating license issued by the FERC, PPL Montana is responsible to make payments to the Confederated Salish and Kootenai Tribes of the Flathead Nation for the use of certain of their tribal lands in connection with the operation of Kerr Dam. This payment arrangement, subject to escalation based upon inflation, extends until the end of the license term in 2035. Between 2015 and 2025, the tribes have the option to purchase, hold and operate the project, at a conveyance price to be determined in accordance with the provisions in the FERC license. Exercise of the option by the tribes would result in the termination of this payment arrangement obligation for PPL Montana. The payment arrangement has been treated as an operating lease for accounting purposes. In February 2013, the parties to the license submitted the issue of the appropriate amount of the conveyance price to arbitration. Arbitration was held before an American Arbitration Association panel in January 2014, and a decision is to be issued on or before March 5, 2014. On January 29, 2014, the arbitration panel issued a partial award of tangible asset portions of the conveyance price in the amount of \$17 million to PPL Montana, reserving decision on the proposed inclusion of approximately \$32 million of environmental mitigation costs until a final award is made in March.

(All registrants except PPL Electric)

Other Leases

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land, gas storage and other equipment.

Rent - Operating Leases

Rent expense for the years ended December 31 for operating leases was as follows:

	2013	2012	2011
PPL	\$ 111	\$ 116	\$ 109
PPL Energy Supply	55	62	84
LKE	18	18	18
LG&E	7	7	7
KU	10	10	10

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	PPL Energy Supply	LKE	LG&E	KU
2014	\$ 59	\$ 31	\$ 16	\$ 6	\$ 10
2015	47	25	13	5	8
2016	23	11	9	4	5
2017	18	10	6	2	4
2018	12	3	6	2	3
Thereafter	42	3	29	12	15
Total	\$ 201	\$ 83	\$ 79	\$ 31	\$ 45

12. Stock-Based Compensation

(All Registrants except LG&E and KU)

In 2012, shareowners approved the PPL SIP. This new equity plan replaces the PPL ICP and incorporates the following changes:

- Eliminates the potential to pay dividend equivalents on stock options.
- Eliminates the automatic lapse of restrictions on all equity awards in the event of a "potential" change in control and requires that a termination of employment occur in the event of a change in control before restrictions lapse.
- Changes the treatment of outstanding stock options upon retirement to limit the exercise period to the earlier of the end of the term (ten years from grant) or five years after retirement.

To further align the executives' interests with those of PPL shareowners, this plan provides that each restricted stock unit entitles the executive to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units would be deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards granted under the ICP and ICPKE are currently paid in cash when dividends are declared by PPL.

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Energy Supply, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the plans.

Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards	
				For awards denominated in shares (Shares)	For awards denominated in cash (in dollars)
ICP (a)	15,769,431	2%	3,000,000		
SIP	10,000,000		2,000,000	750,000	\$ 15,000,000
ICPKE	14,199,796	2%	3,000,000		

(a) Applicable to outstanding awards granted from January 27, 2006 to January 26, 2012. During 2012, the total plan award limit was reached and the ICP was replaced by the SIP.

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights of the participant terminate, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

Restricted Stock and Restricted Stock Units

Restricted shares of PPL common stock are outstanding shares with full voting and dividend rights. Restricted stock awards are granted as a retention award for select key executives and vest when the recipient reaches a certain age or meets service or other criteria set forth in the executive's restricted stock award agreement. The shares are subject to forfeiture or accelerated payout under plan provisions for termination, retirement, disability and death of employees. Restricted shares vest fully, in certain situations, as defined by each of the Plans.

The Plans allow for the grant of restricted stock units. Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a vesting period, generally three years.

The fair value of restricted stock and restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock and restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock and restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restricted stock and restricted stock units vest fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock and restricted stock units granted was:

	2013	2012	2011
PPL	\$ 30.30	\$ 28.35	\$ 25.25
PPL Energy Supply	30.42	28.29	25.14
PPL Electric	30.55	28.51	25.09
LKE	30.00	28.34	

Restricted stock and restricted stock unit activity for 2013 was:

	Restricted Shares/Units	Weighted- Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	2,503,770	\$ 27.73
Granted	1,307,951	30.30
Vested	(638,421)	29.19
Forfeited	(32,700)	28.61
Nonvested, end of period	3,140,600	28.50
PPL Energy Supply		
Nonvested, beginning of period	1,060,686	\$ 27.95
Transferred	3,820	27.31
Granted	527,440	30.42
Vested	(236,382)	29.10
Forfeited	(12,160)	29.04
Nonvested, end of period	1,343,404	28.71
PPL Electric		
Nonvested, beginning of period	261,228	\$ 27.30
Transferred	(5,810)	27.48
Granted	108,990	30.55
Vested	(94,008)	28.41
Forfeited	(4,850)	28.61
Nonvested, end of period	265,550	28.22

	Restricted Shares/Units	Weighted- Average Grant Date Fair Value Per Share
LKE		
Nonvested, beginning of period	139,640	\$ 28.34
Granted	127,293	30.00
Vested	(35,380)	28.87
Nonvested, end of period	231,553	29.17

Substantially all restricted stock and restricted stock unit awards are expected to vest.

The total fair value of restricted stock and restricted stock units vesting for the years ended December 31 was:

	2013	2012	2011
PPL	\$ 19	\$ 27	\$ 19
PPL Energy Supply	7	6	6
PPL Electric	3	2	2
LKE	1	4	1

Performance Units

Performance units are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on total shareowner return during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the total shareowner return of the companies included in an index group, in the case of the 2011 awards, the S&P 500 Electric Utilities Index, and in the case of the 2012 and 2013 awards, the Philadelphia Stock Exchange Utility Index. Awards are payable on a graduated basis based on thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each year's awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee, in which case the total performance units remain outstanding and are eligible for vesting through the conclusion of the performance period. The fair value of performance units granted is recognized as compensation expense on a straight-line basis over the three-year performance period. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. Beginning in 2011, PPL began using a mix of historic and implied volatility in response to the significant changes in its business model, moving from a primarily unregulated to a primarily regulated business model, as a result of the acquisitions of LKE and WPD Midlands.

The weighted-average assumptions used in the model were:

	2013	2012	2011
Risk-free interest rate	0.36%	0.30%	1.00%
Expected stock volatility	15.50%	19.30%	23.40%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of performance units granted was:

	2013	2012	2011
PPL	\$ 34.15	\$ 31.41	\$ 29.67
PPL Energy Supply	34.29	31.40	29.68
PPL Electric	33.97	31.37	29.57
LKE	33.84	31.30	29.20

Performance unit activity for 2013 was:

	Performance Units	Weighted- Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	594,203	\$ 31.14
Granted	348,495	34.15
Forfeited	(149,499)	32.63
Nonvested, end of period	793,199	32.19
PPL Energy Supply		
Nonvested, beginning of period	124,189	\$ 31.26
Granted	74,614	34.29
Forfeited	(28,194)	33.47
Nonvested, end of period	170,609	32.22
PPL Electric		
Nonvested, beginning of period	26,083	\$ 31.10
Granted	18,666	33.97
Forfeited	(6,539)	32.78
Nonvested, end of period	38,210	32.22
LKE		
Nonvested, beginning of period	82,750	\$ 30.62
Granted	49,540	33.84
Forfeited	(2,660)	29.17
Nonvested, end of period	129,630	31.88

Stock Options

Under the Plans, stock options may be granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2013, become exercisable in equal installments over a three-year service period beginning one year after the date of grant, assuming the individual is still employed by PPL or a subsidiary. The CGNC and CLC have discretion to accelerate the exercisability of the options, except that the exercisability of an option issued under the ICP may not be accelerated unless the individual remains employed by PPL or a subsidiary for one year from the date of grant. All options expire no later than ten years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans. The fair value of options granted is recognized as compensation expense on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of options granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant.

The fair value of each option granted is estimated using a Black-Scholes option-pricing model. PPL uses a risk-free interest rate, expected option life, expected volatility and dividend yield to value its stock options. The risk-free interest rate reflects the yield for a U.S. Treasury Strip available on the date of grant with constant rate maturity approximating the option's expected life. Expected life is calculated based on historical exercise behavior. Volatility over the expected term of the options is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL's volatility in those prior periods. Management's expectations for future volatility, considering potential changes to PPL's business model and other economic conditions, are also reviewed in addition to the historical data to determine the final volatility assumption. Beginning in 2011, PPL began using a mix of historic and implied volatility in response to the significant changes in its business model, moving from a primarily unregulated to a primarily regulated business model, as a result of the acquisitions of LKE and WPD Midlands. The dividend yield is based on several factors, including PPL's most recent dividend payment, as of the grant date and the forecasted stock price. The assumptions used in the model were:

	2013	2012	2011
Risk-free interest rate	1.15%	1.13%	2.34%
Expected option life	6.48 years	6.17 years	5.71 years
Expected stock volatility	18.50%	20.60%	21.60%
Dividend yield	5.00%	5.00%	5.93%

The weighted-average grant date fair value of options granted was:

	2013	2012	2011
PPL	\$ 2.18	\$ 2.48	\$ 2.47
PPL Energy Supply	2.19	2.51	2.47
PPL Electric	2.19	2.50	2.47
LKE	2.18	2.51	2.47

Stock option activity for 2013 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
PPL				
Outstanding at beginning of period	9,134,545	\$ 30.36		
Granted	3,383,630	29.56		
Exercised	(1,136,693)	27.13		
Outstanding at end of period	11,381,482	30.45	6.6	\$ 15
Options exercisable at end of period	6,415,615	31.66	5.0	8
PPL Energy Supply				
Outstanding at beginning of period	2,265,123	\$ 30.45		
Transferred	88,546	25.67		
Granted	713,030	29.66		
Exercised	(221,363)	25.76		
Outstanding at end of period	2,845,336	30.47	6.2	\$ 4
Options exercisable at end of period	1,747,842	31.48	4.6	2
PPL Electric				
Outstanding at beginning of period	340,530	\$ 30.35		
Granted	191,670	29.49		
Outstanding at end of period	532,200	30.04	7.1	\$ 1
Options exercisable at end of period	260,950	31.24	5.5	
LKE				
Outstanding at beginning of period	634,847	\$ 27.11		
Granted	501,950	29.51		
Exercised	(139,641)	26.87		
Outstanding at end of period	997,156	28.35	8.4	\$ 2
Options exercisable at end of period	250,682	27.22	7.7	1

PPL received \$31 million in cash from stock options exercised in 2013. The related tax savings were not significant for 2013. Substantially all stock option awards are expected to vest.

The total intrinsic value of stock options exercised for 2013 was \$6 million and was not significant for 2012 and 2011.

Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards was as follows:

	2013	2012	2011
PPL	\$ 52	\$ 49	\$ 36
PPL Energy Supply	27	23	16
PPL Electric	10	11	8
LKE	8	8	5

The income tax benefit related to above compensation expense was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
PPL	\$ 22	\$ 20	\$ 15
PPL Energy Supply	11	10	6
PPL Electric	4	4	3
LKE	3	4	2

The income tax benefit PPL realized from stock-based awards vested or exercised for 2013 was not significant.

At December 31, 2013, unrecognized compensation expense related to nonvested restricted stock, restricted stock units, performance units and stock option awards was:

	<u>Unrecognized Compensation Expense</u>	<u>Weighted- Average Period for Recognition</u>
PPL	\$ 33	1.9 years
PPL Energy Supply	13	2.0 years
PPL Electric	3	2.0 years
LKE	2	1.7 years

13. Retirement and Postemployment Benefits

(All Registrants)

Defined Benefits

The majority of PPL's subsidiaries domestic employees are eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's domestic qualified pension plans were closed to newly hired salaried employees. Newly hired bargaining unit employees continue to be eligible under the plans based on their collective bargaining agreements. Salaried employees hired on or after January 1, 2012 are eligible to participate in the PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer matching.

The majority of PPL Montana employees are eligible for pension benefits under a cash balance pension plan. Effective January 1, 2012, that plan was closed to newly hired salaried employees. Eligibility of newly hired bargaining unit employees under the plan is based on their collective bargaining agreements. Salaried employees hired on or after January 1, 2012 are eligible to participate in the PPL Retirement Savings Plan.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Employees of certain of PPL Energy Supply's mechanical contracting companies are eligible for benefits under multiemployer plans sponsored by various unions.

Effective April 1, 2010, PPL WW's principal defined benefit pension plan was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands was acquired by PPL WEM on April 1, 2011. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plans are offered benefits under a defined contribution plan.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL's domestic subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to newly hired salaried employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. Postretirement benefits under the PPL Montana Retiree Health Plan are paid from company assets. WPD does not sponsor any postretirement benefit plans other than pensions.

(PPL)

The following table provides the components of net periodic defined benefit costs for PPL's domestic (U.S.) and WPD (U.K.) pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2013	2012	2011
	2013	2012	2011	2013	2012	2011			
Net periodic defined benefit costs									
(credits):									
Service cost	\$ 126	\$ 103	\$ 95	\$ 69	\$ 54	\$ 44	\$ 14	\$ 12	\$ 12
Interest cost	213	220	217	320	340	282	29	31	33
Expected return on plan assets	(293)	(259)	(245)	(465)	(458)	(338)	(25)	(23)	(23)
Amortization of:									
Transition (asset) obligation								2	2
Prior service cost (credit)	22	24	24	1	4	4		1	
Actuarial (gain) loss	80	42	30	150	79	57	6	4	6
Net periodic defined benefit costs									
(credits) prior to settlement									
charges and termination benefits	148	130	121	75	19	49	24	27	30
Settlement charges		11							
Termination benefits (a)				3	2	50			
Net periodic defined benefit costs									
(credits)	\$ 148	\$ 141	\$ 121	\$ 78	\$ 21	\$ 99	\$ 24	\$ 27	\$ 30
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Settlements		\$ (11)							
Net (gain) loss	\$ (319)	372	\$ 117	\$ 76	\$ 1,073	\$ 152	\$ (68)	\$ 13	\$ (9)
Prior service cost (credit)			8				(3)	(1)	10
Amortization of:									
Transition asset (obligation)								(2)	(2)
Prior service (cost) credit	(22)	(24)	(24)	(1)	(4)	(4)		(1)	
Actuarial gain (loss)	(80)	(42)	(30)	(150)	(79)	(57)	(6)	(4)	(6)
Total recognized in OCI and regulatory assets/liabilities (b)	(421)	295	71	(75)	990	91	(77)	5	(7)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (b)	\$ (273)	\$ 436	\$ 192	\$ 3	\$ 1,011	\$ 190	\$ (53)	\$ 32	\$ 23

(a) Related to the WPD Midlands separations in the U.K.

(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
OCI	\$ (228)	\$ 181	\$ 47	\$ (41)	\$ 12	\$ (6)
Regulatory assets/liabilities	(193)	114	24	(36)	(7)	(1)
Total recognized in OCI and regulatory assets/liabilities	\$ (421)	\$ 295	\$ 71	\$ (77)	\$ 5	\$ (7)

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs in 2014 are as follows:

	Pension Benefits	
	U.S.	U.K.
Prior service cost (credit)	\$ 20	
Actuarial (gain) loss	30	\$ 131
Total	<u>\$ 50</u>	<u>\$ 131</u>
Amortization from Balance Sheet:		
AOCI	\$ 22	\$ 131
Regulatory assets/liabilities	28	
Total	<u>\$ 50</u>	<u>\$ 131</u>

(PPL Energy Supply)

The following table provides the components of net periodic defined benefit costs for PPL Energy Supply's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Net periodic defined benefit costs (credits):						
Service cost	\$ 7	\$ 6	\$ 5	\$ 1	\$ 1	\$ 1
Interest cost	8	7	7		1	1
Expected return on plan assets	(10)	(9)	(9)			
Amortization of:						
Actuarial (gain) loss	3	2	2			
Net periodic defined benefit costs (credits)	<u>\$ 8</u>	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 2</u>
Other Changes in Plan Assets and Benefit Obligations						
Recognized in OCI:						
Net (gain) loss	\$ (15)	\$ 16	\$ 7	\$ (1)		\$ (2)
Prior service cost (credit)				(3)	(1)	
Amortization of:						
Actuarial gain (loss)	(3)	(2)	(2)			
Total recognized in OCI	<u>(18)</u>	<u>14</u>	<u>5</u>	<u>(4)</u>	<u>(1)</u>	<u>(2)</u>
Total recognized in net periodic defined benefit costs and OCI	<u>\$ (10)</u>	<u>\$ 20</u>	<u>\$ 10</u>	<u>\$ (3)</u>	<u>\$ 1</u>	<u>\$</u>

Actuarial loss of \$2 million related to PPL Energy Supply's pension plan is expected to be amortized from AOCI into net periodic defined benefit costs in 2014.

(LKE)

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Net periodic defined benefit costs (credits):						
Service cost	\$ 26	\$ 22	\$ 24	\$ 5	\$ 4	\$ 4
Interest cost	62	64	67	8	9	10
Expected return on plan assets	(82)	(70)	(64)	(5)	(4)	(3)
Amortization of:						
Transition (asset) obligation					2	2
Prior service cost (credit)	5	5	5	3	3	2
Actuarial (gain) loss	33	22	24		(1)	
Net periodic defined benefit costs (credits)	<u>\$ 44</u>	<u>\$ 43</u>	<u>\$ 56</u>	<u>\$ 11</u>	<u>\$ 13</u>	<u>\$ 15</u>

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:						
Net (gain) loss	\$ (116)	\$ 96	\$ 29	\$ (14)	\$ (11)	\$ (3)
Prior service cost (credit)			8			11
Amortization of:						
Transition (asset) obligation					(2)	(2)
Prior service (cost) credit	(5)	(5)	(5)	(3)	(3)	(2)
Actuarial gain (loss)	(33)	(22)	(24)		1	
Total recognized in OCI and regulatory assets/liabilities	(154)	69	8	(17)	(15)	4
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities						
	\$ (110)	\$ 112	\$ 64	\$ (6)	\$ (2)	\$ 19

For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
OCI	\$ (46)	\$ 34	\$ 1	\$ (1)	\$ (1)	\$ 2
Regulatory assets/liabilities	(108)	35	7	(16)	(14)	2
Total recognized in OCI and regulatory assets/liabilities	(154)	69	8	(17)	(15)	4

The estimated amounts to be amortized from regulatory assets/liabilities into net periodic defined benefit costs for LKE in 2014 are as follows.

	Pension Benefits	Other Postretirement Benefits
Prior service cost (credit)	\$ 5	\$ 2
Actuarial (gain) loss	13	(1)
Total	\$ 18	\$ 1
Amortization from Balance Sheet:		
Regulatory assets/liabilities	\$ 18	\$ 1
Total	\$ 18	\$ 1

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31.

	Pension Benefits		
	2013	2012	2011
Net periodic defined benefit costs (credits):			
Service cost	\$ 2	\$ 2	\$ 2
Interest cost	14	14	14
Expected return on plan assets	(20)	(19)	(18)
Amortization of:			
Prior service cost (credit)	2	3	2
Actuarial (gain) loss	14	11	11
Net periodic defined benefit costs (credits)	\$ 12	\$ 11	\$ 11

	Pension Benefits		
	2013	2012	2011
Other Changes in Plan Assets and Benefit Obligations			
Recognized in Regulatory Assets - Gross:			
Net (gain) loss	\$ (20)	\$ 18	\$ 15
Prior service cost (credit)			9
Amortization of:			
Prior service (cost) credit	(2)	(2)	(2)
Actuarial gain (loss)	(14)	(11)	(11)
Total recognized in regulatory assets/liabilities	(36)	5	11
Total recognized in net periodic defined benefit costs and regulatory assets	\$ (24)	\$ 16	\$ 22

The estimated amounts to be amortized from regulatory assets into net periodic defined benefit costs for LG&E in 2014 are as follows.

	Pension Benefits
Prior service cost (credit)	\$ 2
Actuarial (gain) loss	6
Total	\$ 8

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to operating expense, excluding amounts charged to construction and other non-expense accounts. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2013	2012	2011
	2013	2012	2011	2013	2012	2011	2013	2012	2011
PPL	\$ 117	\$ 119	\$ 98	\$ 33	\$ 25	\$ 82	\$ 19	\$ 22	\$ 24
PPL Energy Supply	45	37	27				6	6	7
PPL Electric (a)	18	19	14				3	3	4
LKE	32	31	40				8	9	11
LG&E	14	13	16				4	5	5
KU (a)	9	8	10				2	3	4

(a) PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric and KU were allocated these costs of defined benefit plans sponsored by PPL Services (for PPL Electric) and by LKE (for KU), based on their participation in those plans, which management believes are reasonable.

In the table above, for PPL Energy Supply and LG&E, amounts include costs for the specific plans each sponsors and the following allocated costs of defined benefit plans sponsored by PPL Services (for PPL Energy Supply) and by LKE (for LG&E), based on their participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
PPL Energy Supply	\$ 38	\$ 31	\$ 23	\$ 5	\$ 5	\$ 6
LG&E	5	5	7	4	5	5

(All Registrants except PPL Electric and KU)

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2013	2012
	2013	2012	2013	2012	2013	2012
PPL						
Discount rate	5.12%	4.22%	4.41%	4.27%	4.91%	4.00%
Rate of compensation increase	3.97%	3.98%	4.00%	4.00%	3.96%	3.97%

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2013	2012
	2013	2012	2013	2012		
PPL Energy Supply						
Discount rate	5.18%	4.25%			4.51%	3.77%
Rate of compensation increase	3.94%	3.95%			3.94%	3.95%
LKE						
Discount rate	5.18%	4.24%			4.91%	3.99%
Rate of compensation increase	4.00%	4.00%			4.00%	4.00%
LG&E						
Discount rate	5.13%	4.20%				

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2013	2012	2011
	2013	2012	2011	2013	2012	2011			
PPL									
Discount rate	4.22%	5.06%	5.42%	4.27%	5.24%	5.59%	4.00%	4.80%	5.14%
Rate of compensation increase	3.98%	4.02%	4.88%	4.00%	4.00%	3.75%	3.97%	4.00%	4.90%
Expected return on plan assets (a)	7.03%	7.07%	7.25%	7.16%	7.17%	7.04%	5.94%	5.99%	6.57%
PPL Energy Supply									
Discount rate	4.25%	5.12%	5.47%				3.77%	4.60%	4.95%
Rate of compensation increase	3.95%	4.00%	4.75%				3.95%	4.00%	4.75%
Expected return on plan assets (a)	7.00%	7.00%	7.25%				N/A	N/A	N/A
LKE									
Discount rate	4.24%	5.09%	5.49%				3.99%	4.78%	5.12%
Rate of compensation increase	4.00%	4.00%	5.25%				4.00%	4.00%	5.25%
Expected return on plan assets (a)	7.10%	7.25%	7.25%				6.76%	7.02%	7.16%
LG&E									
Discount rate	4.20%	5.00%	5.39%						
Expected return on plan assets (a)	7.10%	7.25%	7.25%						

(a) The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

(PPL, PPL Energy Supply and LKE)

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2013	2012	2011
PPL and PPL Energy Supply			
Health care cost trend rate assumed for next year			
- obligations	7.6%	8.0%	8.5%
- cost	8.0%	8.5%	9.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
- obligations	5.0%	5.5%	5.5%
- cost	5.5%	5.5%	5.5%
Year that the rate reaches the ultimate trend rate			
- obligations	2020	2019	2019
- cost	2019	2019	2019
LKE			
Health care cost trend rate assumed for next year			
- obligations	7.6%	8.0%	8.5%
- cost	8.0%	8.5%	9.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
- obligations	5.0%	5.5%	5.5%
- cost	5.5%	5.5%	5.5%
Year that the rate reaches the ultimate trend rate			
- obligations	2020	2019	2019
- cost	2019	2019	2019

A one percentage point change in the assumed health care costs trend rate assumption would have had the following effects on the other postretirement benefit plans in 2013:

	One Percentage Point	
	Increase	Decrease
Effect on accumulated postretirement benefit obligation		
PPL	\$ 6	\$ (5)
LKE	5	(4)

The effects on PPL Energy Supply's other postretirement benefit plan would not have been significant.

(PPL)

The funded status of PPL's plans at December 31 was as follows:

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2013	2012
	2013	2012	2013	2012		
Change in Benefit Obligation						
Benefit Obligation, beginning of period	\$ 5,046	\$ 4,381	\$ 7,888	\$ 6,638	\$ 722	\$ 687
Service cost	126	103	69	54	14	12
Interest cost	213	220	320	340	29	31
Participant contributions			15	15	12	6
Plan amendments					(4)	(1)
Actuarial (gain) loss	(540)	546	46	1,081	(54)	31
Settlements		(25)				
Termination benefits			3	2		
Net transfer in (out)				12		
Actual expenses paid		(3)				
Gross benefits paid (a)	(254)	(176)	(375)	(397)	(57)	(46)
Federal subsidy						2
Currency conversion			177	143		
Benefit Obligation, end of period	<u>4,591</u>	<u>5,046</u>	<u>8,143</u>	<u>7,888</u>	<u>662</u>	<u>722</u>
Change in Plan Assets						
Plan assets at fair value, beginning of period	3,939	3,471	6,911	6,351	421	391
Actual return on plan assets	72	432	438	476	37	42
Employer contributions	399	239	134	341	30	27
Participant contributions			15	15	12	5
Settlements		(25)				
Actual expenses paid		(2)				
Gross benefits paid (a)	(254)	(176)	(375)	(397)	(54)	(44)
Currency conversion			161	125		
Plan assets at fair value, end of period	<u>4,156</u>	<u>3,939</u>	<u>7,284</u>	<u>6,911</u>	<u>446</u>	<u>421</u>
Funded Status, end of period	<u>\$ (435)</u>	<u>\$ (1,107)</u>	<u>\$ (859)</u>	<u>\$ (977)</u>	<u>\$ (216)</u>	<u>\$ (301)</u>
Amounts recognized in the Balance						
Sheets consist of:						
Current liability	\$ (8)	\$ (8)			\$ (1)	\$ (1)
Noncurrent liability	(427)	(1,099)	(859)	(977)	(215)	(300)
Net amount recognized, end of period	<u>\$ (435)</u>	<u>\$ (1,107)</u>	<u>\$ (859)</u>	<u>\$ (977)</u>	<u>\$ (216)</u>	<u>\$ (301)</u>
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:						
Prior service cost (credit)	\$ 69	\$ 91		\$ 1	\$ (11)	\$ (7)
Net actuarial (gain) loss	842	1,241	2,112	2,184	33	106
Total (b)	<u>\$ 911</u>	<u>\$ 1,332</u>	<u>\$ 2,112</u>	<u>\$ 2,185</u>	<u>\$ 22</u>	<u>\$ 99</u>
Total accumulated benefit obligation for defined benefit pension plans	<u>\$ 4,191</u>	<u>\$ 4,569</u>	<u>\$ 7,542</u>	<u>\$ 7,259</u>		

(a) Certain U.S. pension plans offered a limited-time program in 2013 during which terminated vested participants could elect to receive their accrued pension benefit as a one-time lump sum payment. The increase in gross benefits paid is primarily the result of \$64 million of lump-sum cash payments made to terminated vested participants in 2013 in connection with these offerings.

(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
AOCI	\$ 430	\$ 659	\$ 19	\$ 59
Regulatory assets/liabilities	481	673	3	40
Total	\$ 911	\$ 1,332	\$ 22	\$ 99

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	U.S.		U.K.	
	PBO in excess of plan assets		PBO in excess of plan assets	
	2013	2012	2013	2012
Projected benefit obligation	\$ 4,591	\$ 5,046	\$ 8,143	\$ 7,888
Fair value of plan assets	4,156	3,939	7,284	6,911

	U.S.		U.K.	
	ABO in excess of plan assets		ABO in excess of plan assets	
	2013	2012	2013	2012
Accumulated benefit obligation	\$ 572	\$ 4,569	\$ 3,441	\$ 3,349
Fair value of plan assets	431	3,939	3,131	2,812

(PPL Energy Supply)

The funded status of PPL Energy Supply's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Change in Benefit Obligation				
Benefit Obligation, beginning of period	\$ 176	\$ 143	\$ 17	\$ 17
Service cost	7	6	1	1
Interest cost	8	7		1
Plan amendments			(4)	(1)
Actuarial (gain) loss	(23)	23	(1)	
Gross benefits paid	(5)	(3)	(1)	(1)
Benefit Obligation, end of period	163	176	12	17
Change in Plan Assets				
Plan assets at fair value, beginning of period	149	132		
Actual return on plan assets	3	16		
Employer contributions		4	1	
Gross benefits paid	(5)	(3)	(1)	
Plan assets at fair value, end of period	147	149		
Funded Status, end of period	\$ (16)	\$ (27)	\$ (12)	\$ (17)
Amounts recognized in the Balance				
Sheets consist of:				
Current liability			\$ (1)	\$ (1)
Noncurrent liability	\$ (16)	\$ (27)	(11)	(16)
Net amount recognized, end of period	\$ (16)	\$ (27)	\$ (12)	\$ (17)
Amounts recognized in AOCI (pre-tax) consist of:				
Prior service cost (credit)			\$ (5)	\$ (1)
Net actuarial (gain) loss	\$ 34	\$ 52	1	2
Total	\$ 34	\$ 52	\$ (4)	\$ 1
Total accumulated benefit obligation for defined benefit pension plans				
	\$ 163	\$ 176		

PPL Energy Supply's pension plan had projected and accumulated benefit obligations in excess of the fair value of plan assets at December 31, 2013 and 2012.

In addition to the plans it sponsors, PPL Energy Supply and its subsidiaries are allocated a portion of the funded status and costs of the defined benefit plans sponsored by PPL Services based on their participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Energy Supply resulted in liabilities at December 31 as follows:

	2013	2012
Pension	\$ 96	\$ 268
Other postretirement benefits	35	60

(LKE)

The funded status of LKE's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Change in Benefit Obligation				
Benefit Obligation, beginning of period	\$ 1,487	\$ 1,306	\$ 209	\$ 214
Service cost	26	22	5	4
Interest cost	62	63	8	9
Participant contributions			7	8
Actuarial (gain) loss	(177)	144	(18)	(8)
Gross benefits paid (a)	(70)	(48)	(18)	(19)
Federal subsidy				1
Benefit Obligation, end of period	<u>1,328</u>	<u>1,487</u>	<u>193</u>	<u>209</u>
Change in Plan Assets				
Plan assets at fair value, beginning of period	1,070	944	68	58
Actual return on plan assets	21	117	1	8
Employer contributions	152	57	16	13
Participant contributions			7	8
Gross benefits paid (a)	(70)	(48)	(18)	(19)
Plan assets at fair value, end of period	<u>1,173</u>	<u>1,070</u>	<u>74</u>	<u>68</u>
Funded Status, end of period	<u>\$ (155)</u>	<u>\$ (417)</u>	<u>\$ (119)</u>	<u>\$ (141)</u>
Amounts recognized in the Balance				
Sheets consist of:				
Current liability	\$ (3)	\$ (3)		
Noncurrent liability	(152)	(414)	(119)	(141)
Net amount recognized, end of period	<u>\$ (155)</u>	<u>\$ (417)</u>	<u>\$ (119)</u>	<u>\$ (141)</u>
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Prior service cost (credit)	\$ 24	\$ 28	\$ 8	\$ 11
Net actuarial (gain) loss	205	355	(30)	(17)
Total	<u>\$ 229</u>	<u>\$ 383</u>	<u>\$ (22)</u>	<u>\$ (6)</u>
Total accumulated benefit obligation for defined benefit pension plans				
	<u>\$ 1,176</u>	<u>\$ 1,319</u>		

(a) Certain LKE pension plans offered a limited-time program in 2013 during which terminated vested participants could elect to receive their accrued pension benefit as a one-time lump-sum payment. The increase in gross benefits paid is primarily the result of \$21 million of lump-sum cash payments made to terminated vested participants in 2013 in connection with these offerings.

The amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
AOCI	\$ (19)	\$ 27		
Regulatory assets/liabilities	248	356	(22)	(6)
Total	<u>\$ 229</u>	<u>\$ 383</u>	<u>\$ (22)</u>	<u>\$ (6)</u>

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	PBO in excess of plan assets	
	2013	2012
Projected benefit obligation	\$ 1,328	\$ 1,487
Fair value of plan assets	1,173	1,070
	ABO in excess of plan assets	
	2013	2012
Accumulated benefit obligation	\$ 350	\$ 1,319
Fair value of plan assets	284	1,070

(LG&E)

The funded status of LG&E's plan at December 31, was as follows:

	Pension Benefits	
	2013	2012
Change in Benefit Obligation		
Benefit Obligation, beginning of period	\$ 331	\$ 298
Service cost	2	1
Interest cost	14	14
Actuarial (gain) loss	(35)	32
Gross benefits paid (a)	(21)	(14)
Benefit Obligation, end of period	291	331
Change in Plan Assets		
Plan assets at fair value, beginning of period	287	256
Actual return on plan assets	4	32
Employer contributions	11	13
Gross benefits paid (a)	(21)	(14)
Plan assets at fair value, end of period	281	287
Funded Status, end of period	\$ (10)	\$ (44)
Amounts recognized in the Balance Sheets consist of:		
Noncurrent liability	\$ (10)	\$ (44)
Net amount recognized, end of period	\$ (10)	\$ (44)
Amounts recognized in regulatory assets (pre-tax) consist of:		
Prior service cost (credit)	\$ 15	\$ 17
Net actuarial (gain) loss	90	123
Total	\$ 105	\$ 140
Total accumulated benefit obligation for defined benefit pension plan	\$ 288	\$ 328

(a) LG&E's pension plan offered a limited-time program in 2013 during which terminated vested participants could elect to receive their accrued pension benefit as a one-time lump-sum payment. The increase in gross benefits paid is primarily the result of \$7 million of lump-sum cash payments made to terminated vested participants in 2013 in connection with this offering.

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2013 and 2012.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in liabilities at December 31 as follows:

	2013	2012
Pension	\$ 9	\$ 58
Other postretirement benefits	73	81

(PPL and PPL Energy Supply)

PPL Energy Supply's mechanical contracting subsidiaries make contributions to over 70 multiemployer pension plans, based on the bargaining units from which labor is procured. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers .
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If PPL Energy Supply's mechanical contracting subsidiaries choose to stop participating in some of their multiemployer plans, they may be required to pay those plans an amount based on the unfunded status of the plan, referred to as a withdrawal liability.

PPL Energy Supply identified the Steamfitters Local Union No. 420 Pension Plan, EIN/Plan Number 23-2004424/001 as the only significant plan to which contributions are made. Contributions to this plan by PPL Energy Supply's mechanical contracting companies were \$5 million for 2013, 2012 and 2011. At the date the financial statements were issued, the Form 5500 was not available for the plan year ending in 2013. Therefore, the following disclosures specific to this plan are being made based on the Form 5500s filed for the plan years ended December 31, 2012 and 2011. PPL Energy Supply's mechanical contracting subsidiaries were not identified individually as greater than 5% contributors on the Form 5500s. However, the combined contributions of the three subsidiaries contributing to the plan had exceeded 5%. The plan had a Pension Protection Act zone status of red and yellow, without utilizing an extended amortization period, as of December 31, 2012 and 2011. In addition, the plan is subject to a rehabilitation plan and surcharges have been applied to participating employer contributions. The expiration date of the collective-bargaining agreement related to those employees participating in this plan is April 30, 2014. There were no other plans deemed individually significant based on a multifaceted assessment of each plan. This assessment included review of the funded/zone status of each plan and PPL Energy Supply's potential obligations under the plan and the number of participating employers contributing to the plan.

PPL Energy Supply's mechanical contracting subsidiaries also participate in multiemployer other postretirement plans that provide for retiree life insurance and health benefits.

The table below details total contributions to all multiemployer pension and other postretirement plans, including the plan identified as significant above. The contribution amounts fluctuate each year based on the volume of work and type of projects undertaken from year to year.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Pension Plans	\$ 36	\$ 31	\$ 36
Other Postretirement Benefit Plans	32	28	31
Total Contributions	<u>\$ 68</u>	<u>\$ 59</u>	<u>\$ 67</u>

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows.

	<u>2013</u>	<u>2012</u>
Pension	\$ 96	\$ 237
Other postretirement benefits	41	61

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in liabilities at December 31 as follows.

	2013	2012
Pension	\$ 11	\$ 104
Other postretirement benefits	42	53

Plan Assets - U.S. Pension Plans

(All Registrants except PPL Electric and KU)

PPL's primary legacy pension plan, the pension plans sponsored by LKE and the pension plan in which employees of PPL Montana participate are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL and LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio on a plan basis based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio on a plan basis, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines on a plan basis, as well as the weighted average of such guidelines, as of the end of 2013 are presented below.

The asset allocation for the trusts and the target allocation by portfolio, at December 31, are as follows:

	Percentage of trust assets		2013 Target Asset Allocation (a)		
	2013 (a)	2012	Weighted Average	PPL Plans	LKE Plans
Growth Portfolio	59%	58%	55%	55%	55%
Equity securities	30%	31%			
Debt securities (b)	17%	18%			
Alternative investments	12%	9%			
Immunizing Portfolio	39%	41%	43%	43%	43%
Debt securities (b)	40%	40%			
Derivatives	(1%)	1%			
Liquidity Portfolio	2%	1%	2%	2%	2%
Total	100%	100%			

(a) Allocations exclude consideration of cash for the WKE Bargaining Employees' Retirement Plan and a guaranteed annuity contract held by the LG&E and KU Retirement Plan.

(b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

(PPL Energy Supply)

PPL Montana, a subsidiary of PPL Energy Supply, has a pension plan whose assets are invested solely in the PPL Services Corporation Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$147 million and \$149 million at December 31, 2013 and 2012 represents an interest of approximately 3% and 4% in the Master Trust.

(LKE)

LKE has pension plans, including LG&E's plan, whose assets are invested solely in the PPL Services Corporation Master Trust, which is fully disclosed below. The fair value of these plans' assets of \$1.2 billion and \$1.1 billion at December 31, 2013 and 2012 represents an interest of approximately 29% and 26% in the Master Trust.

(LG&E)

LG&E has a pension plan whose assets are invested solely in the PPL Services Corporation Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$281 million and \$287 million at December 31, 2013 and 2012 represents an interest of approximately 7% in the Master Trust for both years.

(All Registrants except PPL Electric and KU)

The fair value of net assets in the U.S. pension plan trusts by asset class and level within the fair value hierarchy was:

	December 31, 2013				December 31, 2012			
	Total	Fair Value Measurements Using			Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	\$ 120	\$ 120			\$ 84	\$ 84		
Equity securities:								
U.S.:								
Large-cap	480	134	\$ 346		558	206	\$ 352	
Small-cap	137	137			124	124		
Commingled debt	749	13	736		676	56	620	
International	630	163	467		557	184	373	
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	617	563	54		704	634	70	
Residential/commercial backed securities	12		11	\$ 1	12		11	\$ 1
Corporate	963		940	23	874		847	27
Other	24		24		24		23	1
International	7		7		7		7	
Alternative investments:								
Commodities	108		108		59		59	
Real estate	134		134		93		93	
Private equity	80			80	75			75
Hedge funds	210		210		125		125	
Derivatives:								
Interest rate swaps and swaptions	(49)		(49)		36		36	
Other	12		12		2		2	
Insurance contracts	37			37	42			42
PPL Services Corporation Master Trust assets, at fair value	4,271	\$ 1,130	\$ 3,000	\$ 141	4,052	\$ 1,288	\$ 2,618	\$ 146
Receivables and payables, net (a)					(11)			
401(h) account restricted for other postretirement benefit obligations	(115)				(102)			
Total PPL Services Corporation Master Trust pension assets	\$ 4,156				\$ 3,939			

(a) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

A reconciliation of U.S. pension trust assets classified as Level 3 at December 31, 2013 is as follows:

	Residential/ commercial backed securities	Corporate debt	Private equity	Insurance contracts	Other debt	Total
Balance at beginning of period	\$ 1	\$ 27	\$ 75	\$ 42	\$ 1	\$ 146
Actual return on plan assets						
Relating to assets still held at the reporting date			3	2		5
Relating to assets sold during the period		5				5
Purchases, sales and settlements		(9)	2	(7)		(14)
Transfers from level 3 to level 2					(1)	(1)
Balance at end of period	<u>\$ 1</u>	<u>\$ 23</u>	<u>\$ 80</u>	<u>\$ 37</u>	<u>\$</u>	<u>\$ 141</u>

A reconciliation of U.S. pension trust assets classified as Level 3 at December 31, 2012 is as follows:

	Residential/ commercial backed securities	Corporate debt	Private equity	Insurance contracts	Other debt	Total
Balance at beginning of period		\$ 7	\$ 45	\$ 46		\$ 98
Actual return on plan assets						
Relating to assets still held at the reporting date		1	10	3		14
Relating to assets sold during the period		2				2
Purchases, sales and settlements	\$ 1	21	20	(7)		35
Transfers from level 2 to level 3					\$ 1	1
Transfers from level 3 to level 2		(4)				(4)
Balance at end of period	<u>\$ 1</u>	<u>\$ 27</u>	<u>\$ 75</u>	<u>\$ 42</u>	<u>\$ 1</u>	<u>\$ 146</u>

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. These investments are classified as Level 2, except for exchange-traded funds, which are classified as Level 1 based on quoted prices in active markets. The fair value measurements for Level 2 investments are based on firm quotes of net asset values per share, which are not considered obtained from a quoted price in an active market. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluated prices that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models which incorporate observable inputs. Common inputs include benchmark yields, reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as monthly payment data, future predicted cash flows, collateral performance and new issue data. For the PPL Services Corporation Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations; and exchange traded funds.

Investments in commodities represent ownership of units of a commingled fund that is invested as a long-only, unleveraged portfolio of exchange-traded futures and forward contracts in tangible commodities to obtain broad exposure to all principal groups in the global commodity markets, including energies, agriculture and metals (both precious and industrial) using proprietary commodity trading strategies. The fund has daily liquidity with a specified notification period. The fund's fair value is based upon a unit value as calculated by the fund's trustee.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The manager is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. Four of the partnerships have limited lives of ten years, while the fifth has a life of 15 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The PPL Services Corporation Master Trust has unfunded commitments of \$76 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in three hedge fund of funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under all market conditions. Major investment strategies for the hedge fund of funds include long/short equity, market neutral, distressed debt, and relative value. Generally, shares may be redeemed with 65 to 95 days prior written notice. The funds are subject to short term lockups and have limitations on the amount that may be withdrawn based on a percentage of the total net asset value of the fund, among other restrictions. All withdrawals are subject to the general partner's approval. The fair value for two of the funds has been estimated using the net asset value per share and the third fund's fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in interest rate swaps and swaptions (the option to enter into an interest rate swap) which are valued based on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

Plan Assets - U.S. Other Postretirement Benefit Plans

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the PPL Services Corporation Master Trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the PPL VEBA trusts, excluding LKE, and the target allocation, by asset class, at December 31 are detailed below.

Asset Class	Percentage of plan assets		Target Asset
	2013	2012	Allocation 2013
U.S. Equity securities	55%	46%	45%
Debt securities (a)	41%	51%	50%
Cash and cash equivalents (b)	4%	3%	5%
Total	100%	100%	100%

(a) Includes commingled debt funds and debt securities.

(b) Includes money market funds.

LKE's other postretirement benefit plan is invested primarily in a 401(h) account, with insignificant amounts invested in money market funds within VEBA trusts for liquidity.

The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2013				December 31, 2012			
	Fair Value Measurement Using				Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Money market funds	\$ 12	\$ 12			\$ 13	\$ 13		
U.S. Equity securities:								
Large-cap	182		\$ 182		145		\$ 145	
Commingled debt	100		100		119		119	
Debt securities:								
Municipalities	36		36		41		41	
Total VEBA trust assets, at fair value	330	\$ 12	\$ 318		318	\$ 13	\$ 305	
Receivables and payables, net (a)	1				1			
401(h) account assets (b)	115				102			
Total other postretirement benefit plan assets	\$ 446				\$ 421			

(a) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

(b) LKE's other postretirement benefit plan was invested primarily in a 401(h) account as disclosed in the PPL Services Corporation Master Trust.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a high level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Fair value measurements are not obtained from a quoted price in an active market but are based on firm quotes of net asset values per share as provided by the trustee of the fund. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities. Redemptions can be made weekly on these funds.

Investments in municipalities represent investments in a diverse mix of tax-exempt municipal securities. The fair value measurements for these securities are based on recently executed transactions for identical securities or for similar securities.

Plan Assets - U.K. Pension Plans (PPL)

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principles in compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset types, fund strategies and fund managers; and therefore, have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.

Asset Class	Percentage of plan assets		Target Asset Allocation
	2013	2012	2013
Equity securities			
U.K.	7%	6%	7%
European (excluding the U.K.)	5%	14%	4%
Asian-Pacific	3%		3%
North American	5%		5%
Emerging markets	8%	3%	8%
Currency	7%	2%	3%
Global Tactical Asset Allocation	19%	18%	19%
Debt securities (a)	40%	51%	45%
Alternative investments	6%	6%	6%
Total	100%	100%	100%

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2013				December 31, 2012			
	Total	Fair Value Measurement Using			Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 10	\$ 10			\$ 14	\$ 14		
Equity securities:								
U.K. companies	523	267	\$ 256		440	223	\$ 217	
European companies (excluding the U.K.)	355	275	80		956	720	236	
Asian-Pacific companies	226	180	46					
North American companies	352	254	98					
Emerging markets companies	411	126	285		231		231	
Global Equities	161		161					
Currency	485		485		127		127	
Global Tactical Asset Allocation	1,384		1,384		1,220		1,220	
Commingled debt:								
U.K. corporate bonds	504		504		593		593	
U.K. gilts	2,426		2,426		2,907		2,907	
Alternative investments:								
Real estate	447		447		423		423	
Fair value - U.K. pension plans	\$ 7,284	\$ 1,112	\$ 6,172		\$ 6,911	\$ 957	\$ 5,954	

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.

Investments in equity securities represent actively and passively managed funds that are measured against various equity indices. The Global Tactical Asset Allocation strategy attempts to benefit from short-term market inefficiencies by taking positions in worldwide markets with the objective to profit from relative movements across those markets.

U.K. corporate bonds include investment grade corporate bonds of companies from diversified U.K. industries.

U.K. gilts include gilts, index-linked gilts and swaps intended to track a portion of the plans' liabilities.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

Expected Cash Flows - U.S. Defined Benefit Plans (PPL)

PPL's U.S. defined benefit plans have the option to utilize available prior year credit balances to meet current and future contribution requirements. However, PPL contributed \$96 million to its U.S. pension plans in January 2014.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately \$8 million of benefit payments under these plans in 2014.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute \$21 million to its other postretirement benefit plans in 2014.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by PPL.

	Pension	Other Postretirement	
		Benefit Payment	Expected Federal Subsidy
2014	\$ 211	\$ 53	\$ 1
2015	222	55	1
2016	234	57	1
2017	250	59	1
2018	264	62	1
2019-2023	1,545	338	3

(PPL Energy Supply)

The PPL Montana pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. However, PPL Montana contributed \$6 million to its pension plan in January 2014.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans.

	Pension	Other Postretirement	
		Benefit Payment	Expected Federal Subsidy
2014	\$ 5	\$ 1	1
2015	6	2	2
2016	6	2	2
2017	7	2	2
2018	8	2	2
2019-2023	52	11	11

(LKE)

LKE's defined benefit plans have the option to utilize available prior year credit balances to meet current and future contribution requirements. However, LKE contributed \$35 million to its pension plans in January 2014.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make \$3 million of benefit payments under these plans in 2014.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute \$13 million to its other postretirement benefit plan in 2014.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by LKE.

	Pension	Other Postretirement	
		Benefit Payment	Expected Federal Subsidy
2014	\$ 58	\$ 13	\$ 1
2015	57	13	1
2016	60	14	1
2017	64	14	1
2018	69	15	1
2019-2023	425	81	2

(LG&E)

LG&E's defined benefit plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. LG&E does not plan to contribute to its pension plan in 2014.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plan.

	<u>Pension</u>
2014	\$ 15
2015	15
2016	15
2017	16
2018	17
2019-2023	99

Expected Cash Flows - U.K. Pension Plans (PPL)

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Contribution requirements for periods after April 1, 2014 were evaluated in accordance with the draft valuations performed as of March 31, 2013. Contributions for periods prior to March 31, 2014 were based on a valuation as of June 30, 2011 for the PPL WEM plan and as of March 31, 2010 for the PPL WW plan. WPD expects to make contributions of approximately \$313 million in 2014. WPD is currently permitted to recover in rates approximately 75% of their deficit funding requirements for their primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans.

	<u>Pension</u>
2014	\$ 387
2015	392
2016	397
2017	402
2018	410
2019-2023	2,128

Savings Plans (All Registrants)

Substantially all employees of PPL's domestic subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
PPL	\$ 41	\$ 36	\$ 31
PPL Energy Supply	12	12	11
PPL Electric	6	5	5
LKE	13	12	11
LG&E	7	6	5
KU	6	6	6

(PPL, PPL Energy Supply and PPL Electric)

Employee Stock Ownership Plan

PPL sponsors a non-leveraged ESOP in which domestic employees, excluding those of PPL Montana, LKE and the mechanical contractors, are enrolled on the first day of the month following eligible employee status. Dividends paid on ESOP shares are treated as ordinary dividends by PPL. Under existing income tax laws, PPL is permitted to deduct the amount of those dividends for income tax purposes and to contribute the resulting tax savings (dividend-based contribution) to the ESOP.

The dividend-based contribution, which is discretionary, is used to buy shares of PPL's common stock and is expressly conditioned upon the deductibility of the contribution for federal income tax purposes. Contributions to the ESOP are allocated to eligible participants' accounts as of the end of each year, based 75% on shares held in existing participants' accounts and 25% on the eligible participants' compensation.

For 2013, PPL did not record compensation expense related to the ESOP as no contribution will be made. Compensation expense for ESOP contributions was \$8 million in 2012 and 2011. These amounts were offset by the dividend-based contribution tax savings and had no impact on PPL's earnings.

PPL shares within the ESOP at December 31, 2013 were 7,699,472, or 1% of total common shares outstanding, and are included in all EPS calculations.

Separation Benefits

Certain PPL subsidiaries provide separation benefits to eligible employees. These benefits may be provided in the case of separations due to performance issues, loss of job related qualifications or organizational changes. Until December 1, 2012, certain employees separated were eligible for cash severance payments, outplacement services, accelerated stock award vesting, continuation of group health and welfare coverage, and enhanced pension and postretirement medical benefits. As of December 1, 2012, separation benefits for certain employees were changed to eliminate accelerated stock award vesting and enhanced pension and postretirement medical benefits. Also, the continuation of group health and welfare coverage was replaced with a single sum payment approximating the dollar amount of premium payments that would be incurred for continuation of group health and welfare coverage. Separation benefits are recorded when such amounts are probable and estimable.

Separation benefits were not significant in 2013 and 2012.

See Note 10 for separation benefits recorded in 2011 in connection with a reorganization following the acquisition of WPD Midlands.

14. Jointly Owned Facilities

(All Registrants except PPL Electric)

At December 31, 2013 and 2012, the Balance Sheets reflect the owned interests in the facilities listed below.

	Ownership Interest	Electric Plant	Other Property	Accumulated Depreciation	Construction Work in Progress
PPL					
December 31, 2013					
Generating Plants					
Susquehanna	90.00%	\$ 4,686		\$ 3,545	\$ 76
Conemaugh	16.25%	247		131	63
Keystone	12.34%	207		91	2
Trimble County Units 1 & 2	75.00%	1,288		144	54
Merrill Creek Reservoir	8.37%		\$ 22	16	
December 31, 2012					
Generating Plants					
Susquehanna	90.00%	\$ 4,628		\$ 3,530	\$ 65
Conemaugh	16.25%	238		122	30
Keystone	12.34%	206		82	3
Trimble County Units 1 & 2	75.00%	1,279		112	43
Merrill Creek Reservoir	8.37%		\$ 22	15	
PPL Energy Supply					
December 31, 2013					
Generating Plants					
Susquehanna	90.00%	\$ 4,686		\$ 3,545	\$ 76
Conemaugh	16.25%	247		131	63
Keystone	12.34%	207		91	2
Merrill Creek Reservoir	8.37%		\$ 22	16	
December 31, 2012					
Generating Plants					
Susquehanna	90.00%	\$ 4,628		\$ 3,530	\$ 65
Conemaugh	16.25%	238		122	30
Keystone	12.34%	206		82	3
Merrill Creek Reservoir	8.37%		\$ 22	15	

	Ownership Interest	Electric Plant	Other Property	Accumulated Depreciation	Construction Work in Progress
LKE					
December 31, 2013					
Generating Plants					
Trimble County Unit 1	75.00%	\$ 308		\$ 42	\$ 18
Trimble County Unit 2	75.00%	980		102	36
December 31, 2012					
Generating Plants					
Trimble County Unit 1	75.00%	\$ 304		\$ 33	\$ 10
Trimble County Unit 2	75.00%	975		79	33

LG&E					
December 31, 2013					
Generating Plants					
E.W. Brown Units 6-7	38.00%	\$ 40		\$ 7	\$ 1
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	46		5	1
Trimble County Unit 1	75.00%	308		42	18
Trimble County Unit 2	14.25%	200		19	14
Trimble County Units 5-6	29.00%	29		3	
Trimble County Units 7-10	37.00%	69		7	1
Cane Run Unit 7	22.00%				91
Green River Unit 5	40.00%				1
December 31, 2012					
Generating Plants					
E.W. Brown Units 6-7	38.00%	\$ 40		\$ 5	
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	46		3	
Trimble County Unit 1	75.00%	304		33	10
Trimble County Unit 2	14.25%	198		14	13
Trimble County Units 5-6	29.00%	29		2	
Trimble County Units 7-10	37.00%	68		6	2
Cane Run Unit 7	22.00%				16

KU					
December 31, 2013					
Generating Plants					
E.W. Brown Units 6-7	62.00%	\$ 64		\$ 11	\$ 2
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	42		4	1
Trimble County Unit 2	60.75%	780		83	22
Trimble County Units 5-6	71.00%	70		8	
Trimble County Units 7-10	63.00%	118		12	2
Cane Run Unit 7	78.00%				317
Green River Unit 5	60.00%				2
December 31, 2012					
Generating Plants					
E.W. Brown Units 6-7	62.00%	\$ 64		\$ 7	\$ 1
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	42		2	
Trimble County Unit 2	60.75%	777		65	20
Trimble County Units 5-6	71.00%	70		4	
Trimble County Units 7-10	63.00%	116		10	2
Cane Run Unit 7	78.00%				53

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

In addition to the interests mentioned above, at December 31, 2012, PPL Montana had a 50% leasehold interest in Colstrip Units 1 and 2 and a 30% leasehold interest in Colstrip Unit 3 under operating leases. In December 2013, PPL Montana terminated the operating lease arrangement and acquired these interests. See Note 8 for additional information. At December 31, 2013, the book value of the acquired assets was not significant. At December 31, 2013 and 2012, NorthWestern owned a 30% interest in Colstrip Unit 4. PPL Montana and NorthWestern have a sharing agreement that governs each party's responsibilities and rights relating to the operation of Colstrip Units 3 and 4. Under the terms of that agreement, each party is responsible for 15% of the total non-coal operating and construction costs of Colstrip Units 3 and 4, regardless of whether a particular cost is specific to Colstrip Unit 3 or 4, and is entitled to take up to the same percentage of the available generation from Units 3 and 4.

15. Commitments and Contingencies

Energy Purchases, Energy Sales and Other Commitments

Energy Purchase Commitments

(PPL and PPL Energy Supply)

PPL Energy Supply enters into long-term energy and energy related contracts which include commitments to purchase:

<u>Contract Type</u>	<u>Maximum Maturity Date</u>
Fuels (a)	2023
Limestone	2030
Natural Gas Storage	2015
Natural Gas Transportation	2032
Power, excluding wind	2021
RECs	2021
Wind Power	2027

(a) PPL Energy Supply incurred pre-tax charges of \$29 million during 2012 to reduce its 2012 and 2013 contracted coal deliveries. These charges were recorded to "Fuel" on the Statement of Income.

(PPL, LKE, LG&E and KU)

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's gas supply operations. These contracts include the following commitments:

<u>Contract Type</u>	<u>Maximum Maturity Date</u>
Coal	2019
Coal Transportation and Fleeting Services	2024
Natural Gas Storage	2024
Natural Gas Transportation	2024

LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. See footnote (i) to the table in "Guarantees and Other Assurances" below for information on the OVEC power purchase contract. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of annual minimum debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses as follows:

	<u>LG&E</u>	<u>KU</u>	<u>Total</u>
2014	\$ 18	\$ 8	\$ 26
2015	18	8	26
2016	18	8	26
2017	19	8	27
2018	20	9	29
Thereafter	504	224	728
	<u>\$ 597</u>	<u>\$ 265</u>	<u>\$ 862</u>

In addition, LG&E and KU had total energy purchases under the OVEC power purchase agreement for the years ended December 31 as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
LG&E	\$ 18	\$ 20	\$ 22
KU	8	9	10
Total	<u>\$ 26</u>	<u>\$ 29</u>	<u>\$ 32</u>

(PPL and PPL Electric)

In May 2012, PPL Electric filed a plan with the PUC to purchase its electricity supply for default customers for the period June 2013 through May 2015. The PUC approved the plan in January 2013. The approved plan provides that PPL Electric procure this electricity through competitive solicitations twice each plan year beginning in April 2013. The solicitations will include layered short-term full-requirement products ranging from three months to 12 months for residential and small commercial and industrial PLR customers as well as a recurring 12 month spot market product for large commercial and industrial PLR customers. To date, two of four solicitations have been completed.

(PPL Electric)

See Note 16 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Energy Sales Commitments

(PPL and PPL Energy Supply)

In connection with its marketing activities or hedging strategy for its power plants, PPL Energy Supply has entered into long-term power sales contracts that extend into 2020, excluding long-term renewable energy agreements that extend into 2038.

(PPL Energy Supply)

See Note 16 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

PPL Montana Hydroelectric License Commitments *(PPL and PPL Energy Supply)*

PPL Montana owns and operates 11 hydroelectric facilities and one storage reservoir licensed by the FERC under long-term licenses pursuant to the Federal Power Act. Pursuant to Section 8(e) of the Federal Power Act, the FERC approved the transfer from Montana Power to PPL Montana of all pertinent licenses in connection with the Montana Asset Purchase Agreement.

The Kerr Dam Project license (50-year term) was issued by the FERC jointly to Montana Power and the Confederated Salish and Kootenai Tribes of the Flathead Nation in 1985, and requires PPL Montana (as successor licensee to Montana Power) to hold and operate the project for at least 30 years (to 2015). Between 2015 and 2025, the tribes have the option to purchase, hold and operate the project for the remainder of the license term, which expires in 2035. Although the tribes have indicated their intent to exercise the option at the earliest possible date, PPL Montana cannot predict if and when this option will be exercised.

PPL Montana entered into two Memoranda of Understanding (MOUs) with state, federal and private entities related to the issuance in 2000 of the FERC renewal license for the nine dams comprising the Missouri-Madison project. The MOUs are periodically updated and renewed and require PPL Montana to implement plans to mitigate the impact of its projects on fish, wildlife and their habitats, and to increase recreational opportunities. The MOUs were created to maximize collaboration between the parties and enhance the possibility to receive matching funds from relevant federal agencies. Under these arrangements, PPL Montana has a remaining commitment to spend \$29 million between 2014 and 2040.

In September 2013, PPL Montana reached an agreement to sell its hydroelectric facilities to NorthWestern. The agreement includes PPL Montana's 11 hydroelectric power plants and the company's Hebgen Lake reservoir. See Note 8 for additional information.

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification *(PPL and LKE)*

See footnote (h) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(PPL and PPL Energy Supply)

Montana Hydroelectric Litigation

As previously reported, in February 2012 the U.S. Supreme Court issued a decision overturning decisions by the Montana First Judicial District Court and the Montana Supreme Court which had held that the streambeds underlying PPL Montana's hydroelectric generating facilities were owned by the State of Montana and that PPL Montana owed the State of Montana compensation for its prior use of those streambeds. As a result of the U.S. Supreme Court decision, PPL Montana reversed its total loss accrual resulting in a \$65 million net credit to "Other operation and maintenance" and a \$10 million net credit to "Interest Expense" on the Statement of Income in 2011. The case was remanded by the U.S. Supreme Court to the Montana Supreme Court and, in April 2012, returned by the Montana Supreme Court to the Montana First Judicial District Court. Further proceedings have not been scheduled by the district court.

Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Montana (Bankruptcy Court). At the time of the bankruptcy filing, SMGT was PPL EnergyPlus' largest unsecured credit exposure. This contract was accounted for as NPNS by PPL EnergyPlus.

The SMGT Contract provided for fixed volume purchases on a monthly basis at established prices. Pursuant to a court order and subsequent stipulations entered into between the SMGT bankruptcy trustee and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract and made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In March 2012, the Bankruptcy Court issued an order approving the request of the SMGT trustee and PPL EnergyPlus to terminate the SMGT Contract, effective April 1, 2012. As a result, PPL EnergyPlus was free to resell to other customers the electricity previously contracted to SMGT.

PPL EnergyPlus' receivable under the SMGT Contract, representing non-performance by SMGT prior to termination of the SMGT Contract, totaled approximately \$21 million at December 31, 2012, which has been fully reserved.

In July 2012, PPL EnergyPlus filed its proof of claim in the SMGT bankruptcy proceeding. The total claim, including the above receivable, is approximately \$375 million, predominantly an unsecured claim representing the value for energy sales that will not occur as a result of the termination of the SMGT Contract. No assurance can be given as to the collectability of the claim and, therefore, no amounts have been recorded in the 2013 financial statements.

Sierra Club Litigation

In July 2012, PPL Montana received a Notice of Intent to Sue (Notice) for violations of the Clean Air Act at Colstrip Steam Electric Station (Colstrip) from counsel on behalf of the Sierra Club and the Montana Environmental Information Center (MEIC). An Amended Notice was received on September 4, 2012, and a Second Amended Notice was received in October 2012. A Supplemental Notice was received in December 2012. The Notice, Amended Notice, Second Amended Notice and Supplemental Notice (the Notices) were all addressed to the Owner or Managing Agent of Colstrip, and to the other Colstrip co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, Northwestern Energy and PacificCorp. The Notices allege certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements.

On March 6, 2013, the Sierra Club and MEIC filed a complaint against PPL Montana and the other Colstrip co-owners in the U.S. District Court, District of Montana, Billings Division. PPL Montana operates Colstrip on behalf of the co-owners. The complaint is generally consistent with the prior Notices and lists 39 separate claims for relief. All but three of the claims allege Prevention of Significant Deterioration (PSD) related violations under the federal Clean Air Act for various plant maintenance projects completed since 1992. For each such project or set of projects, there are separate claims for failure to obtain a PSD permit, for failure to obtain a Montana Air Quality Permit to operate after the project(s) were completed and for operating after completion of such project(s) without "Best Available Control Technology". The remaining three claims relate to the alleged failure to update the Title V operating permit for Colstrip to reflect the alleged major modifications described in the other claims, allege that the previous Title V compliance certifications were incomplete because they did not address the major plant modifications, and that numerous opacity violations have occurred at the plant since 2007. The complaint requests injunctive relief and civil penalties on average of \$36,000 per day per violation, including a request that the owners remediate environmental damage and that \$100,000 of the civil penalties be used for beneficial mitigation.

projects. In January 2014, trial in this matter as to liability was re-scheduled for March 2015. A new date for trial as to remedies, if there is a finding of liability, has not been scheduled.

On July 27, 2013, the Sierra Club and MEIC filed an additional Notice, identifying additional plant projects that are alleged not to be in compliance with the Clean Air Act. On September 27, 2013, the plaintiffs filed an amended complaint. This amended complaint drops all claims regarding pre-2001 plant projects, as well as the plaintiffs' Title V and opacity claims. It does, however, add claims with respect to a number of post-2000 plant projects, which effectively increased the number of projects subject to the litigation by about 40. PPL Montana and the other Colstrip Owners filed a motion to dismiss the amended complaint on October 11, 2013. Although PPL Montana believes it and the other co-owners have numerous defenses to the allegations set forth in this complaint and will vigorously assert the same, PPL Montana cannot predict the ultimate outcome of this matter at this time.

Regulatory Issues

(All Registrants except PPL Energy Supply)

See Note 6 for information on regulatory matters related to utility rate regulation.

Enactment of Financial Reform Legislation *(All Registrants)*

The Dodd-Frank Act became effective in July 2010 and includes provisions that impose derivative transaction reporting requirements and require most over-the-counter derivative transactions to be executed through an exchange and to be centrally cleared. The Dodd-Frank Act also provides that the U.S. Commodity Futures Trading Commission (CFTC) may impose collateral and margin requirements for over-the-counter derivative transactions, as well as capital requirements for certain entity classifications. The CFTC is establishing final rules on major provisions in the Dodd-Frank Act through its rulemaking process. Several final rules providing for the definition of the terms "swap", "swap dealer", and "major swap participant" became effective in October 2012. The entity classification thresholds and requirements set forth in these final rules do not require the Registrants to register as either swap dealers or major swap participants. Consequently, as commercial end users, the Registrants are not subject to the heightened regulatory requirements applicable to swap dealers or major swap participants, including Business Conduct Standards, enhanced recordkeeping and reporting, clearing and exchange trading of CFTC-mandated swaps and other complex requirements under other CFTC regulations. The Dodd-Frank Act and its implementing regulations, however, have imposed on the Registrants significant additional and costly recordkeeping, reporting and documentation requirements.

The Registrants could face significantly higher operating costs or may be required to post additional collateral if they or their counterparties are subject to capital or margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. Additionally, the burden that the Dodd-Frank Act and implementing regulations impose on all market participants could cause decreased liquidity in the bilateral swap market as financial entities discontinue their proprietary trading operations. Decreased liquidity could increase costs for Registrants to successfully meet hedge targets. The Registrants will continue to evaluate the provisions of the Dodd-Frank Act and its implementing regulations, but could incur significant costs related to compliance with the Act and regulations.

(PPL, PPL Energy Supply and PPL Electric)

New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as the generation that may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. Several parties have filed

appeals of the FERC's order. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL, and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution and requesting declaratory and injunctive relief barring implementation of the Act by the BPU Commissioners. In October 2011, the court denied the BPU's motion to dismiss the proceeding and in September 2012 the U.S. District Court denied all summary judgment motions. Trial of this matter was completed in June 2013. In October 2013, the U.S. District Court in New Jersey issued a decision finding the Act unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision has been appealed to the U.S. Court of Appeals for the Third Circuit by CPV Power Development, Inc., Hess Newark, LLC and the State of New Jersey. Oral arguments are scheduled for March 27, 2014. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electric generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution and requested declaratory and injunctive relief barring implementation of the order by the MD PSC Commissioners. In August 2012, the court denied the MD PSC and CPV Maryland, LLC motions to dismiss the proceeding. Trial of this matter was completed in March 2013. In September 2013, the U.S. District Court in Maryland issued a decision finding the MD PSC order unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision has been appealed to the U.S. Court of Appeals for the Fourth Circuit by CPV Power Development, Inc. and the State of Maryland. PPL, PPL Energy Supply, and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Pacific Northwest Markets (PPL and PPL Energy Supply)

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence. In July 2012, PPL Montana and the City of Tacoma, one of the two parties claiming refunds at FERC, reached a settlement whereby PPL Montana paid \$75 thousand to resolve the City of Tacoma's \$23 million claim. The settlement does not resolve the remaining claim outstanding at December 31, 2013 by the City of Seattle for approximately \$50 million. In April 2013, the FERC issued an order on reconsideration allowing the parties to seek refunds for the period January 2000 through December 2000. As a result, the City of Seattle may be able to seek refunds from PPL Montana for such period. Hearings before a FERC Administrative Law Judge regarding the City of Seattle's refund claims were completed in October 2013. Briefing was completed in January 2014 and an initial decision is expected in mid-March 2014.

Although PPL and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

(All Registrants)

FERC Market-Based Rate Authority

In 1998, the FERC authorized LG&E, KU and PPL EnergyPlus to make wholesale sales of electricity and related products at market-based rates. In those orders, the FERC directed LG&E, KU and PPL EnergyPlus, respectively, to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by LG&E, KU, PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In June 2011, FERC approved PPL's market-based rate update for the Eastern and Western regions and PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. Also, in June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the BREC balancing area and removing restrictions on their market-based rate authority in such region. In December 2013, PPL filed market-based rate updates for the Eastern and Western regions. PPL cannot predict the ultimate outcome of these update filings at this time.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In October 2012, the FERC initiated its consideration of proposed changes to Reliability Standards to address the impacts of Geomagnetic Disturbances on the reliable operation of the bulk-power system, which might, among other things, lead to a requirement to install equipment that blocks geo-magnetically induced currents on implicated transformers. On May 16, 2013, FERC issued Order No. 779, requiring NERC to submit two types of Reliability Standards for FERC's approval in twelve month intervals. The first type would require certain owners and operators of the nation's electricity infrastructure, such as the Registrants, to develop and implement operational procedures to mitigate the effects of Geomagnetic Disturbances on the bulk-power system. This NERC proposed standard was filed by NERC with FERC for approval in January of 2014, with a comment due date of March 24, 2014. The second type is to require owners and operators of the bulk-power system to assess certain Geomagnetic Disturbance events and develop and implement plans to protect the bulk-power system from those events and must be filed by NERC with FERC for approval by January 22, 2015. The Registrants may be required to make significant expenditures in new equipment or modifications to their facilities to comply with the new requirements. The Registrants are unable to predict the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for Geomagnetic Disturbances.

Settled Litigation *(PPL and PPL Energy Supply)*

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits totaling \$56 million to "Fuel" on the Statement of Income in 2011 to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. The amounts recorded through September 2011 cover costs incurred from 1998 through December 2010. PPL Susquehanna is eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred through December 31, 2013. In exchange, PPL Susquehanna has waived any claims against the United States government

for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013. In January 2014, PPL Susquehanna entered into a new agreement with the Department of Energy to extend the settlement agreement on the same terms as the prior agreement for an additional three years to the end of 2016.

Environmental Matters - Domestic

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which are applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to related environmental compliance costs is reduced. As PPL Energy Supply is not a rate-regulated entity, it cannot seek to recover environmental compliance costs through the mechanism of rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

(All Registrants except PPL Electric)

Air

CSAPR (formerly Clean Air Transport Rule) and CAIR

In July 2011, the EPA adopted the CSAPR. The CSAPR replaced the EPA's previous CAIR which was invalidated in July 2008 by the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court). CAIR subsequently was effectively reinstated by the D.C. Circuit Court in December 2008, pending finalization of the CSAPR. Like CAIR, CSAPR targeted sources in the eastern U.S. and would have required reductions in sulfur dioxide and nitrogen oxides in two phases (2012 and 2014).

In December 2011, the D.C. Circuit Court stayed implementation of the CSAPR and left CAIR in effect pending a final decision on the validity of the rule. In August 2012, the D.C. Circuit Court issued a ruling invalidating CSAPR, remanding the rule to the EPA for further action, and leaving CAIR in place during the interim. In June 2013, the U.S. Supreme Court granted the EPA's petition for review of the D.C. Circuit Court's August 2012 decision. Oral arguments before the U.S. Supreme Court were held in December 2013. Prior to a revised transport rule from the EPA, coal-fired generating plants could face tighter emission limitations on nitrogen oxides through state action.

The Kentucky fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements by utilizing sulfur dioxide allowances (including banked allowances and optimizing existing controls). To meet standards for nitrogen oxides under the CAIR, the Kentucky companies will need to buy allowances and/or make operational changes. LG&E and KU do not currently anticipate that the costs of meeting these reinstated CAIR standards will be significant.

PPL Energy Supply's Pennsylvania fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet the CAIR standards for nitrogen oxides, PPL Energy Supply will need to buy allowances and/or make operational changes, the costs of which are not anticipated to be significant.

National Ambient Air Quality Standards

PPL fossil-fueled generating plants may face further reductions in emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxides, sulfur dioxide and/or fine particulates.

In 2010, the EPA finalized a new one-hour standard for sulfur dioxide and required states to identify areas that meet those standards and areas that are in non-attainment. In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Yellowstone County in Montana (Billings area) and part of Jefferson County in Kentucky. Attainment must be achieved by 2018. States are working on designations for other areas.

In December 2012, the EPA issued final rules that strengthen the fine particulate standards. Under the final rules, states and the EPA have until 2015 to identify non-attainment areas, and states have until 2020 to achieve attainment for those areas.

PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR, or the MATS, or the Regional Haze requirements (as discussed below), such as upgraded or new sulfur dioxide scrubbers at certain plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment (as noted above) is not expected to be significant, as PPL Energy Supply previously announced its intent to place the plant in long-term reserve status beginning in April 2015.

Until particulate matter and sulfur dioxide maintenance and compliance plans are developed by the EPA and state or local agencies, including identification and finalization of attainment designations for particulate matter, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the impact of the new standards.

MATS

In May 2011, the EPA published a proposed regulation requiring stringent reductions of mercury and other hazardous air pollutants from power plants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 2012. The rule is being challenged by industry groups and states in the D.C. Circuit Court, where oral arguments were held in December 2013. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. PPL has received compliance extensions for certain plants in Kentucky and Pennsylvania. LG&E, KU and PPL Energy Supply are considering extension requests for other plants as well.

At the time the MATS rule was proposed, LG&E and KU filed requests with the KPSC for environmental cost recovery based on their expected need to install environmental controls including chemical additive and fabric-filter baghouses to remove air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. LG&E's and KU's anticipated retirement of certain coal-fired electricity generating units located at Cane Run and Green River is in response to MATS and other environmental regulations. LG&E and KU are continuing to assess whether any revisions of their approved compliance plans will be necessary.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that installation of chemical additive systems may be necessary at certain coal-fired plants, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact of MATS on operating costs. With respect to PPL Energy Supply's Montana plants, modifications to the air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. For the Corette plant, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant was determined to be impaired in December 2013. See Note 18 for additional information. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below.

Regional Haze and Visibility

The EPA's regional haze programs were developed under the Clean Air Act to eliminate man-made visibility degradation by 2064. Under the programs, states are required to take action via state plans to make reasonable progress every decade, including the application of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977.

The primary power plant emissions affecting visibility are sulfur dioxide, nitrogen oxides and particulates. To date, the focus of regional haze activity has been the western U.S. because the EPA had determined that the regional trading program in the eastern U.S. under CSAPR satisfied BART requirements to reduce sulfur dioxide and nitrogen oxides. However, the D.C. Circuit Court's August 2012 decision to vacate and remand CSAPR and to implement CAIR in its place on an interim basis leaves power plants located in the eastern U.S., including PPL's plants in Pennsylvania and Kentucky, exposed to reductions in sulfur dioxide and nitrogen oxides as required by BART, unless the D.C. Circuit Court's decision, now pending before the U.S. Supreme Court, is overturned.

In addition to this exposure stemming from the remand of CSAPR, LG&E's Mill Creek Units 3 and 4 are required to reduce sulfuric acid mist emissions because they were determined to have a significant regional haze impact. These reductions are in the Kentucky Division of Air Quality's regional haze state implementation plan that was submitted to the EPA. LG&E is currently installing sorbent injection technology to comply with these reductions, the costs of which are not expected to be significant.

In Montana, the EPA Region 8 developed the regional haze plan as the MDEQ declined to develop a BART state implementation plan. The EPA finalized the plan ("Federal Implementation Plan" or "FIP") in 2012. The final FIP assumed no additional controls for Corette or Colstrip Units 3 and 4, but proposed tighter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply expects to meet these tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" above). Under the final FIP, Colstrip Units 1 and 2 may require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxides and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. Both PPL and environmental groups have appealed the final FIP rules to the U.S. Court of Appeals for the Ninth Circuit.

New Source Review (NSR)

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants, and PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL, PPL Energy Supply and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during a Spring 2012 maintenance outage at Colstrip Unit 1. In September 2012, PPL Montana received an information request from the Montana Department of Environmental Quality regarding Colstrip Unit 1 and other projects. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received an EPA notice alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent plant without assessing potential increased sulfuric acid mist emissions. KU contends that the projects in question were pollution control projects, and therefore exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request on this matter. In September 2012, the parties reached a tentative settlement addressing the Ghent NSR matter that seeks to resolve a September 2007 notice of violation alleging opacity violations at the plant. The parties subsequently entered into a consent decree which was approved by the court on September 11, 2013. The consent decree requires the incurrence of non-material costs that have already been accrued.

In August 2007, LG&E received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. See "Legal Matters" above for information on a lawsuit filed by environmental groups in March 2013 against PPL Montana and other owners of Colstrip.

If PPL subsidiaries are found to have violated NSR regulations by significantly increasing pollutants through a major plant modification, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet stringent permit limits reflecting Best Available Control Technology (BACT) for pollutants meeting the National Ambient Air Quality Standards (NAAQS) in the area and reflecting Lowest Achievable Emission Rates (LAER) for pollutants not meeting the NAAQS in the area. The costs to meet such limits, including installation of technology at certain units, could be significant.

TC2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which, in January 2010, were incorporated into a final revised permit issued by the KDAQ. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling

on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the capital costs of this project, if any.

Cane Run Environmental Claims (PPL, LKE and LG&E)

In the 2011 to 2013 time period, the Louisville Metro Air Pollution Control District issued several notices of violation alleging violations of local air quality rules at the Cane Run plant. In November 2013, LG&E entered into a settlement resolving the pending citations in return for payment of a civil penalty in a non-material amount and performance of remedial measures not expected to result in material costs.

On September 6, 2013, PPL, LKE and LG&E received a letter on behalf of two residents adjacent to the Cane Run plant notifying various federal, state, and local agencies of their intent to file a citizen suit for alleged violations of the Clean Air Act (CAA) and Resource Conservation and Recovery Act (RCRA). On December 16, 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky for alleged violations of the CAA and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass, and negligence. These plaintiffs seek injunctive relief and civil penalties that would accrue to governmental agencies, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on operations of the Cane Run plant. LG&E has previously announced that it anticipates retiring the coal-fired units at Cane Run before the end of 2015.

(All Registrants)

GHG Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that applied beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. As a result, any new sources or major modifications to existing GHG sources causing a net significant emissions increase now require adherence to the BACT permit limits for GHGs. The rules were challenged, and in June 2012 the D.C. Circuit Court upheld the EPA's regulations. In December 2012, the D.C. Circuit Court denied petitions for rehearing pertaining to its June 2012 opinion. On October 15, 2013, the U.S. Supreme Court granted certiorari for several petitions to decide whether the NSR provisions of the Clean Air Act require the EPA to regulate GHG emissions from stationary sources, such as power plants.

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum the EPA was directed to issue a revised proposal for new power plants (a prior proposal was issued in 2012) by September 20, 2013, with a final rule in a timely fashion thereafter, and to issue proposed standards for existing plants by June 1, 2014 with a final rule to be issued by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016. Regulation of existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and the state implementation plans. The Administration's recent increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may also lead to more costly regulatory requirements; the White House Office of Management and Budget (OMB) has opened this issue for public comment. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect PPL and others in the industry as modifications to electricity delivery systems to improve the ability to withstand major storms may be needed in order to meet those requirements.

The EPA issued its revised proposal for new sources on September 20, 2013 as directed by the White House. This proposal was published in the Federal Register on January 8, 2014, with comments due on March 10, 2014. Unlike the EPA's prior proposal, the EPA's revised proposal established separate emission standards for coal and gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially available, the revised proposal effectively precludes the construction of new coal plants. The EPA proposed the same standard for NGCC power plants as was proposed in 2012 and may not be consistently achievable. In addition, the EPA deleted the explicit exemption previously proposed for simple-cycle natural gas plants.

At the regional level, ten northeastern states have been participating in a cap-and-trade program called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and covers electric power plants greater than 25 MW. The program calls for a 10% reduction in carbon dioxide emissions from these plants by 2019 compared to 2005 levels. Pennsylvania has not stated an intention to join the RGGI, but enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2013, the Advisory Committee issued an updated Climate Change Action Report and identified specific actions that could result in reducing GHG emissions by 30% by 2020. The report recognized some legislative initiatives that were enacted since 2009 that facilitated reductions in GHG emissions and made a number of legislative recommendations that include amending the PA AEPS Act to include additional waste-to-energy facilities, providing incentives for coal mine methane usage, providing incentives for alternative fuel vehicles and addressing the long-term viability issues of carbon capture and sequestration.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. In November 2011, the Council issued a final report to the Secretary of Kentucky's Energy and Environment Cabinet for his consideration. The final report acknowledged that the recommendations would require additional review and analysis prior to implementation, and that many of the recommendations would likely require, in part, further legislative or regulatory actions. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained claims brought on the basis of these theories of liability, the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the Second Circuit and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in *Comer v. Murphy Oil* (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal district court granted defendants' motions to dismiss the state common law claims. Plaintiffs appealed to the U.S. Court of Appeals for the Fifth Circuit, and in May 2013, the Fifth Circuit affirmed the district court's dismissal of the case. Additional litigation in federal and state courts over such issues is continuing. PPL, LKE and KU cannot predict the outcome of these lawsuits or estimate a range of reasonably possible losses, if any.

In 2013, PPL's power plants emitted approximately 62 million tons of carbon dioxide compared with 70 million tons in 2012. The totals reflect 26 million tons from PPL Energy Supply, and 17 million tons and 19 million tons from LG&E's and KU's generating fleets. All tons are U.S. short tons (2,000 pounds/ton).

Renewable Energy Legislation (All Registrants)

There has been interest in renewable energy legislation at both the state and federal levels. Federal legislation on renewable energy is not expected to be enacted this year. In Pennsylvania, bills were introduced calling for an increase in AEPS Tier 1 obligations and to create a \$25 million permanent funding program for solar generation. Bills (SB 1171 and HB 100) were also introduced to add natural gas as a qualified AEPS resource, and another bill (HB 1912) would repeal the AEPS Act entirely. A bill adding new hydropower to Montana's renewable portfolio standard was enacted with an effective date of October 1, 2013. An interim legislative committee in Montana is reviewing the state's RPS. PPL and PPL Energy Supply cannot predict at this time whether the committee will recommend any changes to existing laws. In Maryland, bills have been introduced in the 2014 session to double the state's RPS requirement from 20% to 40% and provide exceptions for specific types of energy sources.

The Registrants believe there are financial, regulatory and logistical uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply and downward pressure on energy prices that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their competitive plants' future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (All Registrants except PPL Electric)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. Regulating CCRs as a hazardous waste under Subtitle C of the RCRA would materially increase costs and result in early retirements of many coal-fired plants, as it would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through generation, transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The EPA's proposed approach to regulate CCRs as non-hazardous waste under Subtitle D of the RCRA would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the EPA's proposed non-hazardous waste regulations, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented or is implementing certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) requesting comments on selected documents it received during the comment period for the proposed regulations. On September 20, 2013, in response to the proposed Effluent Limitation Guidelines, PPL submitted comments on the proposed CCR regulations. Also, on September 3, 2013, PPL commented on a second CCR NODA seeking comment on additional information related to the EPA's proposal.

A coalition of environmental groups and two CCR recycling companies have filed lawsuits against the EPA seeking a deadline for final rulemaking and, in settlement of that litigation, the EPA has agreed to issue its final rulemaking by the end of 2014.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from issuing final CCR regulations and would set non-hazardous CCR standards under RCRA and authorize state permit programs. It remains uncertain whether similar legislation will likely be passed by the U.S. Senate. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the financial and operational impact is expected to be material if CCRs are regulated as hazardous waste and significant if regulated as non-hazardous.

Trimble County Landfill Permit (PPL, LKE, LG&E and KU)

In May 2011, LG&E submitted an application for a special waste landfill permit to handle coal combustion residuals generated at the Trimble County plant. After extensive review of the permit application in May 2013, the Kentucky Division of Waste Management denied the permit application on the grounds that the proposed facility would violate the Kentucky Cave Protection Act because it would eliminate an on-site karst feature considered to be a cave. After assessing additional options for managing coal combustion residuals, in January 2014, LG&E submitted to the Kentucky Division of Waste Management a landfill permit application for an alternate site adjacent to the plant. PPL, LKE, LG&E and KU are unable to determine the precise impact of this matter until a landfill permit is issued and any resulting legal challenges are concluded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(All Registrants except PPL Electric)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to implement assessment or abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years, PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER) on behalf of the Sierra Club, the MEIC, and the National Wildlife Federation (NWF). In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County.

(All Registrants except PPL Electric)

Clean Water Act 316(b)

The EPA published proposed rule 316(b) for existing facilities in April 2011. The EPA has been evaluating the comments it received to the proposed rule and meeting with industry groups to discuss options. The proposed rule contains two requirements to reduce impact to aquatic organisms at cooling water intake structures. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens (impingement) regardless of the levels of mortality actually occurring or the cost to achieve the standards. The second requirement is to determine and install the best technology available to reduce mortality of aquatic organisms pulled through a plant's cooling water system (entrainment). A form of cost-benefit analysis is allowed for this second requirement involving a site-specific evaluation based on nine factors, including impacts to energy delivery reliability and the remaining useful life of the plant. The final rule is expected by April 17, 2014. Until the final rule is issued, PPL, PPL Energy Supply, LKE, LG&E and KU cannot estimate a range of reasonably possible costs, if any, that would be required to comply with such a regulation.

Effluent Limitations Guidelines (ELGs) and Standards

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations contain requirements that would affect the inspection and operation of CCR facilities, if finalized. The EPA has indicated that it will coordinate these regulations with the regulation of CCRs discussed above. The proposal contains alternative approaches, some of which could significantly impact PPL's coal-fired plants. PPL, PPL Energy Supply, LKE, LG&E and KU worked with industry groups to comment on the proposed regulation on September 20, 2013. The final regulation is expected to be issued in May 2014 but it may be delayed. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant. Pending finalization of the ELGs, certain states and environmental groups (including Pennsylvania and Kentucky) are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines.

Other Issues

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all or some PCB-containing equipment. The EPA is planning to propose the revised regulations in November 2014. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

PPL Energy Supply has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant, but the subsidiary and the PADEP have concluded that a barrier method to exclude fish is not workable. In June 2012, a Consent Order and Agreement (COA) was signed that allows the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. Should this approach fail, the COA requires a retrofit of impingement control technology at the intakes to the cooling towers, the cost of which could be significant.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. In September 2013, the court reversed the Cabinet order upholding the permit and remanded the permit to the agency for further proceedings. In October 2013, LG&E filed a notice of appeal with the Kentucky Court of Appeals. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

The EPA and the Army Corps of Engineers are working on a guidance document that will expand the federal government's interpretation of what constitutes "waters of the U.S." subject to regulation under the Clean Water Act. This change has the potential to affect generation and delivery operations, with the most significant effect being the potential elimination of the existing regulatory exemption for plant waste water treatment systems. The costs that may be imposed on the Registrants as a result of any eventual expansion of this interpretation cannot reliably be estimated at this time but could be significant.

Superfund and Other Remediation (*All Registrants*)

PPL Electric is potentially responsible for costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase substantially more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional steps to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary is pumping mine water at two mine sites and treating water at one of these sites. Another PPL Generation subsidiary has installed a passive wetlands treatment system at a third site. In December 2013, PPL

Generation subsidiaries reached an agreement of sale for one of the two pumping mine sites and the passive wetlands treatment system at the third site. Once these sales are finalized and responsibilities are transferred to the new owner, subject to regulatory agency approvals, PPL Generation subsidiaries will no longer be responsible for operating and maintaining these two sites. At December 31, 2013, PPL Energy Supply had accrued a discounted liability of \$21 million to cover the costs of pumping and treating groundwater at the two mine sites for 50 years and for operating and maintaining passive wetlands treatment at the third site. PPL Energy Supply discounted this liability based on risk-free rates at the time of the mine closures. The weighted-average rate used was 8.21%. Expected undiscounted payments are estimated at \$1 million for each of the years from 2014 through 2018, and \$107 million for work after 2018.

From time to time, PPL Energy Supply, PPL Electric, LG&E and KU undertake remedial action in response to spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on these Registrants' operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for the Registrants.

Environmental Matters - WPD (PPL)

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

Other

Nuclear Insurance (PPL and PPL Energy Supply)

The Price-Anderson Act is a United States Federal law which governs liability-related issues and ensures the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities. It also seeks to limit the liability of nuclear reactor owners for such claims from any single incident. Effective September 10, 2013, the liability limit per incident was \$13.6 billion for such claims which is funded by insurance coverage from American Nuclear Insurers (ANI) and an industry assessment program.

Under the industry assessment program, in the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act as amended, PPL Susquehanna could be assessed up to \$255 million per incident, payable at \$38 million per year.

Additionally, PPL Susquehanna purchases property insurance programs from NEIL, an industry mutual insurance company of which PPL Susquehanna is a member. Effective April 1, 2013, facilities at the Susquehanna plant are insured against property damage losses up to \$2.50 billion. PPL Susquehanna also purchases an insurance program that provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the NEIL property and replacement power insurance programs, PPL Susquehanna could be assessed retrospective premiums in the event of the insurers' adverse loss experience. Effective April 1, 2013, this maximum assessment was \$46 million.

Labor Unions (All Registrants)

In 2014, certain labor agreement negotiations are scheduled to begin or have begun. For PPL, PPL Energy Supply and PPL Electric, negotiations with the IBEW commenced in January 2014. The current agreement expires in May 2014. For LG&E, negotiations with the IBEW will begin in October 2014. The current agreement expires in November 2014. For KU, the agreement with the IBEW includes a wage reopener in July 2014 and the current agreement expires in August 2015. Additionally, KU's negotiations with the United Steelworkers of America labor union will begin in July 2014 and the current agreement expires in August 2014. The Registrants cannot predict the outcome of the union labor negotiations.

The labor agreements expiring in 2014 covered the following employees at December 31, 2013:

	Number of Employees	Percent of Total Workforce
PPL	3,755	20%
PPL Energy Supply	1,190	24%
PPL Electric	1,419	63%
LKE	774	22%
LG&E	701	70%
KU	73	7%

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of December 31, 2013. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at December 31, 2013 and 2012 was \$26 million and \$24 million for PPL and \$19 million and \$20 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at December 31, 2013	Expiration Date
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 12 (b)	2017 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	127 (c)	
<u>PPL Energy Supply</u>		
Letters of credit issued on behalf of affiliates	29 (d)	2014 - 2015
Indemnifications for sales of assets	250 (e)	2025
Guarantee of a portion of a divested unconsolidated entity's debt	22 (f)	2018
<u>PPL Electric</u>		
Guarantee of inventory value	27 (g)	2017
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301 (h)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(i)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At December 31, 2013, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- (d) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis
- (e) Indemnifications are governed by the specific sales agreement and include breach of the representations, warranties and covenants, and liabilities for certain other matters. PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration date noted is based on those cases in which the agreements provide for specific limits.
- (f) Relates to a guarantee of one-third of the divested entity's debt. The purchaser provided a cross-indemnity, secured by a lien on the purchaser's stock of the divested entity. The exposure noted reflects principal only.
- (g) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
- (h) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing the December 2012 order of the Henderson Circuit Court, confirming the arbitration award. A decision in the appellate matter may occur during 2014. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. In the second quarter of 2012, LKE adjusted its estimated liability for certain of these indemnifications by \$9 million (\$5 million after-tax), which is reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income. The adjustment was recorded in the Kentucky Regulated segment for PPL. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.
- (i) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts currently included within a demand charge designed to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$129 million at December 31, 2013, consisting of LG&E's share of \$89 million and KU's share of \$40 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchases Commitments" above for additional information on the OVEC power purchase contract.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

16. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable *(PPL Energy Supply and PPL Electric)*

PPL Electric holds competitive solicitations for PLR generating supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. The sales and purchases between PPL EnergyPlus and PPL Electric are included in the Statements of Income as "Unregulated wholesale energy to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Default Service Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, PPL EnergyPlus' credit limit was \$20 million at December 31, 2013. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 1 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At December 31, 2013, PPL Energy Supply had a net credit exposure of \$28 million from PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Wholesale Sales and Purchases (LG&E and KU)

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail customers and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its retail customers' needs and its available generation.

Support Costs (All Registrants except PPL)

Both PPL Services and LKS provide the respective PPL and LKE subsidiaries with administrative, management and support services. Where applicable, the costs of these services are charged to the respective subsidiaries as direct support costs. General costs that cannot be directly attributed to a specific subsidiary are allocated and charged to the respective subsidiaries as indirect support costs. PPL Services uses a three-factor methodology that includes the subsidiaries' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services and LKS charged the following amounts for the years ended December 31, and believe these amounts are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

	2013	2012	2011
PPL Energy Supply from PPL Services	\$ 218	\$ 212	\$ 189
PPL Electric from PPL Services	146	157	145
LKE from PPL Services	15	15	16
LG&E from LKS	216	186	190
KU from LKS	207	161	204

LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Energy Supply)

A PPL Energy Supply subsidiary periodically holds revolving lines of credit and demand notes from certain affiliates. No balance was outstanding at December 31, 2013 and 2012. Interest earned on these revolving facilities is included in "Interest Income from Affiliates" on the Statement of Income. Interest earned on borrowings was not significant for 2013 and 2012. For 2011, interest earned on borrowings was \$8 million, which was primarily attributable to borrowings by PPL Energy Funding with an interest rate of 3.77%.

(PPL Electric)

A PPL Electric subsidiary periodically holds revolving demand notes from certain affiliates. At December 31, 2013, \$150 million was outstanding and was reflected in "Notes receivable from affiliate" on the Balance Sheet. No balance was outstanding at December 31, 2012. The interest rates on borrowings are equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at December 31, 2013, was 1.92%. Interest earned on these revolving facilities was not significant for 2013, 2012 and 2011.

(LKE)

LKE maintains a revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. In October 2013, the revolving line of credit was reduced by \$75 million and the limit as of December 31, 2013 was \$225 million. The interest rates on borrowings are equal to one-month LIBOR plus a spread. No balance was outstanding at December 31, 2013. At December 31, 2012, \$25 million was outstanding and was reflected in "Notes payable with affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at December 31, 2012 was 1.71%. Interest on the revolving line of credit was not significant for 2013 or 2012.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. At December 31, 2013, \$70 million was outstanding and was reflected in "Notes receivable from affiliates" on the Balance Sheet. No balance was outstanding at December 31, 2012. The interest rate on the loan based on the PPL affiliate's credit rating is currently equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at December 31, 2013 was 2.17%. Interest income on this note was not significant for 2013 or 2012.

Intercompany Derivatives *(LKE, LG&E and KU)*

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 19 for additional information on intercompany derivatives.

(PPL Energy Supply)

Trademark Royalties

A PPL subsidiary owned PPL trademarks and billed certain affiliates for their use under a licensing agreement. This agreement was terminated in December 2011. PPL Energy Supply was charged \$40 million of license fees in 2011. These charges were primarily included in "Other operation and maintenance" on the Statement of Income.

Distribution of Interest in PPL Global to Parent

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 for additional information.

Other *(All Registrants except PPL)*

See Note 1 for discussions regarding the intercompany tax sharing agreement and Note 7 for a discussion regarding capital transactions by PPL Energy Supply, PPL Electric, LKE, LG&E and KU. For PPL Energy Supply, PPL Electric and LKE, see Note 1 for discussions regarding intercompany allocations of stock-based compensation expense. For PPL Energy Supply, PPL Electric, LG&E and KU, see Note 13 for discussions regarding intercompany allocations associated with defined benefits.

17. Other Income (Expense) - net

(All Registrants)

The breakdown of "Other Income (Expense) - net" for the years ended December 31 was:

	PPL			PPL Energy Supply		
	2013	2012	2011	2013	2012	2011
Other Income						
Earnings on securities in NDT funds	\$ 23	\$ 22	\$ 24	\$ 23	\$ 22	\$ 24
Interest income	3	5	7		1	1
AFUDC - equity component	10	10	7			
Net hedge gains associated with the 2011 Bridge Facility (a)			55			
Earnings (losses) from equity method investments		(8)	1			
Gain on redemption of debt (b)			22			
Miscellaneous - Domestic	18	11	10	14	5	6
Miscellaneous - U.K.		2	1			
Total Other Income	54	42	127	37	28	31
Other Expense						
Economic foreign currency exchange contracts (Note 19)	38	52	(10)			
Charitable contributions	25	10	9	4	3	3
WPD Midlands acquisition-related costs (Note 10)			34			
Foreign currency loss on 2011 Bridge Facility			57			
U.K. stamp duty tax (Note 10)			21			
Miscellaneous - Domestic	12	16	9	3	7	5
Miscellaneous - U.K.	2	3	3			
Total Other Expense	77	81	123	7	10	8
Other Income (Expense) - net	\$ (23)	\$ (39)	\$ 4	\$ 30	\$ 18	\$ 23

- (a) Represents a gain on foreign currency contracts that hedged the repayment of the 2011 Bridge Facility borrowing.
- (b) In July 2011, as a result of PPL Electric's redemption of 7.125% Senior Secured Bonds due 2013, PPL recorded a gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges.

For PPL Electric, "Other Income (Expense) - net" for 2013, 2012 and 2011 was primarily the equity component of AFUDC. The components of "Other Income (Expense) - net" for 2013 for LKE, LG&E and KU were not significant. "Other Income (Expense) - net" for 2012 for LKE and KU were primarily losses from an equity method investment. The components of "Other Income (Expense) - net" for 2012 for LG&E were not significant. The components of "Other Income (Expense) - net" for 2011 for LKE, LG&E and KU were not significant.

18. Fair Value Measurements and Credit Concentration

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During 2013 and 2012, there were no transfers between Level 1 and Level 2. See Note 1 for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 1,102	\$ 1,102			\$ 901	\$ 901		
Restricted cash and cash equivalents (a)	156	156			135	135		
Price risk management assets:								
Energy commodities	1,188	3	\$ 1,123	\$ 62	2,068	2	\$ 2,037	\$ 29
Interest rate swaps	91		91		15		15	
Cross-currency swaps					14		13	1
Total price risk management assets	1,279	3	1,214	62	2,097	2	2,065	30

	December 31, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
NDT funds:								
Cash and cash equivalents	14	14			11	11		
Equity securities								
U.S. large-cap	547	409	138		412	308	104	
U.S. mid/small-cap	81	33	48		60	25	35	
Debt securities								
U.S. Treasury	95	95			95	95		
U.S. government sponsored agency	6		6		9		9	
Municipality	77		77		82		82	
Investment-grade corporate	38		38		40		40	
Other	5		5		3		3	
Receivables (payables), net	1	(1)	2			(2)	2	
Total NDT funds	864	550	314		712	437	275	
Auction rate securities (b)	19			19	19		3	16
Total assets	\$ 3,420	\$ 1,811	\$ 1,528	\$ 81	\$ 3,864	\$ 1,475	\$ 2,343	\$ 46

Liabilities

Price risk management liabilities:								
Energy commodities	\$ 1,070	\$ 4	\$ 1,028	\$ 38	\$ 1,566	\$ 2	\$ 1,557	\$ 7
Interest rate swaps	36		36		80		80	
Foreign currency contracts	106		106		44		44	
Cross-currency swaps	32		32		4		4	
Total price risk management liabilities	\$ 1,244	\$ 4	\$ 1,202	\$ 38	\$ 1,694	\$ 2	\$ 1,685	\$ 7

PPL Energy Supply

Assets								
Cash and cash equivalents	\$ 239	\$ 239			\$ 413	\$ 413		
Restricted cash and cash equivalents (a)	85	85			63	63		
Price risk management assets:								
Energy commodities	1,188	3	\$ 1,123	\$ 62	2,068	2	\$ 2,037	\$ 29
Total price risk management assets	1,188	3	1,123	62	2,068	2	2,037	29
NDT funds:								
Cash and cash equivalents	14	14			11	11		
Equity securities								
U.S. large-cap	547	409	138		412	308	104	
U.S. mid/small-cap	81	33	48		60	25	35	
Debt securities								
U.S. Treasury	95	95			95	95		
U.S. government sponsored agency	6		6		9		9	
Municipality	77		77		82		82	
Investment-grade corporate	38		38		40		40	
Other	5		5		3		3	
Receivables (payables), net	1	(1)	2			(2)	2	
Total NDT funds	864	550	314		712	437	275	
Auction rate securities (b)	16			16	16		3	13
Total assets	\$ 2,392	\$ 877	\$ 1,437	\$ 78	\$ 3,272	\$ 915	\$ 2,315	\$ 42
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,070	\$ 4	\$ 1,028	\$ 38	\$ 1,566	\$ 2	\$ 1,557	\$ 7
Total price risk management liabilities	\$ 1,070	\$ 4	\$ 1,028	\$ 38	\$ 1,566	\$ 2	\$ 1,557	\$ 7

PPL Electric

Assets								
Cash and cash equivalents	\$ 25	\$ 25			\$ 140	\$ 140		
Restricted cash and cash equivalents (c)	12	12			13	13		
Total assets	\$ 37	\$ 37			\$ 153	\$ 153		

	December 31, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
LKE								
Assets								
Cash and cash equivalents	\$ 35	\$ 35			\$ 43	\$ 43		
Restricted cash and cash equivalents (d)	22	22			32	32		
Price risk management assets:								
Interest rate swaps					14		\$ 14	
Total price risk management assets					14		14	
Total assets	\$ 57	\$ 57			\$ 89	\$ 75	\$ 14	
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 36		\$ 36		\$ 58		\$ 58	
Total price risk management liabilities	\$ 36		\$ 36		\$ 58		\$ 58	

LG&E								
Assets								
Cash and cash equivalents	\$ 8	\$ 8			\$ 22	\$ 22		
Restricted cash and cash equivalents (d)	22	22			32	32		
Price risk management assets:								
Interest rate swaps					7		\$ 7	
Total price risk management assets					7		7	
Total assets	\$ 30	\$ 30			\$ 61	\$ 54	\$ 7	
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 36		\$ 36		\$ 58		\$ 58	
Total price risk management liabilities	\$ 36		\$ 36		\$ 58		\$ 58	

KU								
Assets								
Cash and cash equivalents	\$ 21	\$ 21			\$ 21	\$ 21		
Price risk management assets:								
Interest rate swaps					7		\$ 7	
Total price risk management assets					7		7	
Total assets	\$ 21	\$ 21			\$ 28	\$ 21	\$ 7	

- (a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Included in "Other noncurrent assets" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the years ended December 31 is as follows:

	PPL			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
2013				
Balance at beginning of period	\$ 22	\$ 16	\$ 1	\$ 39
Total realized/unrealized gains (losses)				
Included in earnings	(5)			(5)
Included in OCI (a)			1	1
Sales	(2)			(2)
Settlements	(3)			(3)
Transfers into Level 3	10	3	3	16
Transfers out of Level 3	2		(5)	(3)
Balance at end of period	\$ 24	\$ 19	\$	\$ 43

	PPL			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
2012				
Balance at beginning of period	\$ 13	\$ 24	\$ 4	\$ 41
Total realized/unrealized gains (losses)				
Included in earnings	2		(1)	1
Included in OCI (a)	1		1	2
Sales		(5)		(5)
Settlements	(13)			(13)
Transfers into Level 3	8			8
Transfers out of Level 3	11	(3)	(3)	5
Balance at end of period	<u>\$ 22</u>	<u>\$ 16</u>	<u>\$ 1</u>	<u>\$ 39</u>

(a) "Energy Commodities" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

A reconciliation of net assets and liabilities classified as Level 3 for the years ended December 31 is as follows:

	PPL Energy Supply		
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Energy Commodities, net	Auction Rate Securities	Total
2013			
Balance at beginning of period	\$ 22	\$ 13	\$ 35
Total realized/unrealized gains (losses)			
Included in earnings	(5)		(5)
Sales	(2)		(2)
Settlements	(3)		(3)
Transfers into Level 3	10	3	13
Transfers out of Level 3	2		2
Balance at end of period	<u>\$ 24</u>	<u>\$ 16</u>	<u>\$ 40</u>
2012			
Balance at beginning of period	\$ 13	\$ 19	\$ 32
Total realized/unrealized gains (losses)			
Included in earnings	2		2
Included in OCI (a)	1		1
Sales		(3)	(3)
Settlements	(13)		(13)
Transfers into Level 3	8		8
Transfers out of Level 3	11	(3)	8
Balance at end of period	<u>\$ 22</u>	<u>\$ 13</u>	<u>\$ 35</u>

(a) "Energy Commodities" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in and quantitative information about the fair value measurement of assets and liabilities classified as Level 3 are as follows:

	December 31, 2013			
	Fair Value, net Asset (Liability)	Valuation Technique	Significant Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities			Observable wholesale prices used as proxy	
Retail natural gas sales contracts (b)	\$ 36	Discounted cash flow	for retail delivery points	10% - 100% (86%)
Full-requirement sales contracts (c)	(12)	Discounted cash flow	Proprietary model	100% (100%)
Auction rate securities (f)	19	Discounted cash flow	Modeled from SIFMA Index	10% - 80% (63%)

December 31, 2013

	Fair Value, net Asset (Liability)	Valuation Technique	Significant Unobservable Input(s)	Range (Weighted Average) (a)
PPL Energy Supply				
Energy commodities				
Retail natural gas sales contracts (b)	\$ 36	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	10% - 100% (86%)
Full-requirement sales contracts (c)	(12)	Discounted cash flow	Proprietary model	100% (100%)
Auction rate securities (f)	16	Discounted cash flow	Modeled from SIFMA Index	10% - 80% (63%)

December 31, 2012

	Fair Value, net Asset (Liability)	Valuation Technique	Significant Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Retail natural gas sales contracts (b)	\$ 24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)
Power sales contracts (d)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)
FTR purchase contracts (e)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (f)	16	Discounted cash flow	Modeled from SIFMA Index	54% - 74% (64%)
Cross-currency swaps (g)	1	Discounted cash flow	Credit valuation adjustment	22% (22%)

PPL Energy Supply

Energy commodities

Retail natural gas sales contracts (b)	\$ 24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)
Power sales contracts (d)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)
FTR purchase contracts (e)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (f)	13	Discounted cash flow	Modeled from SIFMA Index	57% - 74% (65%)

- (a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs. For cross-currency swaps, the range and weighted average represent the percentage decrease in fair value due to the unobservable inputs used in the model to calculate the credit valuation adjustment.
- (b) As the forward price of natural gas increases/(decreases), the fair value of contracts (decreases)/increases.
- (c) As forward market prices increase/(decrease), the fair value of contracts (decreases)/increases. As the volumetric assumptions for full-requirement sales contracts in a gain position increase/(decrease), the fair value of contracts increases/(decreases). As the volumetric assumptions for full-requirement sales contracts in a loss position increase/(decrease), the fair value of contracts (decreases)/increases.
- (d) As the forward price of basis increases/(decreases), the fair value of contracts (decreases)/increases.
- (e) As the forward implied spread increases/(decreases), the fair value of contracts increases/(decreases).
- (f) The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).
- (g) The credit valuation adjustment incorporates projected probabilities of default and estimated recovery rates. As the credit valuation adjustment increases/(decreases), the fair value of the swaps (decreases)/increases.

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the years ended December 31 were reported in the Statements of Income as follows:

	Energy Commodities, net						Cross-Currency Swaps				
	Unregulated Wholesale Energy		Unregulated Retail Energy		Fuel		Energy Purchases		Interest Expense		
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	
PPL											
Total gains (losses) included in earnings	\$ (36)	\$ (19)	\$ 25	\$ 26	\$ 3		\$ 3	\$ (5)		\$ (1)	
Change in unrealized gains (losses) relating to positions still held at the reporting date	(23)	(3)	24	29			1	1			

	Energy Commodities, net								Cross-Currency Swaps	
	Unregulated Wholesale Energy		Unregulated Retail Energy		Fuel		Energy Purchases		Interest Expense	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
PPL Energy Supply										
Total gains (losses) included in earnings	(36)	(19)	25	26	3		3	(5)		
Change in unrealized gains (losses) relating to positions still held at the reporting date	(23)	(3)	24	29			1	1		

Price Risk Management Assets/Liabilities - Energy Commodities (PPL and PPL Energy Supply)

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative contracts, which are valued using the market approach and are classified as Level 1. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. Energy commodity contracts include forwards, futures, swaps, options and structured transactions and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and standard industry models.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Level 3 contracts are valued using PPL proprietary models which may include significant unobservable inputs such as delivery at a location where pricing is unobservable, delivery dates that are beyond the dates for which independent quotes are available, implied volatilities, implied correlations and market implied heat rates. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2013 and 2012 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options, and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. For PPL, the primary reason for the transfers during 2012 and 2013 was the change in the significance of the credit valuation adjustment. Cross-currency swaps classified as Level 3 are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

(PPL and PPL Energy Supply)

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets.
- The fair value measurements of investments in commingled equity funds are classified as Level 2. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as monthly payment data, future predicted cash flows, collateral performance and new issue data.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The probability of realizing losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3. The primary reason for the transfers in and out of Level 3 in 2013 and 2012 was the change in discount rates and SIFMA Index.

Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

Nonrecurring Fair Value Measurements (All Registrants except PPL Electric and LG&E)

The following nonrecurring fair value measurements occurred during the reporting periods, resulting in asset impairments.

	Carrying Amount (a)	Fair Value Measurements Using		Loss (b)
		Level 2	Level 3	
<u>PPL and PPL Energy Supply</u>				
Corette plant and emission allowances:				
2013	\$ 65			\$ 65
RECs (c):				
2011	6	\$ 1		5
<u>PPL, LKE and KU</u>				
Equity investment in EEI:				
2012	25			25

- (a) Represents carrying value before fair value measurement.
- (b) The loss on the Corette plant and emission allowances was recorded in the Supply segment and included in "Other operation and maintenance" on the Statement of Income. The loss on the EEI investment was recorded in the Kentucky Regulated segment and included in "Other-Than-Temporary Impairments" on the Statement of Income. Losses on RECs were recorded in the Supply segment and included in "Other operation and maintenance" on the Statements of Income.
- (c) Current and long-term RECs are included in "Other current assets" and "Other intangibles" in their respective areas on the Balance Sheets.

The significant unobservable inputs used in and the quantitative information about the nonrecurring fair value measurement of assets and liabilities classified as Level 3 are as follows:

	Fair Value, net Asset (Liability)	Valuation Technique	Significant Unobservable Input(s)	Range (Weighted Average)
<u>PPL and PPL Energy Supply</u>				
Corette plant and emission allowances:				
December 31, 2013	\$	Discounted cash flow	Long-term forward price curves and capital expenditure projections	100% (100%)
<u>PPL, LKE and KU</u>				
Equity investment in EEI:				
December 31, 2012	\$	Discounted cash flow	Long-term forward price curves and capital expenditure projections	100% (100%)

(PPL and PPL Energy Supply)

Corette Plant and Emission Allowances

During the fourth quarter 2013, PPL Montana recorded an impairment loss on the Corette plant and related emission allowances. In connection with the completion of its annual business planning process that included revised long-term power and gas price assumptions and other factors, PPL Energy Supply has now determined that it is less likely that the Corette plant will restart after operations are suspended no later than April 2015. PPL Energy Supply performed an internal analysis using an income approach based on discounted cash flows to assess the fair value of the Corette asset group. Assumptions used in the fair value assessment were forward energy prices, expectations for demand for energy in Corette's market, and expected operation and maintenance and capital expenditures that were consistent with assumptions used in the business planning process. Through this analysis, PPL Energy Supply determined the fair value of the asset group to be negligible.

The assets were valued by the PPL Energy Supply Financial Department, which reports to the President of PPL Energy Supply. Accounting personnel, who report to the Chief Financial Officer, interpreted the analysis to appropriately classify the assets in the fair value hierarchy.

RECs

Due to declines in forecasted full-requirement obligations in certain markets as well as declines in market prices, PPL Energy Supply assessed the recoverability of certain RECs not expected to be used. Observable market prices (Level 2) were used to value the RECs.

Equity Investment in EEI (PPL, LKE and KU)

During the fourth quarter 2012, KU recorded an other-than-temporary decline in the value of its equity investment in EEI. KU performed an internal analysis using an income approach based on discounted cash flows to assess the current fair value of its investment based on several factors. KU considered the following factors: long-dated forward power and fuel price curves, the cost of compliance with environmental standards, and the majority owner and operator's announcement in the fourth quarter 2012 to exit from the merchant generation business. Assumptions used in the fair value assessment were forward energy price curves, expectations for capacity (demand) for energy in EEI's market, and expected capital expenditures used in the calculation that were comparable to assumptions used by KU for internal budgeting and forecasting purposes. Through this analysis, KU determined the fair value to be zero.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of contract adjustment payments related to the Purchase Contract component of the Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	December 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	\$ 21	\$ 22	\$ 105	\$ 106
Long-term debt	20,907	22,177	19,476	21,671
PPL Energy Supply				
Long-term debt	2,525	2,658	3,272	3,556
PPL Electric				
Long-term debt	2,315	2,483	1,967	2,333
LKE				
Long-term debt	4,565	4,672	4,075	4,423
LG&E				
Long-term debt	1,353	1,372	1,112	1,178
KU				
Long-term debt	2,091	2,155	1,842	2,056

(a) Included in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, approximates fair value due to the variable interest rates associated with the short-term debt and is classified as Level 2.

Credit Concentration Associated with Financial Instruments

(All Registrants)

Contracts are entered into with many entities for the purchase and sale of energy. When NPNS is elected, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 19 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

(PPL)

At December 31, 2013, PPL had credit exposure of \$1.0 billion from energy trading partners, excluding the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, PPL's credit exposure was reduced to \$539 million. The top ten counterparties including their affiliates accounted for \$281 million, or 52%, of this exposure. Nine of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 95% of the top ten exposures. The remaining counterparty has not been rated by S&P or Moody's, but is current on its obligations.

(PPL Energy Supply)

At December 31, 2013, PPL Energy Supply had credit exposure of \$1.0 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, this credit exposure was reduced to \$536 million. The top ten counterparties including their affiliates accounted for \$281 million, or 52%, of this exposure. Nine of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 95% of the top ten exposures. The remaining counterparty has not been rated by S&P or Moody's, but is current on its obligations. See Note 16 for information regarding the related party credit exposure.

(PPL Electric)

PPL Electric is exposed to credit risk under energy supply contracts (including its supply contracts with PPL EnergyPlus); however, its PUC-approved recovery mechanism is anticipated to substantially eliminate this exposure.

(LKE, LG&E and KU)

At December 31, 2013, LKE's, LG&E's and KU's credit exposure was not significant.

19. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value and other risk management metrics.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The table below summarizes the market risks that affect PPL and its Subsidiary Registrants.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Commodity price risk (including basis and volumetric risk)	X	X	M	M	M	M
Interest rate risk:						
Debt issuances	X	X	M	M	M	M
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Equity securities price risk:						
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Future stock transactions	X					
Foreign currency risk - WPD investment and earnings	X					

X = PPL and PPL Energy Supply actively mitigate market risks through their risk management programs described above.

M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

Commodity price risk

- PPL is exposed to commodity price risk through its domestic subsidiaries as described below. Volumetric risk is significantly mitigated at WPD as a result of the method of regulation in the U.K.
- PPL Energy Supply is exposed to commodity price risk for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities.
- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. WPD holds over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt and LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates in connection with future debt issuances.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with defined benefit plans. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL Energy Supply is exposed to equity securities price risk in the NDT funds.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments and earnings in U.K. affiliates.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL Energy Supply is exposed to credit risk from "in-the-money" commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers, financial institutions, other wholesale customers and retail customers.

LKE and LG&E are exposed to credit risk from interest rate derivatives with third-party financial institutions.

The majority of PPL and PPL Energy Supply's credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit. See Note 18 for credit concentration associated with energy trading partners.

Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was \$9 million and \$112 million at December 31, 2013 and 2012.

PPL Electric, LKE and LG&E had no obligation to return cash collateral under master netting arrangements at December 31, 2013 and 2012.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of \$22 million and \$32 million at December 31, 2013 and 2012.

PPL Energy Supply, PPL Electric and KU had not posted any cash collateral under master netting arrangements at December 31, 2013 and 2012.

See "Offsetting Derivative Investments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

Commodity price risk, including basis and volumetric risk, is among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its unregulated wholesale and unregulated retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 7,369 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,309 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts are non-derivatives or NPNS is elected and therefore they are not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their non-trading activities into two categories: cash flow hedges and economic activity as discussed below.

Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. Certain cash flow hedge positions were redesignated during 2013 and 2012 and the unamortized portion remained in AOCI because the original forecasted transaction is still expected to occur. There were no active cash flow hedges at December 31, 2013. At December 31, 2013, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$25 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For 2013, there were no reclassifications, while in 2012 and 2011, such reclassifications were insignificant.

For 2013 and 2012, hedge ineffectiveness associated with energy derivatives was insignificant. For 2011, hedge ineffectiveness associated with energy derivatives was an after-tax gain (loss) of \$(22) million.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or because hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity would also include the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at December 31, 2013 range in maturity through 2019.

Examples of economic activity may include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally capped at the price at which the generating unit would be dispatched and therefore does not expose PPL Energy Supply to uncovered market price risk.

The net fair value of economic positions at December 31, 2013 and December 31, 2012 was a net asset (liability) of \$107 million and \$346 million for PPL and PPL Energy Supply. The unrealized gains (losses) for economic activity were as follows.

	2013	2012	2011
Operating Revenues			
Unregulated wholesale energy	\$ (721)	\$ (311)	\$ 1,407
Unregulated retail energy	12	(17)	31
Operating Expenses			
Fuel	(4)	(14)	6
Energy purchases	586	442	(1,123)

Commodity Price Risk (Trading)

PPL Energy Supply has a proprietary trading strategy which is utilized to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in losses if prices do not move in the manner or direction anticipated. Net energy trading margins, which are included in "Unregulated wholesale energy" on the Statements of Income, were insignificant for 2013, 2012 and 2011.

Commodity Volumes

At December 31, 2013, the net volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

Commodity	Unit of Measure	Volumes (a)			
		2014	2015	2016	Thereafter
Power	MWh	(33,278,963)	(14,421,817)	4,348,927	18,931,370
Capacity	MW-Month	(19,575)	(3,929)	501	9
Gas	MMBtu	25,869,617	(33,082,289)	19,082,945	(9,202,403)
Coal	Tons	495,900			
FTRs	MW-Month	9,581	1,705		
Oil	Barrels	150,000	380,869	274,137	101,261

(a) Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

Interest Rate Risk

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates.

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At December 31, 2013, outstanding interest rate swap contracts range in maturity through 2044 for PPL's domestic interest rate swaps. These swaps had an aggregate notional value of \$1.3 billion at December 31, 2013.

At December 31, 2013, PPL held a notional position in cross-currency interest rate swaps totaling \$1.3 billion that range in maturity through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For 2013 and 2012, hedge ineffectiveness associated with interest rate derivatives was insignificant. For 2011, hedge ineffectiveness associated with these derivatives resulted in a net after-tax gain (loss) of \$(9) million, which included a gain (loss) of \$(4) million attributable to certain interest rate swaps that failed hedge effectiveness testing during the second quarter of 2011.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL had no such reclassifications for 2013, 2012 and 2011.

At December 31, 2013, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were \$(10) million. Amounts are reclassified as the hedged interest payments are made.

(LKE, LG&E and KU)

In November 2012 and April 2013, LG&E and KU entered into forward-starting interest rate swaps with PPL that hedged the interest payments on new debt that was expected to be issued in 2013. In September 2013, these hedges were terminated and LG&E and KU entered into new forward-starting interest rate swaps with PPL, effectively extending the start date of the prior hedges from September 2013 to December 2013. All of these swaps had terms identical to forward-starting swaps entered into by PPL with third parties. New debt totaling \$500 million was issued in November 2013 (LG&E and KU each issued \$250 million) and the hedges issued in September were terminated in November 2013. Net cash settlements of \$86 million (LG&E and KU each received \$43 million) were received on the swaps that were terminated in September and November, which are included in "Cash Flows from Operating Activities" on the Statement of Cash Flows. Realized gains and losses on these swaps are probable of recovery through regulated rates; as such, the net settlements were reclassified from AOCI to regulatory liabilities and are being recognized in "Interest Expense" on the Statements of Income over the life of the newly issued debt. For 2013, there was no hedge ineffectiveness recorded for the interest rate derivatives.

Fair Value Hedges

(PPL)

PPL is exposed to changes in the fair value of its debt portfolio. To manage this risk, financial contracts may be entered into to hedge fluctuations in the fair value of existing debt issuances due to changes in benchmark interest rates. In July 2012, contracts held by PPL that ranged in maturity through 2047 and had a notional value of \$99 million were canceled without penalties by the counterparties. PPL did not hold any such contracts at December 31, 2013 or 2012. PPL did not recognize gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness or from hedges of debt issuances that no longer qualified as fair value hedges for 2013, 2012 and 2011.

In 2011, PPL Electric redeemed \$400 million of 7.125% Senior Secured Bonds due 2013. As a result of this redemption, PPL recorded a gain (loss) of \$22 million, or \$14 million after tax, for 2011 in "Other Income (Expense) - net" on the Statement of Income as a result of accelerated amortization of the fair value adjustments to the debt in connection with previously settled fair value hedges.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the hedged transaction occurs. At December 31, 2013, LG&E held contracts with a notional amount of \$179 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at December 31, 2013 had a notional amount of £301 million (approximately \$477 million based on contracted rates). The settlement dates of these contracts range from May 2014 through December 2015.

Additionally, a PPL Global subsidiary that has a U.S. dollar functional currency entered into GBP intercompany loans payable with PPL WEM subsidiaries that have GBP functional currency. The loans qualify as a net investment hedge for the PPL Global subsidiary. As such, the foreign currency gains and losses on the intercompany loans for the PPL Global subsidiary are recorded to the foreign currency translation adjustment component of OCI. At December 31, 2013, the outstanding balances of the intercompany loans were £42 million (approximately \$69 million based on spot rates). For 2013 and 2012, PPL recognized insignificant amounts of net investment hedge after-tax gains (losses) on the intercompany loans in the foreign currency translation adjustment component of OCI.

At December 31, 2013 and 2012, PPL had an insignificant amount and \$14 million of accumulated net investment hedge after-tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At December 31, 2013, the total exposure hedged by PPL was approximately £1.4 billion (approximately \$2.3 billion based on contracted rates). These contracts had termination dates ranging from January 2014 through December 2015.

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. When these trades were settled in April 2011, PPL recorded \$55 million of pre-tax, net gains (losses) in "Other Income (Expense) - net" on the Statement of Income.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Energy Supply include certain full-requirement sales contracts, other physical purchase and sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized currently in earnings unless specific hedge accounting criteria are met and designated as such, except for the change in fair value of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at December 31, 2013 and 2012.

See Note 1 for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	December 31, 2013				December 31, 2012			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ 82		\$ 4		\$ 14	\$ 22	\$ 5	
Cross-currency swaps		\$ 4				3		
Foreign currency contracts		16		55		2		23
Commodity contracts			\$ 860	750	59		\$ 1,452	1,010
Total current	82	20	860	809	73	27	1,452	1,038
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	9			32	1			53
Cross-currency swaps		28			14	1		
Foreign currency contracts		4		31				19
Commodity contracts			328	320	27		530	556
Total noncurrent	9	32	328	383	42	1	530	628
Total derivatives	\$ 91	\$ 52	\$ 1,188	\$ 1,192	\$ 115	\$ 28	\$ 1,982	\$ 1,666

(a) Represents the location on the Balance Sheets

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Related Item
2012				
Interest rate swaps	Fixed rate debt	Interest Expense		\$ 3
2011				
Interest rate swaps	Fixed rate debt	Interest Expense	\$ 2	25
		Other Income (Expense) - net		22

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2013				
Cash Flow Hedges:				
Interest rate swaps	\$ 127	Interest Expense	\$ (20)	
Cross-currency swaps	(41)	Other Income (Expense) - net	(28)	
		Interest Expense	1	
Commodity contracts		Unregulated wholesale energy	263	\$ 1
		Energy purchases	(58)	
		Depreciation	2	
		Other	3	
Total	\$ 86		\$ 163	\$ 1
Net Investment Hedges:				
Foreign currency contracts	\$ (14)			

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2012				
Cash Flow Hedges:				
Interest rate swaps	\$ (28)	Other income (Expense) - net Interest Expense	\$ 1 (18)	
Cross-currency swaps	(15)	Other Income (Expense) - net Interest Expense	(23) (2)	
Commodity contracts	114	Unregulated wholesale energy Energy purchases Depreciation	891 (139) 2	\$ (1) (2)
Total	\$ 71		\$ 712	\$ (3)
Net Investment Hedges:				
Foreign currency contracts	\$ (7)			
2011				
Cash Flow Hedges:				
Interest rate swaps	\$ (55)	Interest Expense	\$ (13)	\$ (13)
Cross-currency swaps	(35)	Other Income (Expense) - net Interest Expense	29 5	
Commodity contracts	431	Unregulated wholesale energy Fuel Energy purchases Depreciation	835 1 (243) 2	(39) 1
Total	\$ 341		\$ 616	\$ (51)
Net Investment Hedges:				
Foreign currency contracts	\$ 6			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	2013			2012			2011		
Foreign currency contracts	Other Income (Expense) - net	\$ (38)	\$ (52)	\$ 65						
Interest rate swaps	Interest Expense	(8)	(8)	(8)						
Commodity contracts	Utility			(1)						
	Unregulated wholesale energy	(85)	1,199	1,600						
	Unregulated retail energy	25	30	39						
	Fuel	2		(1)						
	Energy purchases	130	(965)	(1,493)						
Total		\$ 26	\$ 204	\$ 201						

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2013			2012			2011		
Interest rate swaps	Regulatory assets - noncurrent	\$ 22	\$ 1	\$ (26)						

Derivatives Designated as Cash Flow Hedges	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2013			2012			2011		
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 72	\$ 14							

(PPL Energy Supply)

The following tables present the fair value and location of derivative instruments recorded on the Balance Sheets.

	December 31, 2013				December 31, 2012			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (a):								
Commodity contracts		\$ 860	\$ 750	\$ 59	\$ 1,452	\$ 1,010		
Total current		860	750	59	1,452	1,010		

	December 31, 2013				December 31, 2012			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Commodity contracts			328	320	27		530	556
Total noncurrent			328	320	27		530	556
Total derivatives			\$ 1,188	\$ 1,070	\$ 86		\$ 1,982	\$ 1,566

(a) Represents the location on the Balance Sheet.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI. There were no gains (losses) on interest rate swaps for 2013 or 2012.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Related Item
2011				
Interest rate swaps	Fixed rate debt	Interest Expense	\$	2

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2013				
Cash Flow Hedges:				
Commodity contracts		Unregulated wholesale energy	\$ 263	\$ 1
		Depreciation	2	
		Energy purchases	(58)	
Total			\$ 207	\$ 1

2012				
Cash Flow Hedges:				
Commodity contracts	\$ 114	Unregulated wholesale energy	\$ 891	\$ (1)
		Depreciation	2	
		Energy purchases	(139)	(2)
Total	\$ 114		\$ 754	\$ (3)

2011				
Cash Flow Hedges:				
Commodity contracts	\$ 431	Unregulated wholesale energy	\$ 835	\$ (39)
		Fuel	1	
		Energy purchases	(243)	1
		Depreciation	2	
Total	\$ 431		\$ 595	\$ (38)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	2013			2012			2011		
		Assets	Liabilities	Total	Assets	Liabilities	Total	Assets	Liabilities	Total
Commodity contracts	Unregulated wholesale energy			\$ (85)	\$ 1,199		\$ 1,600			
	Unregulated retail energy			25	30		39			
	Fuel			2			(1)			
	Energy purchases			130	(965)		(1,493)			
	Total			\$ 72	\$ 264		\$ 145			

(LKE)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	December 31, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps			\$ 14	

(a) Represents the location on the Balance Sheet.

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities.

Derivative Instruments	Location of Gain (Loss)	2013	2012	2011
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 72	\$ 14	

(LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	December 31, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps			\$ 7	

(a) Represents the location on the balance sheet.

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities.

Derivative Instruments	Location of Gain (Loss)	2013	2012	2011
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 36	\$ 7	

(KU)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	December 31, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps			\$ 7	

(a) Represents the location on the Balance Sheets.

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities.

Derivative Instruments	Location of Gain (Loss)	2013	2012	2011
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 36	\$ 7	

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	December 31, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		\$ 4	\$ 5	
Total current		4	5	
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		32	53	
Total noncurrent		32	53	
Total derivatives		\$ 36	\$ 58	

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets.

Derivative Instruments	Location of Gain (Loss)	2013	2012	2011
Interest rate swaps	Interest Expense	\$ (8)	\$ (8)	\$ (8)
Commodity contracts	Operating Revenues			(1)
	Total	\$ (8)	\$ (8)	\$ (9)

Derivative Instruments	Location of Gain (Loss)	2013	2012	2011
Interest rate swaps	Regulatory assets - noncurrent	\$ 22	\$ 1	\$ (26)

(All Registrants except PPL Electric)

Offsetting Derivative Instruments

PPL, PPL Energy Supply, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements or similar agreements in place including derivative clearing agreements with futures commission merchants (FCMs) to permit the trading of cleared derivative products on one or more futures exchanges. The clearing arrangements permit an FCM to use and apply any property in its possession as a set off to pay amounts or discharge obligations owed by a customer upon default of the customer and typically do not place any restrictions on the FCM's use of collateral posted by the customer. PPL, PPL Energy Supply, LKE, LG&E and KU and their subsidiaries also enter into agreements pursuant to which they trade certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to setoff amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, PPL Energy Supply, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net
Derivative Instruments		Cash Collateral Received	Derivative Instruments			Cash Collateral Pledged		
December 31, 2013								
PPL								
Energy Commodities	\$ 1,188	\$ 912	\$ 7	\$ 269	\$ 1,070	\$ 912	\$ 1	\$ 157
Treasury Derivatives	91	61		30	174	61	23	90
Total	\$ 1,279	\$ 973	\$ 7	\$ 299	\$ 1,244	\$ 973	\$ 24	\$ 247
PPL Energy Supply								
Energy Commodities	\$ 1,188	\$ 912	\$ 7	\$ 269	\$ 1,070	\$ 912	\$ 1	\$ 157

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
December 31, 2013								
LKE								
Treasury Derivatives					\$ 36		\$ 20	\$ 16
LG&E								
Treasury Derivatives					\$ 36		\$ 20	\$ 16
December 31, 2012								
PPL								
Energy Commodities	\$ 2,068	\$ 1,413	\$ 111	\$ 544	\$ 1,566	\$ 1,413	\$ 9	\$ 144
Treasury Derivatives	29	19		10	128	19	30	79
Total	\$ 2,097	\$ 1,432	\$ 111	\$ 554	\$ 1,694	\$ 1,432	\$ 39	\$ 223
PPL Energy Supply								
Energy Commodities	\$ 2,068	\$ 1,413	\$ 111	\$ 544	\$ 1,566	\$ 1,413	\$ 9	\$ 144
LKE								
Treasury Derivatives	\$ 14			\$ 14	\$ 58		\$ 30	\$ 28
LG&E								
Treasury Derivatives	\$ 7			\$ 7	\$ 58		\$ 30	\$ 28
KU								
Treasury Derivatives	\$ 7			\$ 7				

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

At December 31, 2013, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit risk-related contingent features and were in a net liability position is summarized as follows:

	PPL	PPL Energy Supply	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 245	\$ 157	\$ 26	\$ 26
Aggregate fair value of collateral posted on these derivative instruments	41	19	22	22
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	214	147	6	6

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

20. Goodwill and Other Intangible Assets

Goodwill

(PPL)

The changes in the carrying amount of goodwill by segment were:

	U.K. Regulated		Kentucky Regulated		Supply		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
PPL								
Balance at beginning of period (a)	\$ 3,076	\$ 3,032	\$ 662	\$ 662	\$ 420	\$ 420	\$ 4,158	\$ 4,114
Changes during the period (b)	67	44					67	44
Balance at end of period (a)	\$ 3,143	\$ 3,076	\$ 662	\$ 662	\$ 420	\$ 420	\$ 4,225	\$ 4,158

- (a) There were no accumulated impairment losses related to goodwill.
(b) Primarily the effect of foreign currency exchange rates.

Other Intangible Assets

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a)	\$ 408	\$ 202	\$ 408	\$ 150
Land and transmission rights	331	117	284	113
Emission allowances/RECs (b)	16		17	
Licenses and other (c)	305	45	287	39
Total subject to amortization	1,060	364	996	302
Not subject to amortization due to indefinite life:				
Land and transmission rights	16		18	
Easements (d)	239		220	
Total not subject to amortization due to indefinite life	255		238	
Total	\$ 1,315	\$ 364	\$ 1,234	\$ 302

- (a) Gross carrying amount includes the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. This is referred to as "regulatory offset" in the tables below. See Note 6 for additional information.
(b) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.
(c) "Other" includes costs for the development of licenses, the most significant of which is the COLA. Amortization of these costs begins when the related asset is placed in service. See Note 8 for additional information on the COLA.
(d) Gross carrying amount includes \$88 million, which represents the fair value at the acquisition date of easements recognized as a result of the 2011 acquisition of WPD Midlands. See Note 10 for additional information.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" on the Balance Sheets.

Amortization expense for the years ended December 31, excluding consumption of emission allowances/RECs of \$23 million, \$12 million, and \$16 million in 2013, 2012 and 2011, was as follows:

	2013	2012	2011
Intangible assets with no regulatory offset	\$ 10	\$ 14	\$ 25
Intangible assets with regulatory offset	51	47	87
Total	\$ 61	\$ 61	\$ 112

Amortization expense for each of the next five years, excluding insignificant amounts for consumption of emission allowances/RECs, is estimated to be:

	2014	2015	2016	2017	2018
Intangible assets with no regulatory offset	\$ 10	\$ 10	\$ 8	\$ 8	\$ 8
Intangible assets with regulatory offset	48	50	27	9	9
Total	\$ 58	\$ 60	\$ 35	\$ 17	\$ 17

(PPL Energy Supply)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land and transmission rights	\$ 17	\$ 14	\$ 17	\$ 13
Emission allowances/RECs (a)	11		13	
Licenses and other (b)	295	39	277	35
Total subject to amortization	\$ 323	\$ 53	\$ 307	\$ 48

(a) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.

(b) "Other" includes costs for the development of licenses, the most significant of which is the COLA. Amortization of these costs begins when the related asset is placed in service. See Note 8 for additional information on the COLA.

Current intangible assets are included in "Other current assets" and long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense for the years ended December 31, excluding consumption of emission allowances/RECs of \$23 million, \$12 million, and \$16 million in 2013, 2012, and 2011 was as follows:

	2013	2012	2011
Amortization expense	\$ 5	\$ 9	\$ 20

Amortization expense and consumption of emission allowances/RECs is expected to be insignificant in future years.

(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land and transmission rights	\$ 293	\$ 102	\$ 249	\$ 99
Licenses and other	5	1	4	1
Total subject to amortization	298	103	253	100
Not subject to amortization due to indefinite life:				
Land and transmission rights	16		18	
Total	\$ 314	\$ 103	\$ 271	\$ 100

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2013, 2012 and 2011 and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	\$ 269	\$ 171	\$ 269	\$ 128
Land and transmission rights	20	2	18	1
Emission allowances (b)	4		4	
OVEC power purchase agreement (c)	126	25	126	17
Total subject to amortization	\$ 419	\$ 198	\$ 417	\$ 146

- (a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Represents the fair value at the acquisition date of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was insignificant in 2013 and in 2012.
- (c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense, excluding consumption of emission allowances, was as follows:

	2013	2012	2011
Intangible assets with no regulatory offset	\$ 1		\$ 1
Intangible assets with regulatory offset	51	\$ 47	87
Total	\$ 52	\$ 47	\$ 88

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	2014	2015	2016	2017	2018
Intangible assets with regulatory offset	\$ 48	\$ 50	\$ 27	\$ 9	\$ 9

(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	\$ 124	\$ 81	\$ 124	\$ 62
Land and transmission rights	7	1	8	1
Emission allowances (b)	1		1	
OVEC power purchase agreement (c)	87	17	87	13
Total subject to amortization	\$ 219	\$ 99	\$ 220	\$ 76

- (a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Represents the fair value at the acquisition date of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was insignificant in 2013 and in 2012.
- (c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense, excluding consumption of emission allowances, was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Intangible assets with no regulatory offset			\$ 1
Intangible assets with regulatory offset	\$ 23	\$ 23	45
Total	<u>\$ 23</u>	<u>\$ 23</u>	<u>\$ 46</u>

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Intangible assets with regulatory offset	\$ 23	\$ 24	\$ 13	\$ 6	\$ 6

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	<u>December 31, 2013</u>		<u>December 31, 2012</u>	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	\$ 145	\$ 90	\$ 145	\$ 66
Land and transmission rights	13	1	10	
Emission allowances (b)	3		3	
OVEC power purchase agreement (c)	39	8	39	4
Total subject to amortization	<u>\$ 200</u>	<u>\$ 99</u>	<u>\$ 197</u>	<u>\$ 70</u>

- (a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Represents the fair value at the acquisition date of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was insignificant in 2013 and in 2012.
- (c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense, excluding consumption of emission allowances, was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Intangible assets with no regulatory offset	\$ 1		
Intangible assets with regulatory offset	28	\$ 24	\$ 42

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Intangible assets with regulatory offset	\$ 24	\$ 26	\$ 13	\$ 3	\$ 3

21. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Energy Supply)

PPL Energy Supply has recorded AROs to reflect various legal obligations associated with the retirement of long-lived assets, the most significant of which relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was \$342 million and \$316 million at December 31, 2013 and 2012. The fair value of investments that are legally restricted for the decommissioning of the Susquehanna nuclear plant was \$864 million and \$712 million at December 31, 2013 and 2012, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 18 and 23 for additional information on the nuclear decommissioning trust funds. Other AROs recorded relate to various environmental requirements for coal piles, ash basins and other waste basin retirements.

PPL Energy Supply has recorded several conditional AROs, the most significant of which related to the removal and disposal of asbestos-containing material. In addition to the AROs that were recorded for asbestos-containing material, PPL Energy Supply identified other asbestos-related obligations, but was unable to reasonably estimate their fair values. PPL Energy Supply management was unable to reasonably estimate a settlement date or range of settlement dates for the remediation of all of the asbestos-containing material at certain of the generation plants. If economic events or other circumstances change that enable PPL Energy Supply to reasonably estimate the fair value of these retirement obligations, they will be recorded at that time.

PPL Energy Supply also identified legal retirement obligations associated with the retirement of a reservoir that could not be reasonably estimated due to an indeterminable settlement date.

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LKE, LG&E and KU)

LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. As described in Notes 1 and 6, LG&E's and KU's accretion and depreciation expense are recorded as a regulatory asset, such that there is no earnings impact. In 2013, AROs were revalued primarily due to updates in the estimated cash flows for ash ponds and CCR surface impoundments based on updated cost estimates.

(All Registrants except PPL Electric)

The changes in the carrying amounts of AROs were as follows.

	PPL		PPL Energy Supply	
	2013	2012	2013	2012
ARO at beginning of period	\$ 552	\$ 497	\$ 375	\$ 359
Accretion expense	38	36	29	28
Obligations incurred	6	9	6	3
Changes in estimated cash flow or settlement date	123	31	1	(7)
Effect of foreign currency exchange rates	1	1		
Obligations settled	(15)	(22)	(7)	(8)
ARO at end of period	\$ 705	\$ 552	\$ 404	\$ 375

	LKE		LG&E		KU	
	2013	2012	2013	2012	2013	2012
ARO at beginning of period	\$ 131	\$ 118	\$ 62	\$ 57	\$ 69	\$ 61
Accretion expense	7	6	3	3	4	3
Obligations incurred		6				6
Changes in estimated cash flow or settlement date	122	15	17	5	105	10
Obligations settled	(8)	(14)	(8)	(3)		(11)
ARO at end of period	\$ 252	\$ 131	\$ 74	\$ 62	\$ 178	\$ 69

Substantially all of the ARO balances are classified as noncurrent at December 31, 2013 and 2012.

22. Variable Interest Entities

(PPL and PPL Energy Supply)

In December 2001, a subsidiary of PPL Energy Supply entered into a \$455 million operating lease arrangement, as lessee, for the development, construction and operation of a gas-fired combined-cycle generation facility located in Lower Mt. Bethel Township, Northampton County, Pennsylvania. The owner/lessor of this generation facility, LMB Funding, LP, was created to own/lease the facility and incur the related financing costs. The initial lease term commenced on the date of commercial operation, which occurred in May 2004, and ended in December 2013. Under a residual value guarantee, if the generation facility was sold at the end of the lease term and the cash proceeds from the sale were less than the original acquisition cost, the subsidiary of PPL Energy Supply was obligated to pay up to 70.52% of the original acquisition cost. This residual value guarantee protected the other variable interest holders from losses related to their investments. LMB Funding, LP could not extend or cancel the lease or sell the facility without the prior consent of the PPL Energy Supply subsidiary. As a result, LMB Funding, LP was determined to be a VIE and the subsidiary of PPL Energy Supply was considered the primary beneficiary that consolidated this VIE.

The lease financing, which included \$437 million of debt and \$18 million of "Noncontrolling interests" was secured by, among other things, the generation facility, the carrying amount of which is disclosed on the Balance Sheet. As a result of the consolidation, PPL Energy Supply recorded interest expense in lieu of rent expense. For 2013, 2012 and 2011, additional depreciation on the generation facility of \$12 million, \$16 million and \$16 million was recorded.

A subsidiary of PPL Energy Supply purchased the Lower Mt. Bethel plant for \$455 million at the lease termination date in December 2013. The proceeds were used by LMB Funding, LP to repay \$437 million of outstanding debt and make an \$18 million distribution to its equity investors both of which have been included in the PPL and PPL Energy Supply Consolidated Statements of Cash Flows as financing activities. The transaction was treated as a transfer of assets between entities under common control and did not result in any change to the presentation of the Lower Mt. Bethel plant assets as they had previously been included in PPL's and PPL Energy Supply's consolidated financial statements.

Subsequent to these transactions, the PPL Energy Supply subsidiary no longer has a variable interest in and is no longer the primary beneficiary of LMB Funding, LP. Accordingly, LMB Funding, LP was deconsolidated, which had no impact on PPL's and PPL Energy Supply's consolidated financial statements.

23. Available-for-Sale Securities

(PPL and PPL Energy Supply)

Securities held by the NDT funds and auction rate securities are classified as available-for-sale.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI and the fair value of available-for-sale securities.

	December 31, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
NDT funds:								
PPL and PPL Energy Supply								
Cash and cash equivalents	\$ 14			\$ 14	\$ 11			\$ 11
Equity securities	265	\$ 363		628	252	\$ 220		472
Debt securities	217	7	\$ 3	221	211	19	\$ 1	229
Receivables/payables, net	1			1				
Total NDT funds	\$ 497	\$ 370	\$ 3	\$ 864	\$ 474	\$ 239	\$ 1	\$ 712
Auction rate securities:								
PPL	\$ 20		\$ 1	\$ 19	\$ 20		\$ 1	\$ 19
PPL Energy Supply	17		1	16	17		1	16

See Note 18 for details on the securities held by the NDT funds.

There were no securities with credit losses at December 31, 2013 and 2012.

The following table shows the scheduled maturity dates of debt securities held at December 31, 2013.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 6-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	\$ 7	\$ 97	\$ 54	\$ 79	\$ 237
Fair value	7	99	55	79	240
PPL Energy Supply					
Amortized cost	\$ 7	\$ 97	\$ 54	\$ 76	\$ 234
Fair value	7	99	55	76	237

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities.

	2013	2012	2011
PPL			
Proceeds from sales of NDT securities (a)	\$ 144	\$ 139	\$ 156
Other proceeds from sales		5	163
Gross realized gains (b)	17	29	28
Gross realized losses (b)	7	21	16
PPL Energy Supply			
Proceeds from sales of NDT securities (a)	\$ 144	\$ 139	\$ 156
Other proceeds from sales		3	
Gross realized gains (b)	17	29	28
Gross realized losses (b)	7	21	16

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.

(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

Short-term Investments (PPL, LKE and LG&E)

At December 31, 2010, LG&E held \$163 million aggregate principal amount of tax-exempt revenue bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were purchased from the remarketing agent in 2008. In 2011, LG&E received \$163 million for its investments in these bonds when they were remarketed to unaffiliated investors. No realized or unrealized gains (losses) were recorded on these securities, as the difference between carrying value and fair value was not significant.

NDT Funds (PPL and PPL Energy Supply)

Amounts previously collected from PPL Electric's customers for decommissioning the Susquehanna nuclear plant, less applicable taxes, were deposited in external trust funds for investment and can only be used for future decommissioning costs. To the extent that the actual costs for decommissioning exceed the amounts in the nuclear decommissioning trust funds, PPL Susquehanna would be obligated to fund 90% of the shortfall.

When the fair value of a security is less than amortized cost, PPL and PPL Energy Supply must make certain assertions to avoid recording an other-than-temporary impairment that requires a current period charge to earnings. The NRC requires that nuclear decommissioning trusts be managed by independent investment managers, with discretion to buy and sell securities in the trusts. As a result, PPL and PPL Energy Supply have been unable to demonstrate the ability to hold an impaired security until it recovers its value; therefore, unrealized losses on equity securities for all periods presented, represented other-than-temporary impairments that required a current period charge to earnings. PPL and PPL Energy Supply recorded impairments for certain securities invested in the NDT funds of \$6 million for 2011. The amounts for 2013 and 2012 are insignificant. These impairments are reflected on the Statements of Income in "Other-Than-Temporary Impairments."

24. Accumulated Other Comprehensive Income (Loss)

(PPL, PPL Energy Supply and LKE)

AOCI, which is presented on the Balance Sheet of PPL and included in Member's equity on the Balance Sheets of PPL Energy Supply and LKE, consisted of the following after-tax gains (losses).

	Foreign currency translation adjustments	Unrealized gains (losses)			Defined benefit plans			Total
		Available- for-sale securities	Qualifying derivatives	Equity investees' AOCI	Prior service costs	Actuarial gain (loss)	Transition asset (obligation)	
PPL								
December 31, 2010	\$ (195)	\$ 88	\$ 695	\$ (4)	\$ (32)	\$ (1,032)	\$ 1	\$ (479)
OCI	(48)	2	(168)	3	7	(105)		(309)
December 31, 2011	\$ (243)	\$ 90	\$ 527	\$ (1)	\$ (25)	\$ (1,137)	\$ 1	\$ (788)
OCI	94	22	(395)	2	11	(886)		(1,152)
December 31, 2012	\$ (149)	\$ 112	\$ 132	\$ 1	\$ (14)	\$ (2,023)	\$ 1	\$ (1,940)
Amounts arising during the period	138	67	45		2	71		323
Reclassifications from AOCI		(6)	(83)		6	135		52
Net OCI during the period	138	61	(38)		8	206		375
December 31, 2013	\$ (11)	\$ 173	\$ 94	\$ 1	\$ (6)	\$ (1,817)	\$ 1	\$ (1,565)

PPL Energy Supply

December 31, 2010	\$ (195)	\$ 88	\$ 733	\$ (3)	\$ (23)	\$ (955)		\$ (355)
OCI		2	(86)	3	2	(18)		(97)
Distribution of membership interest in PPL Global (a)	195		(41)		5	780		939
December 31, 2011		\$ 90	\$ 606		\$ (16)	\$ (193)		\$ 487
OCI		22	(395)		6	(72)		(439)
December 31, 2012		\$ 112	\$ 211		\$ (10)	\$ (265)		\$ 48
Amounts arising during the period		67			2	71		140
Reclassifications from AOCI		(6)	(123)		4	14		(111)
Net OCI during the period		61	(123)		6	85		29
December 31, 2013		\$ 173	\$ 88		\$ (4)	\$ (180)		\$ 77

LKE

December 31, 2010						\$ 6		\$ 6
OCI						(2)		(2)
December 31, 2011						(2)	\$ 6	\$ 4
OCI				\$ 1		(20)		(19)
December 31, 2012				\$ 1	\$ (2)	(14)		(15)
Amounts arising during the period						28		28
Net OCI during the period						28		28
December 31, 2013				\$ 1	\$ (2)	14		\$ 13

(a) See Note 9 for additional information.

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the year ended December 31, 2013. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 13 for additional information.

Affected Line Item on the Statements of Income

Details about AOCI	Unregulated wholesale energy	Energy purchases	Interest Expense	Other Income (Expense), net	Other	Total Pre-tax	Income Taxes	Total After-tax
PPL								
Available-for-sale securities				\$ 10		\$ 10	\$ (4)	\$ 6
Qualifying derivatives								
Interest rate swaps			\$ (20)			(20)	1	(19)
Cross-currency swaps			1	(28)		(27)	4	(23)
Energy commodities	\$ 263	\$ (58)			\$ 5	210	(85)	125
Total	\$ 263	\$ (58)	\$ (19)	\$ (28)	\$ 5	163	(80)	83
Defined benefit plans								
Prior service costs						(10)	4	(6)
Net actuarial loss						(184)	49	(135)
Total						\$ (194)	\$ 53	(141)
Total reclassifications								\$ (52)
PPL Energy Supply								
Available-for-sale securities				\$ 10		\$ 10	\$ (4)	\$ 6
Qualifying derivatives								
Energy commodities	\$ 263	\$ (58)			\$ 2	207	(84)	123
Defined benefit plans								
Prior service costs						(7)	3	(4)
Net actuarial loss						(24)	10	(14)
Total						\$ (31)	\$ 13	(18)
Total reclassifications								\$ 111

25. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Registrants will retrospectively adopt accounting guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements when the amount of the obligation is fixed at the reporting date. If the obligation is determined to be in the scope of this guidance, it will be measured as the sum of the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires additional disclosures for these obligations.

The adoption of this guidance is not expected to have a significant impact on the Registrants.

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Effective January 1, 2014, PPL will prospectively adopt accounting guidance that requires a cumulative translation adjustment to be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For the step acquisition of previously held equity method investments that are foreign entities, this guidance clarifies that the amount of accumulated other comprehensive income that is reclassified and included in the calculation of a gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

The initial adoption of this guidance is not expected to have a significant impact on PPL; however, the impact in future periods could be material.

Presentation of Unrecognized Tax Benefits When Net Operating Loss Carryforwards, Similar Tax Losses, or Tax Credit Carryforwards Exist

Effective January 1, 2014, the Registrants will prospectively adopt accounting guidance that requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax

asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

The adoption of this guidance is not expected to have a significant impact on the Registrants.

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues			
Operating Expenses			
Other operation and maintenance		\$ 3	
Total Operating Expenses		<u>3</u>	
Operating Income (Loss)		(3)	
Equity in Earnings of Subsidiaries	\$ 376	234	\$ 267
Interest Income with Affiliate	5	10	29
Interest Expense	39	39	31
Interest Expense with Affiliate	<u>3</u>	<u>2</u>	<u>2</u>
Income (Loss) Before Income Taxes	339	200	263
Income Tax Expense (Benefit)	<u>(8)</u>	<u>(19)</u>	<u>(2)</u>
Net Income (Loss) Attributable to Member	<u>\$ 347</u>	<u>\$ 219</u>	<u>\$ 265</u>
Comprehensive Income (Loss) Attributable to Member	<u>\$ 375</u>	<u>\$ 200</u>	<u>\$ 263</u>

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities			
Net cash provided by (used in) operating activities	\$ 136	\$ 364	\$ 346
Cash Flows from Investing Activities			
Capital contributions to affiliated subsidiaries	(243)		
Net decrease (increase) in notes receivable from affiliates	(122)	(15)	(63)
Net cash provided by (used in) investing activities	(365)	(15)	(63)
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable with affiliates	171	(196)	
Net increase (decrease) in short-term debt	75		
Issuance of long-term debt			250
Contribution from member	243		
Distribution to member	(254)	(155)	(533)
Net cash provided by (used in) financing activities	235	(351)	(283)
Net Increase (Decrease) in Cash and Cash Equivalents			
	6	(2)	
Cash and Cash Equivalents at Beginning of Period		2	2
Cash and Cash Equivalents at End of Period	<u>\$ 6</u>	<u>\$</u>	<u>\$ 2</u>
Supplemental disclosures of cash flow information:			
Cash Dividends Received from Affiliated Subsidiaries	\$ 223	\$ 175	\$ 207

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
(Millions of Dollars)

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6	
Accounts receivable	2	
Accounts receivable from affiliates	11	\$ 4
Notes receivable from affiliates	1,682	1,560
Deferred income taxes	10	1
Total Current Assets	<u>1,711</u>	<u>1,565</u>
Investments		
Affiliated companies at equity	4,519	4,096
Other Noncurrent Assets		
Deferred income taxes	170	184
Other noncurrent assets	6	7
Total Other Noncurrent Assets	<u>176</u>	<u>191</u>
Total Assets	<u>\$ 6,406</u>	<u>\$ 5,852</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 75	
Notes payable to affiliates		\$ 25
Accounts payable to affiliates	843	906
Taxes	12	8
Other current liabilities	6	6
Total Current Liabilities	<u>936</u>	<u>945</u>
Long-term Debt		
Long-term debt	1,121	1,121
Notes payable to affiliates	196	
Total Long-term Debt	<u>1,317</u>	<u>1,121</u>
Deferred Credits and Other Noncurrent Liabilities	<u>3</u>	
Equity	<u>4,150</u>	<u>3,786</u>
Total Liabilities and Equity	<u>\$ 6,406</u>	<u>\$ 5,852</u>

The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.

Schedule I - LG&E and KU Energy LLC
Notes to Condensed Unconsolidated Financial Statements

1. Basis of Presentation

LG&E and KU Energy LLC (LKE) is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. Accordingly, its cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends or repayment of loans and advances from the subsidiaries. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of LKE.

LKE indirectly or directly owns all of the ownership interests of its significant subsidiaries. LKE relies primarily on dividends from its subsidiaries to fund LKE's dividends to its member and to meet its other cash requirements.

2. Commitments and Contingencies

See Note 15 to LKE's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees

LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing the December 2012 order of the Henderson Circuit Court, confirming the arbitration award. A decision in the appellate matter may occur during 2014. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. In the second quarter of 2012, LKE adjusted its estimated liability for certain of these indemnifications by \$9 million (\$5 million after-tax), which is reflected in "Equity in Earnings of Subsidiaries" on the Statement of Income. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.

QUARTERLY FINANCIAL, COMMON STOCK PRICE AND DIVIDEND DATA (Unaudited)
PPL Corporation and Subsidiaries
(Millions of Dollars, except per share data)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2013				
Operating revenues	\$ 2,457	\$ 3,450	\$ 3,105	\$ 2,848
Operating income (e)	693	758	857	31
Income (loss) from continuing operations after income taxes (e)	413	404	410	(98)
Income (loss) from discontinued operations		1	1	
Net income (loss) (e)	413	405	411	(98)
Net income (loss) attributable to PPL (e)	413	405	410	(98)
Income (loss) from continuing operations after income taxes available to PPL common shareowners: (b) (e)				
Basic EPS	0.70	0.68	0.65	(0.16)
Diluted EPS (d)	0.65	0.63	0.62	(0.16)
Net income (loss) available to PPL common shareowners: (b) (e)				
Basic EPS	0.70	0.68	0.65	(0.16)
Diluted EPS (d)	0.65	0.63	0.62	(0.16)
Dividends declared per share of common stock (c)	0.3675	0.3675	0.3675	0.3675
Price per common share:				
High	\$ 31.35	\$ 33.55	\$ 32.09	\$ 31.79
Low	28.64	28.44	29.03	28.95
2012				
Operating revenues	\$ 4,112	\$ 2,549	\$ 2,403	\$ 3,222
Operating income	1,051	572	664	822
Income from continuing operations after income taxes	545	277	355	360
Income (loss) from discontinued operations		(6)		
Net income	545	271	355	360
Net income attributable to PPL	541	271	355	359
Income from continuing operations after income taxes available to PPL common shareowners: (b)				
Basic EPS	0.93	0.47	0.61	0.61
Diluted EPS	0.93	0.47	0.61	0.60
Net income available to PPL common shareowners: (b)				
Basic EPS	0.93	0.46	0.61	0.61
Diluted EPS	0.93	0.46	0.61	0.60
Dividends declared per share of common stock (c)	0.360	0.360	0.360	0.360
Price per common share:				
High	\$ 29.85	\$ 28.44	\$ 29.98	\$ 30.18
Low	27.29	26.68	27.72	27.74

- (a) Quarterly results can vary depending on, among other things, weather and the forward pricing of power. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.
- (b) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.
- (c) PPL has paid quarterly cash dividends on its common stock in every year since 1946. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.
- (d) As a result of a reported loss, diluted earnings per share for the three months ended December 31, 2013 exclude incremental shares as they were anti-dilutive.
- (e) Fourth quarter of 2013 includes a charge for the termination of the lease of the Colstrip coal-fired electric generating facility in Montana. See Note 8 to the Financial Statements for additional information.

QUARTERLY FINANCIAL DATA (Unaudited)
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2013				
Operating revenues	\$ 513	\$ 414	\$ 464	\$ 479
Operating income	121	92	105	101
Net income	64	45	51	49
Net income available to PPL	64	45	51	49
2012				
Operating revenues	\$ 458	\$ 404	\$ 444	\$ 457
Operating income	79	63	71	81
Net income	37	29	33	37
Net income available to PPL	33	29	33	37

(a) PPL Electric's business is seasonal in nature, with peak sales periods generally occurring in the winter and summer months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

ITEM 9A. CONTROLS AND PROCEDURES

- (a) Evaluation of disclosure controls and procedures.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of December 31, 2013, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this annual report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive officers and principal financial officers, to allow for timely decisions regarding required disclosure.

- (b) Changes in internal control over financial reporting.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

As reported in the June 30, 2013 Form 10-Q, the principal executive officers and principal financial officers of the Registrants concluded that the implementation of a financial consolidation and reporting system for PPL and its primary U.S. subsidiaries resulted in a material change to the Registrants' internal control over financial reporting. The new system enhances the consolidation of subsidiary accounts, provides reporting tools for analysis and automates certain aspects of financial statement preparation for each of the Registrants. Processes and controls over the consolidation and reporting processes that were previously considered to be effective were replaced with new or modified controls that were also determined to be effective.

The new consolidation and reporting system was subject to extensive testing and data reconciliation during implementation. Post-implementation reviews were conducted which confirmed the continued effectiveness of the internal controls relating to the system implementation processes and to key business processes.

The Registrants' principal executive officers and principal financial officers have concluded that there were no other changes in the Registrants' internal control over financial reporting during the Registrants' fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PPL Corporation

As reported in the June 30, 2013 Form 10-Q, PPL's principal executive officer and principal financial officer concluded that the implementation of a new general ledger system and a financial reporting system at WPD resulted in a material change to its internal control over financial reporting. The general ledger system that was implemented at WPD replaced the existing mainframe system and resulted in more automation and enhanced controls over general ledger processing and consolidation. The reporting system that was implemented at WPD improves and automates controls over data transfer included in PPL's consolidation process and improves controls over GAAP and foreign currency adjustments. In each of the WPD system implementations, controls that were previously determined to be effective were replaced with new or modified controls that were also determined to be effective.

The general ledger and reporting systems were subject to extensive testing and data reconciliation during their implementation. Post-implementation reviews were conducted which confirmed the continued effectiveness of the internal controls relating to the system implementation processes and to key business processes. Risks related to the system implementations at WPD were also partially mitigated by PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provided management additional time for review and analysis of WPD results and their incorporation into PPL's consolidated financial statements.

The Registrant's principal executive officer and principal financial officer have concluded that there were no other changes in the Registrant's internal control over financial reporting during the Registrant's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

PPL Corporation

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework"(2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework"(2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2013. The effectiveness of our internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report contained on page 111.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Management of PPL's non-accelerated filer companies, PPL Energy Supply, PPL Electric, LKE, LG&E and KU, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). Each of the aforementioned companies' internal control over financial reporting is a process designed to provide reasonable assurance to management and Board of Directors of these companies regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including the principal executive officers and principal financial officers of the companies listed above, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework"(2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework"(2013), management of these companies concluded that our internal control over financial reporting was effective as of December 31, 2013. This annual report does not include an attestation report of Ernst & Young LLP, the companies' independent registered public accounting firm regarding internal control over financial reporting for these non-accelerated filer companies. The effectiveness of internal control over financial reporting for the aforementioned companies was not subject to attestation by the companies' registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit these companies to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

PPL Corporation

Additional information for this item will be set forth in the sections entitled "Nominees for Directors," "Board Committees - Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" in PPL's 2014 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2013, and which information is incorporated herein by reference. There have been no changes to the procedures by which shareowners may recommend nominees to PPL's board of directors since the filing with the SEC of PPL's 2013 Notice of Annual Meeting and Proxy Statement. Information required by this item concerning the executive officers of PPL is set forth at the end of Part I of this report.

PPL has adopted a code of ethics entitled "Standards of Integrity" that applies to all directors, managers, trustees, officers (including the principal executive officers, principal financial officers and principal accounting officers (each, a "principal officer")), employees and agents of PPL and PPL's subsidiaries for which it has operating control (including PPL Energy Supply, PPL Electric, LKE, LG&E and KU). The "Standards of Integrity" are posted on PPL's Internet website: www.pplweb.com/about-us/corporate-governance. A description of any amendment to the "Standards of Integrity" (other than a technical, administrative or other non-substantive amendment) will be posted on PPL's Internet website within four business days following the date of the amendment. In addition, if a waiver constituting a material departure from a provision of the "Standards of Integrity" is granted to one of the principal officers, a description of the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will be posted on PPL's Internet website within four business days following the date of the waiver.

PPL also has adopted its "Guidelines for Corporate Governance," which address, among other things, director qualification standards and director and board committee responsibilities. These guidelines, and the charters of each of the committees of PPL's board of directors, are posted on PPL's Internet website: www.pplweb.com/about-us/corporate-governance.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 10 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

EXECUTIVE OFFICERS OF THE REGISTRANTS

Officers of the Registrants are elected annually by their Boards of Directors (or Board of Managers for PPL Energy Supply) to serve at the pleasure of the respective Boards. There are no family relationships among any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Listed below are the executive officers at December 31, 2013.

PPL Corporation

Name	Age	Positions Held During the Past Five Years	Dates
William H. Spence	56	Chairman, President and Chief Executive Officer	April 2012 - present
		President and Chief Executive Officer	November 2011 - March 2012
		President and Chief Operating Officer	July 2011 - November 2011
		Executive Vice President and Chief Operating Officer	June 2006 - July 2011
Paul A. Farr	46	Executive Vice President and Chief Financial Officer	April 2007 - present
Robert J. Grey	63	Executive Vice President, General Counsel and Secretary	November 2012 - present
		Senior Vice President, General Counsel and Secretary	March 1996 - November 2012
David G. DeCampli (a)	56	President-PPL Energy Supply	March 2012 - present
		President-PPL Electric	April 2007 - March 2012
Gregory N. Dudkin (a)	56	President-PPL Electric	March 2012 - present
		Senior Vice President-Operations-PPL Electric	June 2009 - March 2012
		Independent Consultant	February 2009 - June 2009
		Senior Vice-President of Technical Operations and Fulfillment-Comcast Corporation	June 2006 - January 2009
Robert D. Gabbard (a)	54	President-PPL EnergyPlus	June 2008 - present
Rick L. Klingensmith (a)	53	President-PPL Global	August 2004 - present
Victor A. Staffieri (a)	58	Chairman of the Board, Chief Executive Officer and President-LKE	May 2001 - present
Mark F. Wilten	46	Vice President-Finance and Treasurer	June 2012 - present
		Treasurer-Nissan North America and Nissan Motor Acceptance Corporation	August 2010 - May 2012
		Assistant Treasurer-Nissan Motor Acceptance Corporation	August 2008 - August 2010
Vincent Sorgi	42	Vice President and Controller	March 2010 - present
		Controller-Supply Accounting	June 2008 - March 2010

(a) Designated an executive officer of PPL by virtue of their respective positions at a PPL subsidiary.

ITEM 11. EXECUTIVE COMPENSATION

PPL Corporation

Information for this item will be set forth in the sections entitled "Compensation of Directors," "Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" in PPL's 2014 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2013, and which information is incorporated herein by reference.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 11 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
AND RELATED STOCKHOLDER MATTERS**

PPL Corporation

Information for this item will be set forth in the section entitled "Stock Ownership" in PPL's 2014 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2013, and which information is incorporated herein by reference. In addition, provided below in tabular format is information as of December 31, 2013, with respect to compensation plans (including individual compensation arrangements) under which equity securities of PPL are authorized for issuance.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (3)	Weighted-average exercise price of outstanding options, warrants and rights (3)	Number of securities remaining available for future issuance under equity compensation plans (4)
Equity compensation plans approved by security holders (1)	4,126,523 - ICP 2,206,230 - SIP <u>5,048,729 - ICPKE</u> 11,381,482 - Total	\$ 31.34 - ICP \$ 29.26 - SIP <u>\$ 30.23 - ICPKE</u> \$ 30.45 - Combined	3,163,654 - ICPKE 7,727,573 - SIP <u>1,905,081 - DDCP</u> 12,796,308 - Total
Equity compensation plans not approved by security holders (2)			

- (1) Includes (a) the Amended and Restated Incentive Compensation Plan (ICP), under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL; (b) the Amended and Restated Incentive Compensation Plan for Key Employees (ICPKE), under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to non-executive key employees of PPL and its subsidiaries; (c) the PPL 2012 SIP approved by shareowners in 2012 under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL and its subsidiaries; and (d) the Directors Deferred Compensation Plan (DDCP), under which stock units may be awarded to directors of PPL. See Note 12 to the Financial Statements for additional information.
- (2) All of PPL's current compensation plans under which equity securities of PPL are authorized for issuance have been approved by PPL's shareowners.
- (3) Relates to common stock issuable upon the exercise of stock options awarded under the ICP, SIP and ICPKE as of December 31, 2013. In addition, as of December 31, 2013, the following other securities had been awarded and are outstanding under the ICP, SIP, ICPKE and DDCP: 30,400 shares of restricted stock, 321,450 restricted stock units and 238,319 performance units under the ICP; 40,000 shares of restricted stock, 250,526 restricted stock units and 166,609 performance units under the SIP; 24,600 shares of restricted stock, 2,473,624 restricted stock units and 388,271 performance units under the ICPKE; and 500,049 stock units under the DDCP.
- (4) Based upon the following aggregate award limitations under the ICP, SIP, ICPKE and DDCP: (a) under the ICP, 15,769,431 awards (i.e., 5% of the total PPL common stock outstanding as of April 23, 1999) granted after April 23, 1999; (b) under the SIP, 10,000,000 awards; (c) under the ICPKE, 16,573,608 awards (i.e., 5% of the total PPL common stock outstanding as of January 1, 2003) granted after April 25, 2003, reduced by outstanding awards for which common stock was not yet issued as of such date of 2,373,812 resulting in a limit of 14,199,796; and (d) under the DDCP, the number of shares available for issuance was reduced to 2,000,000 shares in March 2012. In addition, each of the ICP and ICPKE includes an annual award limitation of 2% of total PPL common stock outstanding as of January 1 of each year.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 12 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

PPL Corporation

Information for this item will be set forth in the sections entitled "Transactions with Related Persons" and "Independence of Directors" in PPL's 2014 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2013, and is incorporated herein by reference.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 13 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

PPL Corporation

Information for this item will be set forth in the section entitled "Fees to Independent Auditor for 2013 and 2012" in PPL's 2014 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2013, and which information is incorporated herein by reference.

PPL Energy Supply, LLC

The following table presents an allocation of fees billed, including expenses, by Ernst & Young LLP (EY) to PPL for the fiscal years ended December 31, 2013 and 2012, for professional services rendered for the audit of PPL Energy Supply's annual financial statements and for fees billed for other services rendered by EY.

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Audit fees (a)	\$ 1,612	\$ 2,132
Audit-related fees (b)	9	54
Tax fees (c)	70	163

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Energy Supply's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
- (b) Fees for performance of specific agreed-upon procedures.
- (c) Includes fees for tax advice in connection with a tax basis and earnings and profit study and review, consultation and analysis related to investment tax credits and related capital expenditures on certain hydro-electric plant upgrades.

PPL Electric Utilities Corporation

The following table presents an allocation of fees billed, including expenses, by EY to PPL for the fiscal years ended December 31, 2013 and 2012, for professional services rendered for the audit of PPL Electric's annual financial statements and for fees billed for other services rendered by EY.

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Audit fees (a)	\$ 953	\$ 1,319
Audit-related fees (b)	10	10
Tax fees (c)	72	207

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Electric's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
- (b) Fees for performance of specific agreed-upon procedures.
- (c) Includes fees for an analysis related to the deductibility of certain transmission and distribution costs.

LG&E and KU Energy LLC

The following table presents an allocation of fees billed, including expenses, by EY to LKE for the fiscal years ended December 31, 2013 and 2012, for professional services rendered for the audits of LKE's annual financial statements and for fees billed for other services rendered by EY.

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Audit fees (a)	\$ 1,646	\$ 1,715

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LKE's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

Louisville Gas and Electric Company

The following table presents an allocation of fees billed, including expenses, by EY to LG&E for the fiscal years ended December 31, 2013 and 2012, for professional services rendered for the audits of LG&E's annual financial statements and for fees billed for other services rendered by EY.

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Audit fees (a)	\$ 691	\$ 731

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LG&E's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

Kentucky Utilities Company

The following table presents an allocation of fees billed, including expenses, by EY to KU for the fiscal years ended December 31, 2013 and 2012, for professional services rendered for the audits of KU's annual financial statements and for fees billed for other services rendered by EY.

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Audit fees (a)	\$ 646	\$ 626

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in KU's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Approval of Fees The Audit Committee of PPL has procedures for pre-approving audit and non-audit services to be provided by the independent auditor. These procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of the independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the Audit Committee of PPL. As a result of this approval process, the Audit Committee

of PPL has pre-approved specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are approved by the Chair of the Audit Committee of PPL, who serves as the Committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full Audit Committee of PPL no later than its next meeting.

The Audit Committee of PPL approved 100% of the 2013 and 2012 services provided by EY.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

(a) The following documents are filed as part of this report:

1. Financial Statements - Refer to the "Table of Contents" for an index of the financial statements included in this report.
2. Supplementary Data and Supplemental Financial Statement Schedule - included in response to Item 8.

Schedule I - LG&E and KU Energy LLC Condensed Unconsolidated Financial Statements.

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

3. Exhibits

See Exhibit Index immediately following the signature pages.

SHAREOWNER AND INVESTOR INFORMATION

Annual Meetings: The 2014 annual meeting of shareowners of PPL will be held on Wednesday, May 21, 2014, at the Radisson Blu Hotel located at the Herald Way Pegasus Business Park East Midlands Airport, DE74 2TZ, in Derby, United Kingdom.

Proxy and Information Statement Material: A proxy statement and notice of PPL's annual meeting is provided to all shareowners of record as of February 28, 2014. The latest proxy statement can be accessed at www.pplweb.com.

PPL Annual Report: The report is published in the beginning of April and provided to all shareowners of record as of February 28, 2014. The latest annual report can be accessed at www.pplweb.com.

Dividends: Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee, dividends are paid on the first business day of April, July, October and January. The 2014 record dates for dividends are expected to be March 10, June 10, September 10 and December 10.

PPL's Website (www.pplweb.com): Shareowners can access PPL publications such as annual and quarterly reports to the Securities and Exchange Commission (SEC Forms 10-K and 10-Q), other PPL filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website can subscribe to receive automated email alerts for SEC filings, earnings releases, daily stock prices or other financial news.

Financial reports which are available at www.pplweb.com will be mailed without charge upon request by writing to:

Manager - PPL Investor Services
Two North Ninth Street (GENTW13)
Allentown, PA 18101
Via FAX: 610-774-5106
Via email: invserv@pplweb.com

or by calling:

Shareowner Services, toll-free at 1-800-345-3085; or
PPL Corporate Offices at 610-774-5151.

Online Account Access: Registered shareowners can activate their account for online access by visiting shareowneronline.com.

Dividend Reinvestment and Direct Stock Purchase Plan (Plan): PPL offers investors the opportunity to acquire shares of PPL common stock through its Plan. Through the Plan, participants are eligible to invest up to \$25,000 per calendar month in PPL common stock. Shareowners may choose to have dividends on their PPL common stock fully or partially reinvested in PPL common stock or can receive full payment of cash dividends by check or EFT. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

Direct Registration System: PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

Listed Securities:

New York Stock Exchange

PPL Corporation:

Common Stock (Code: PPL)
Corporate Units issued 2011 (Code: PPLPRW)

PPL Capital Funding, Inc.:

2007 Series A Junior Subordinated Notes due 2067 (Code: PPL/67)
2013 Series B Junior Subordinated Notes due 2073 (Code: PPX)

Fiscal Agents:

Stock Transfer Agent and Registrar; Dividend Reinvestment Plan Agent

Wells Fargo Bank, N.A.
Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120

Toll Free: 1-800-345-3085
Outside U.S.: 651-453-2129
Website: shareowneronline.com

Dividend Disbursing Office

PPL Investor Services
Two North Ninth Street (GENTW13)
Allentown, PA 18101

FAX: 610-774-5106
Via email: invserv@pplweb.com
Or contact Shareowner Services, toll-free, at 1-800-345-3085

1945 Mortgage Bond Trustee, Transfer and Bond Interest Paying Agent

Deutsche Bank Trust Company Americas
5022 Gate Parkway (Suite 200)
Jacksonville, FL 32256

Toll Free: 1-800-735-7777
FAX: 615-866-3887

Indenture Trustee

The Bank of New York Mellon
101 Barclay Street
New York, NY 10286

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Corporation

(Registrant)

By /s/ William H. Spence

William H. Spence -
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ William H. Spence

William H. Spence -
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

By /s/ Paul A. Farr

Paul A. Farr -
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

By /s/ Vincent Sorgi

Vincent Sorgi -
Vice President and Controller
(Principal Accounting Officer)

Directors:

Frederick M. Bernthal
John W. Conway
Philip G. Cox
Steven G. Elliott
Louise K. Goeser
Stuart E. Graham

Stuart Heydt
Venkata Rajamannar Madabhushi
Craig A. Rogerson
William H. Spence
Natica von Althann
Keith H. Williamson

By /s/ William H. Spence

William H. Spence, Attorney-in-fact

Date: February 24, 2014

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Energy Supply, LLC

(Registrant)

By /s/ David G. DeCampli

David G. DeCampli -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ David G. DeCampli

David G. DeCampli -
President

(Principal Executive Officer)

By /s/ Paul A. Farr

Paul A. Farr -
Executive Vice President

(Principal Financial Officer)

By /s/ Vincent Sorgi

Vincent Sorgi -

Vice President and Controller

(Principal Accounting Officer)

Managers:

/s/ David G. DeCampli

David G. DeCampli

/s/ Paul A. Farr

Paul A. Farr

/s/ Robert J. Grey

Robert J. Grey

/s/ William H. Spence

William H. Spence

Date: February 24, 2014

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Electric Utilities Corporation
(Registrant)

By /s/ Gregory N. Dudkin
Gregory N. Dudkin -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Gregory N. Dudkin
Gregory N. Dudkin -
President
(Principal Executive Officer)

By /s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr. -
Controller
(Principal Financial Officer and Principal Accounting Officer)

Directors:

<u>/s/ William H. Spence</u> William H. Spence	<u>/s/ Gregory N. Dudkin</u> Gregory N. Dudkin
<u>/s/ Paul A. Farr</u> Paul A. Farr	<u>/s/ Robert J. Grey</u> Robert J. Grey

Date: February 24, 2014

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LG&E and KU Energy LLC

(Registrant)

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President
(Principal Executive Officer)

By /s/ Kent W. Blake

Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr

Paul A. Farr

/s/ William H. Spence

William H. Spence

/s/ Victor A. Staffieri

Victor A. Staffieri

/s/ Paul W. Thompson

Paul W. Thompson

/s/ S. Bradford Rives

S. Bradford Rives

Date: February 24, 2014

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Louisville Gas and Electric Company

(Registrant)

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President
(Principal Executive Officer)

By /s/ Kent W. Blake

Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr

Paul A. Farr

/s/ William H. Spence

William H. Spence

/s/ Victor A. Staffieri

Victor A. Staffieri

/s/ Paul W. Thompson

Paul W. Thompson

/s/ S. Bradford Rives

S. Bradford Rives

Date: February 24, 2014

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kentucky Utilities Company

(Registrant)

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri

Victor A. Staffieri -
Chairman of the Board, Chief Executive Officer
and President
(Principal Executive Officer)

By /s/ Kent W. Blake

Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr

Paul A. Farr

/s/ William H. Spence

William H. Spence

/s/ Victor A. Staffieri

Victor A. Staffieri

/s/ Paul W. Thompson

Paul W. Thompson

/s/ S. Bradford Rives

S. Bradford Rives

Date: February 24, 2014

EXHIBIT INDEX

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

- 1(a) - Final Terms of WPD West Midlands £800,000,000 5.75 per cent Notes due 2032 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 1(b) - Final Terms of WPD East Midlands £600,000,000 5.25 per cent Notes due 2023 (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 1(c) - Final Terms of WPD East Midlands £100,000,000 Index Linked Notes due 2043 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 2, 2011)
- 1(d) - Final Terms of WPD East Midlands £100,000,000 5.25% Notes due 2023 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2012)
- 1(e) - Final Terms of the WPD West Midlands £400 million 3.875% Senior Unsecured Notes due October 17, 2024 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- 1(f) - Final Terms of the WPD East Midlands £40 million 1.676% Notes due 2052 (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- 1(g) - Final Terms of the WPD East Midlands £25 million 1.676% Notes due 2052 (Exhibit 1.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- 2(a) - Purchase and Sale Agreement by and between PPL Montana, LLC and NorthWestern Corporation, dated as of September 26, 2013 (Exhibit 2.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 27, 2013)
- 2(b) - Lease Termination Agreement by and between PPL Montana, LLC, Montana OL3 LLC and Montana OP3 LLC, dated as of September 26, 2013 (Exhibit 2.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 27, 2013)
- 2(c) - Lease Termination Agreement by and between PPL Montana, LLC, Montana OL4 LLC and Montana OP4 LLC, dated as of September 26, 2013 (Exhibit 2.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 27, 2013)
- 2(d) - Lease Termination Agreement by and between PPL Montana, LLC, Montana OL1 LLC and Montana OP1 LLC, dated as of September 26, 2013 (Exhibit 2.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 27, 2013)
- 2(e) - Lease Termination Agreement by and between PPL Montana, LLC, Montana OL1 LLC and Montana OP1 LLC, dated as of September 26, 2013 (Exhibit 2.5 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 27, 2013)
- 3(a) - Amended and Restated Articles of Incorporation of PPL Corporation, effective as of May 15, 2013 (Exhibit 3(i) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 20, 2013)
- 3(b) - Amended and Restated Articles of Incorporation of PPL Electric Utilities Corporation, effective as of October 31, 2013 (Exhibit 3(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2013)
- 3(c)-1 - Certificate of Formation of PPL Energy Supply, LLC, effective as of November 14, 2000 (Exhibit 3.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))

- 3(c)-2 - Certificate of Amendment of PPL Energy Supply, LLC, effective as of November 12, 2002 (Exhibit 3(c)-2 to PPL Energy Supply, LLC Form 10-K Report (File No. 1-32944) for the year ended December 31, 2011)
- 3(d) - Amended and Restated Bylaws of PPL Corporation, effective as of May 15, 2013 (Exhibit 3(ii) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 20, 2013)
- 3(e) - Amended and Restated Bylaws of PPL Electric Utilities Corporation, effective as of October 31, 2013 (Exhibit 3(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2013)
- 3(f) - Limited Liability Company Agreement of PPL Energy Supply, LLC, effective as of March 20, 2001 (Exhibit 3.2 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 3(g) - Articles of Organization of LG&E and KU Energy LLC, effective as of December 29, 2003 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173665))
- 3(h)-1 - Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 1, 2010 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173665))
- *3(h)-2 - Amendment to Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 25, 2013
- 3(i)-1 - Amended and Restated Articles of Incorporation of Louisville Gas and Electric Company, effective as of November 6, 1996 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(i)-2 - Articles of Amendment to Articles of Incorporation of Louisville Gas and Electric Company, effective as of April 6, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(j) - Bylaws of Louisville Gas and Electric Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(k)-1 - Amended and Restated Articles of Incorporation of Kentucky Utilities Company, effective as of December 14, 1993 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(k)-2 - Articles of Amendment to Articles of Incorporation of Kentucky Utilities Company, effective as of April 8, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(l) - Bylaws of Kentucky Utilities Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 4(a) - Pollution Control Facilities Loan Agreement, dated as of May 1, 1973, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 5(z) to Registration Statement No. 2-60834)
- 4(b)-1 - Amended and Restated Employee Stock Ownership Plan, dated January 12, 2007 (Exhibit 4(a) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(b)-2 - Amendment No. 1 to said Employee Stock Ownership Plan, dated July 2, 2007 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2007)
- 4(b)-3 - Amendment No. 2 to said Employee Stock Ownership Plan, dated December 13, 2007 (Exhibit 4(a)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
- 4(b)-4 - Amendment No. 3 to said Employee Stock Ownership Plan, dated August 19, 2009 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2009)

- 4(b)-5 - Amendment No. 4 to said Employee Stock Ownership Plan, dated December 2, 2009 (Exhibit 4(a)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
- 4(b)-6 - Amendment No. 5 to said Employee Stock Ownership Plan, dated November 17, 2010 (Exhibit 4(b)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(b)-7 - Amendment No. 6 to said Employee Stock Ownership Plan, dated January 18, 2012 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- 4(b)-8 - Amendment No. 7 to said Employee Stock Ownership Plan, dated May 30, 2012 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- 4(b)-9 - Amendment No. 8 to said Employee Stock Ownership Plan, dated July 17, 2012 (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- 4(b)-10 - Amendment No. 9 to said Employee Stock Ownership Plan, dated December 21, 2012 (Exhibit 4(b)-10 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- 4(b)-11 - Amendment No. 10 to said Employee Stock Ownership Plan, dated September 16, 2013 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2013)
- 4(c) - Trust Deed constituting £150 million 9 ¼ percent Bonds due 2020, dated November 9, 1995, between South Wales Electric plc and Bankers Trust Company Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(d)-1 - Indenture, dated as of November 1, 1997, among PPL Corporation, PPL Capital Funding, Inc. and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 12, 1997)
- 4(d)-2 - Supplemental Indenture No. 8, dated as of June 14, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2012)
- 4(d)-3 - Supplemental Indenture No. 9, dated as of October 15, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 15, 2012)
- 4(d)-4 - Supplemental Indenture No. 10, dated as of May 24, 2013, to said Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(d)-5 - Supplemental Indenture No. 11, dated as of May 24, 2013, to said Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(d)-6 - Supplemental Indenture No. 12, dated as of May 24, 2013, to said Indenture (Exhibit 4.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(e) - Indenture, dated as of March 16, 2001, among WPD Holdings UK, Bankers Trust Company, as Trustee, Principal Paying Agent, and Transfer Agent and Deutsche Bank Luxembourg, S.A., as Paying and Transfer Agent (Exhibit 4(g) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
- 4(f)-1 - Indenture, dated as of August 1, 2001, by PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)
- 4(f)-2 - Supplemental Indenture No. 4, dated as of February 1, 2005, to said Indenture (Exhibit 4(g)-5 to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 2004)

- 4(f)-3 - Supplemental Indenture No. 5, dated as of May 1, 2005, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2005)
- 4(f)-4 - Supplemental Indenture No. 6, dated as of December 1, 2005, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated December 22, 2005)
- 4(f)-5 - Supplemental Indenture No. 7, dated as of August 1, 2007, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 14, 2007)
- 4(f)-6 - Supplemental Indenture No. 9, dated as of October 1, 2008, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(f)-7 - Supplemental Indenture No. 10, dated as of May 1, 2009, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 22, 2009)
- 4(f)-8 - Supplemental Indenture No. 11, dated as of July 1, 2011, to said Indenture (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 13, 2011)
- 4(f)-9 - Supplemental Indenture No. 12, dated as of July 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 18, 2011)
- 4(f)-10 - Supplemental Indenture No. 13, dated as of August 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 23, 2011)
- 4(f)-11 - Supplemental Indenture No. 14, dated as of August 1, 2012, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 24, 2012)
- 4(f)-12 - Supplemental Indenture No. 15, dated as of July 1, 2013, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 11, 2013)
- 4(g)-1 - Indenture, dated as of October 1, 2001, by PPL Energy Supply, LLC and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 4(g)- 2 - Supplemental Indenture No. 2, dated as of August 15, 2004, to said Indenture (Exhibit 4(h)-4 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2004)
- 4(g)-3 - Supplemental Indenture No. 3, dated as of October 15, 2005, to said Indenture (Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated October 28, 2005)
- 4(g)-4 - Form of Note for PPL Energy Supply, LLC's \$300 million aggregate principal amount of 5.70% REset Put Securities due 2035 (REPSSM) (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated October 28, 2005)
- 4(g)-5 - Supplemental Indenture No. 4, dated as of May 1, 2006, to said Indenture (Exhibit 4(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2006)
- 4(g)-6 - Supplemental Indenture No. 6, dated as of July 1, 2006, to said Indenture (Exhibit 4(c) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2006)
- 4(g)-7 - Supplemental Indenture No. 7, dated as of December 1, 2006, to said Indenture (Exhibit 4(f)-10 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2006)
- 4(g)-8 - Supplemental Indenture No. 8, dated as of December 1, 2007, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated December 20, 2007)

- 4(g)-9 - Supplemental Indenture No. 9, dated as of March 1, 2008, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated March 14, 2008)
- 4(g)-10 - Supplemental Indenture No. 10, dated as of July 1, 2008, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated July 21, 2008)
- 4(g)-11 - Supplemental Indenture No. 11, dated as of December 1, 2011, to said Indenture (Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated December 16, 2011)
- 4(g)-12 - Supplemental Indenture No. 12, dated as of February 12, 2013, to said Indenture (Exhibit 4.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated February 13, 2013)
- 4(h)-1 - Trust Deed constituting £200 million 5.875 percent Bonds due 2027, dated March 25, 2003, between Western Power Distribution (South West) plc and J.P. Morgan Corporate Trustee Services Limited (Exhibit 4(o)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(h)-2 - Supplement, dated May 27, 2003, to said Trust Deed, constituting £50 million 5.875 percent Bonds due 2027 (Exhibit 4(o)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(i)-1 - Pollution Control Facilities Loan Agreement, dated as of February 1, 2005, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 10(ff) to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 2004)
- 4(i)-2 - Pollution Control Facilities Loan Agreement, dated as of May 1, 2005, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2005)
- 4(i)-3 - Pollution Control Facilities Loan Agreement, dated as of October 1, 2008, between Pennsylvania Economic Development Financing Authority and PPL Electric Utilities Corporation (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(j) - Trust Deed constituting £105 million 1.541 percent Index-Linked Notes due 2053, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(i) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(k) - Trust Deed constituting £120 million 1.541 percent Index-Linked Notes due 2056, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(j) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(l) - Trust Deed constituting £225 million 4.80436 percent Notes due 2037, dated December 21, 2006, between Western Power Distribution (South Wales) plc and HSBC Trustee (CI) Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(m)-1 - Subordinated Indenture, dated as of March 1, 2007, between PPL Capital Funding, Inc., PPL Corporation and The Bank of New York, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- 4(m)-2 - Supplemental Indenture No. 1, dated as of March 1, 2007, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- 4(m)-3 - Supplemental Indenture No. 2, dated as of June 28, 2010, to said Subordinated Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 30, 2010)

- 4(m)-4 - Supplemental Indenture No. 3, dated as of April 15, 2011, to said Subordinated Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
- 4(m)-5 - Supplemental Indenture No. 4, dated as of March 15, 2013, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 15, 2013)
- 4(n)-1 - Series 2009A Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)
- 4(n)-2 - Series 2009B Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)
- 4(n)-3 - Series 2009C Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(c) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)
- 4(o) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South Wales) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- 4(p) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South West) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- 4(q)-1 - Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(q)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(q)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(q)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(q)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(q)-4 - Supplemental Indenture No. 3, dated as of November 1, 2013, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- 4(r)-1 - Indenture, dated as of October 1, 2010, between Louisville Gas and Electric Company and The Bank of New York Mellon, as Trustee (Exhibit 4(r)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(r)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(r)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-4 - Supplemental Indenture No. 3, dated as of November 1, 2013, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- 4(s)-1 - Indenture, dated as of November 1, 2010, between LG&E and KU Energy LLC and The Bank of New York Mellon, as Trustee (Exhibit 4(s)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(s)-2 - Supplemental Indenture No. 1, dated as of November 1, 2010, to said Indenture (Exhibit 4(s)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-3 - Supplemental Indenture No. 2, dated as of September 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
- 4(t)-1 - 2002 Series A Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(t)-2 - Amendment No. 1 dated as of September 1, 2010 to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(u)-1 - 2002 Series B Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(u)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(v)-1 - 2002 Series C Carroll County Loan Agreement, dated July 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(y)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(v)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(y)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(w)-1 - 2004 Series A Carroll County Loan Agreement, dated October 1, 2004 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(w)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(x)-1 - 2006 Series B Carroll County Loan Agreement, dated October 1, 2006 and amended and restated September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(x)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-1 - 2007 Series A Carroll County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company and County of Carroll, Kentucky (Exhibit 4(bb)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(bb)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(z)-1 - 2008 Series A Carroll County Loan Agreement, dated August 1, 2008 by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(z)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(aa)-1 - 2000 Series A Mercer County Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(aa)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(bb)-1 - 2002 Series A Mercer County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(bb)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-1 - 2002 Series A Muhlenberg County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-1 - 2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-1 - 2000 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(hh)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(hh)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-3 - Amendment No. 2 dated as of October 1, 2011, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ee)-3 to Louisville Gas and Electric Company Form 10-K Report (File No. 1-2893) for the year ended December 31, 2011)
- 4(ff)-1 - 2001 Series A Jefferson County Loan Agreement, dated July 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(ii)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(ff)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(ii)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(gg)-1 - 2001 Series A Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(gg)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(hh)-1 - 2001 Series B Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(hh)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ii)-1 - 2003 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated October 1, 2003, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ii)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(jj)-1 - 2005 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated February 1, 2005 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(jj)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(kk)-1 - 2007 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated as of March 1, 2007 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(kk)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ll) - 2007 Series B Louisville/Jefferson County Metro Government Amended and Restated Loan Agreement, dated November 1, 2010, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(oo) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(mm)-1 - 2000 Series A Trimble County Loan Agreement, dated August 1, 2000, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(pp)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(mm)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(pp)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(nn)-1 - 2001 Series A Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(qq)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(nn)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and the County of Trimble, Kentucky (Exhibit 4(qq)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(oo)-1 - 2001 Series B Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(oo)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(pp)-1 - 2002 Series A Trimble County Loan Agreement, dated July 1, 2002, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(ss)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(pp)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(ss)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(qq)-1 - 2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(tt)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(qq)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(tt)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(rr)-1 - Indenture, dated April 21, 2011, between PPL WEM Holdings PLC, as Issuer, and The Bank of New York Mellon, as Trustee (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(rr)-2 - Supplemental Indenture No. 1, dated April 21, 2011, to said Indenture (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(ss)-1 - Trust Deed, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No.1-11459) dated May 17, 2011)
- 4(ss)-2 - Amended and Restated Trust Deed, dated September 10, 2013, by and among Western Power Distribution (East Midlands) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- 4(tt) - Agency Agreement, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited and HSBC Bank plc (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)

- 10(a) - Generation Supply Agreement, dated as of June 20, 2001, between PPL Electric Utilities Corporation and PPL EnergyPlus, LLC (Exhibit 10.5 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 10(b)-1 - Master Power Purchase and Sale Agreement, dated as of October 15, 2001, between NorthWestern Energy Division (successor in interest to The Montana Power Company) and PPL Montana, LLC (Exhibit 10(g) to PPL Montana, LLC Form 10-K Report (File No. 333-50350) for the year ended December 31, 2001)
- 10(b)-2 - Confirmation Letter, dated July 5, 2006, between PPL Montana, LLC and NorthWestern Corporation (PPL Corporation and PPL Energy Supply, LLC Form 8-K Reports (File Nos. 1-11459 and 333-74794) dated July 6, 2006)
- 10(c) - Guaranty, dated as of December 21, 2001, from PPL Energy Supply, LLC in favor of LMB Funding, Limited Partnership (Exhibit 10(j) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2001)
- 10(d)-1 - Agreement for Lease, dated as of December 21, 2001, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(m) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(d)-2 - Amendment No. 1 to said Agreement for Lease, dated as of September 16, 2002, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(m)-1 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(e)-1 - Lease Agreement, dated as of December 21, 2001, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(n) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(e)-2 - Amendment No. 1 to said Lease Agreement, dated as of September 16, 2002, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(n)-1 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(f) - Facility Lease Agreement (BA 1/2) between PPL Montana, LLC and Montana OL3, LLC (Exhibit 4.7a to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
- 10(g) - Facility Lease Agreement (BA 3) between PPL Montana, LLC and Montana OL4, LLC (Exhibit 4.8a to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
- 10(h) - Services Agreement, dated as of July 1, 2000, among PPL Corporation, PPL Energy Funding Corporation and its direct and indirect subsidiaries in various tiers, PPL Capital Funding, Inc., PPL Gas Utilities Corporation, PPL Services Corporation and CEP Commerce, LLC (Exhibit 10.20 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 10(i)-1 - Asset Purchase Agreement, dated as of June 1, 2004, by and between PPL Sundance Energy, LLC, as Seller, and Arizona Public Service Company, as Purchaser (Exhibit 10(a) to PPL Corporation and PPL Energy Supply, LLC Form 10-Q Reports (File Nos. 1-11459 and 333-74794) for the quarter ended June 30, 2004)
- 10(i)-2 - Amendment No. 1, dated December 14, 2004, to said Asset Purchase Agreement (Exhibit 99.1 to PPL Corporation and PPL Energy Supply, LLC Form 8-K Reports (File Nos. 1-11459 and 333-74794) dated December 15, 2004)
- 10(j)-1 - Receivables Sale Agreement, dated as of August 1, 2004, between PPL Electric Utilities Corporation, as Originator, and PPL Receivables Corporation, as Buyer (Exhibit 10(d) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2004)

- 10(j)-2 - Amendment No. 1, dated as of August 5, 2008, to said Receivables Sale Agreement, between PPL Electric Utilities Corporation, as Originator, and PPL Receivables Corporation, as Buyer (Exhibit 10(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 6, 2008)
- 10(j)-3 - Credit and Security Agreement, dated as of August 5, 2008, among PPL Receivables Corporation, PPL Electric Utilities Corporation, Victory Receivables Corporation, the Liquidity Banks from time to time party thereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch (Exhibit 10(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 6, 2008)
- 10(j)-4 - Amendment No. 1, dated as of July 28, 2009, to said Credit and Security Agreement (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2009)
- 10(j)-5 - Amendment No. 2, dated as of July 27, 2010, to said Credit and Security Agreement (Exhibit 10(g) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2010)
- 10(j)-6 - Amendment No. 3, dated as of December 23, 2010, to said Credit and Security Agreement (Exhibit 10(j)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(j)-7 - Amendment No. 4, dated as of March 31, 2011, to said Credit and Security Agreement (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2011)
- 10(j)-8 - Amendment No. 5, dated as of July 26, 2011, to said Credit and Security Agreement (Exhibit 10(c) to PPL Corporation Form 10-Q/A Report (File No. 1-11459) for the quarter ended June 30, 2011)
- 10(j)-9 - Amendment No. 6, dated as of July 24, 2012, to said Credit and Security Agreement (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2012)
- 10(j)-10 - Amendment No. 7, dated as of September 24, 2012, to said Credit and Security Agreement (Exhibit 10(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2012)
- 10(k)-1 - Reimbursement Agreement, dated as of March 31, 2005, among PPL Energy Supply, LLC, The Bank of Nova Scotia, as Issuer and Administrative Agent, and the Lenders party thereto from time to time (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended March 31, 2005)
- 10(k)-2 - First Amendment, dated as of June 16, 2005, to said Reimbursement Agreement (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2005)
- 10(k)-3 - Second Amendment, dated as of September 1, 2005, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended September 30, 2005)
- 10(k)-4 - Third Amendment, dated as of March 30, 2006, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated April 5, 2006)
- 10(k)-5 - Fourth Amendment, dated as of April 12, 2006, to said Reimbursement Agreement (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended September 30, 2006)

- 10(k)-6 - Fifth Amendment, dated as of November 1, 2006, to said Reimbursement Agreement (Exhibit 10(q)-6 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2006)
- 10(k)-7 - Sixth Amendment, dated as of March 29, 2007, to said Reimbursement Agreement (Exhibit 10(q)-7 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2007)
- 10(k)-8 - Seventh Amendment, dated as of March 1, 2008, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended March 31, 2008)
- 10(k)-9 - Eighth Amendment, dated as of March 30, 2009, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended March 31, 2009)
- 10(k)-10 - Ninth Amendment, dated as of March 31, 2010, to said Reimbursement Agreement (Exhibit 99.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 6, 2010)
- 10(k)-11 - Tenth Amendment, dated as of February 22, 2012, to said Reimbursement Agreement (Exhibit 10(k)-11 to PPL Energy Supply, LLC Form 10-K Report (File No. 1-32944) for the year ended December 31, 2011)
- 10(k)-12 - Eleventh Amendment, dated as of February 28, 2013, to said Reimbursement Agreement (Exhibit 10(k)-12 to PPL Energy Supply, LLC Form 10-K Report (File No. 1-32944) for the year ended December 31, 2012)
- 10(l) - Purchase and Sale Agreement, dated as of April 28, 2010, by and between E.ON US Investments Corp., PPL Corporation and E.ON AG (Exhibit No. 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 30, 2010)
- 10(m) - \$500 million Facility Agreement, dated as of May 14, 2010, among PPL Energy Supply, LLC, as Borrower, and Morgan Stanley Bank, as Issuer (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2010)
- 10(n) - Purchase and Sale Agreement, dated as of September 9, 2010, by and between PPL Holtwood, LLC and LSP Safe Harbor Holdings, LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 13, 2010)
- 10(o) - Purchase and Sale Agreement, dated as of September 9, 2010, by and between PPL Generation, LLC and Harbor Gen Holdings, LLC (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 13, 2010)
- 10(p) - Open-End Mortgage, Security Agreement and Fixture Filing from PPL Montour, LLC to Wilmington Trust FSB, as Collateral Agent, dated as of October 26, 2010 (Exhibit 10(w) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(q) - Open-End Mortgage, Security Agreement and Fixture Filing from PPL Brunner Island, LLC to Wilmington Trust FSB, as Collateral Agent, dated as of October 26, 2010 (Exhibit 10(x) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(r) - Guaranty of PPL Montour, LLC and PPL Brunner Island, LLC, dated as of November 3, 2010, in favor of Wilmington Trust FSB, as Collateral Agent, for itself as Beneficiary and for the Secured Counterparties described therein (Exhibit 10(y) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 10(s) - £300,000,000 Multicurrency Revolving Credit Facility Agreement, dated April 4, 2011, among Western Power Distribution (West Midlands) plc and Royal Bank of Canada as Lead Arranger, Bank of America Securities Limited as Bookrunner and Facility Agent, Bank of America, N.A. as Issuing Bank and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 8, 2011)
- 10(t) - £300,000,000 Multicurrency Revolving Credit Facility Agreement, dated April 4, 2011, among Western Power Distribution (East Midlands) plc and Royal Bank of Canada as Lead Arranger, Bank of America Securities Limited as Bookrunner and Facility Agent, Bank of America, N.A. as Issuing Bank and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 8, 2011)
- 10(u)-1 - Amendment and Restatement Agreement, dated as of August 16, 2012, regarding \$198,309,583.05 Amended and Restated Letter of Credit Agreement, dated as of August 16, 2012, among Kentucky Utilities Company, the Lenders from time to time party hereto, and Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent (Exhibit 10(c) to Kentucky Utilities Company Form 10-Q Report (File No. 1-3464) for the quarter ended September 30, 2012)
- 10(u)-2 - Amendment No. 1, dated as of May 1, 2013, to said Amended and Restated Letter of Credit Agreement among Kentucky Utilities Company, the Lenders from time to time party thereto, and Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent and Sumitomo Mitsui Banking Corporation, New York Branch as Issuing Lender (Exhibit 10(a) to Kentucky Utilities Company Form 10-Q Report (File No. 1-3464) for the quarter ended March 31, 2013)
- 10(u)-3 - Amendment No. 2, dated as of May 1, 2013, to said Amended and Restated Letter of Credit Agreement among Kentucky Utilities Company, the Lenders from time to time party thereto, Sumitomo Mitsui Banking Corporation, New York Branch, as successor Administrative Agent and Sumitomo Mitsui Banking Corporation, New York Branch as Issuing Lender (Exhibit 10(b) to Kentucky Utilities Company Form 10-Q Report (File No. 1-3464) for the quarter ended March 31, 2013)
- 10(v) - £245,000,000 Revolving Credit Facility Agreement, dated January 12, 2012, among Western Power Distribution (South West) plc, the lenders party thereto and Lloyds TSB Bank Plc and Mizuho Corporate Bank, Ltd. as Joint Coordinators (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated January 18, 2012)
- 10(w)-1 - Confirmation of Forward Sale Transaction, dated April 9, 2012, between PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 13, 2012)
- 10(w)-2 - Confirmation of Forward Sale Transaction, dated April 20, 2012, between PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 26, 2012)
- 10(x)-1 - Confirmation of Forward Sale Transaction, dated April 9, 2012, between PPL Corporation and Merrill Lynch International (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 13, 2012)
- 10(x)-2 - Confirmation of Forward Sale Transaction, dated April 20, 2012, between PPL Corporation and Merrill Lynch International (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 26, 2012)
- 10(y) - Commitment Increase Agreement, dated as of April 20, 2012, entered into by and among PPL Electric Utilities Corporation, the Lenders who are increasing their Commitments, the JLA Issuing Banks, who are consenting to the increase in Fronting Sublimit, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)

- 10(z)-1 - Uncommitted Line of Credit Letter Agreement, dated as of July 1, 2012, between PPL Energy Supply, LLC, the Borrower, and Banco Bilbao Vizcaya Argentaria, S.A., the Bank (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2012)
- 10(z)-2 - Reimbursement Agreement, dated as of July 1, 2012, between PPL Energy Supply, LLC and Banco Bilbao Vizcaya Argentaria, S.A. (Exhibit 10(c) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2012)
- [*10\(z\)-3](#) - First Amendment, dated as of August 30, 2013, to said Uncommitted Line of Credit Letter Agreement
- 10(aa)-1 - Letter of Credit Issuance and Reimbursement Agreement, dated as of July 27, 2012, between PPL Energy Supply, LLC and Canadian Imperial Bank of Commerce, New York Agency (Exhibit 10(e) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2012)
- [*10\(aa\)-2](#) - Amended and Restated Letter of Credit Issuance and Reimbursement Agreement, dated as of August 30, 2013, between PPL Energy Supply, LLC and Canadian Imperial Bank of Commerce, New York Agency
- 10(bb) - \$300,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among PPL Electric Utilities Corporation, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(bb) to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 2012)
- 10(cc) - \$3,000,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among PPL Energy Supply, LLC, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(cc) to PPL Energy Supply, LLC Form 10-K Report (File No. 1-32944) for the year ended December 31, 2012)
- 10(dd) - \$400,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among Kentucky Utilities Company, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (Exhibit 10(dd) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- 10(ee) - \$500,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among Louisville Gas and Electric Company, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (Exhibit 10(ee) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- 10(ff) - £210,000,000 Multicurrency Revolving Facility Agreement, dated December 21, 2012, among PPL WW Holdings Ltd., as the Company, Lloyds TSB Bank plc and Mizuho Corporate Bank, Ltd., as Joint Coordinators and Bookrunners, Barclays Bank PLC, Commonwealth Bank of Australia, HSBC Bank plc, Lloyds TSB Bank plc, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. and The Royal Bank of Scotland plc, as Mandated Lead Arrangers and Mizuho Corporate Bank, Ltd., as Facility Agent (Exhibit 10(ff) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [*10\(gg\)](#) - Amended and Restated Collateral Agency Agreement, dated as of February 12, 2013, among PPL Ironwood, LLC, The Bank of New York Mellon, as Trustee, The Bank of New York Mellon, as Collateral Agent and The Bank of New York Mellon, as Depository Bank
- [*10\(hh\)](#) - Third Supplemental Indenture, dated as of February 12, 2013, to Trust Indenture dated as of June 1, 1999, among PPL Ironwood, LLC, The Bank of New York Mellon, as Trustee and The Bank of New York Mellon, as Depository Bank

- [*10\(ii\)](#) - \$75,000,000 Revolving Credit Agreement, dated as of October 30, 2013, among LG&E and KU Energy LLC, the Lenders from time to time party thereto, and PNC Bank, National Association, as the Administrative Agent and the Issuing Lender, PNC Capital Markets LLC, as Sole Lead Arranger and Sole Bookrunner, Fifth Third Bank, as Syndication Agent, and Central Bank & Trust Company, as Documentation Agent
- 10(jj) - \$300,000,000 Revolving Credit Agreement, dated as of November 12, 2013, among PPL Capital Funding, Inc., as borrower, PPL Corporation, as Guarantor, the Lenders party thereof and PNC Bank National Association, as Administrative Agent, and Manufactures and Traders Trust as Syndication Agent (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- 10(kk)-1 - Amended and Restated Directors Deferred Compensation Plan, dated June 12, 2000 (Exhibit 10(h) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2000)
- 10(kk)-2 - Amendment No. 1 to said Directors Deferred Compensation Plan, dated December 18, 2002 (Exhibit 10(m)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- 10(kk)-3 - Amendment No. 2 to said Directors Deferred Compensation Plan, dated December 4, 2003 (Exhibit 10(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- 10(kk)-4 - Amendment No. 3 to said Directors Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- 10(kk)-5 - Amendment No. 4 to said Directors Deferred Compensation Plan, dated as of May 1, 2008 (Exhibit 10(x)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- 10(kk)-6 - Amendment No. 5 to said Directors Deferred Compensation Plan, dated May 28, 2010 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2010)
- 10(ll)-1 - PPL Corporation Directors Deferred Compensation Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee (Exhibit 10(hh)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- 10(ll)-2 - PPL Officers Deferred Compensation Plan, PPL Supplemental Executive Retirement Plan and PPL Supplemental Compensation Pension Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee (Exhibit 10(hh)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- 10(ll)-3 - PPL Revocable Employee Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-1149) for the quarter ended March 31, 2007)
- 10(ll)-4 - PPL Employee Change in Control Agreements Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- 10(ll)-5 - PPL Revocable Director Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(e) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)

- 10(mm)-1 - Amended and Restated Officers Deferred Compensation Plan, dated December 8, 2003 (Exhibit 10(r) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- 10(mm)-2 - Amendment No. 1 to said Officers Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- 10(mm)-3 - Amendment No. 2 to said Officers Deferred Compensation Plan, dated as of January 22, 2007 (Exhibit 10(bb)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(mm)-4 - Amendment No. 3 to said Officers Deferred Compensation Plan, dated as of June 1, 2008 (Exhibit 10(z)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- 10(mm)-5 - Amendment No. 4 to said Officers Deferred Compensation Plan, dated as of February 15, 2012 (Exhibit 10(ff)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- 10(nn)-1 - Amended and Restated Supplemental Executive Retirement Plan, dated December 8, 2003 (Exhibit 10(s) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- 10(nn)-2 - Amendment No. 1 to said Supplemental Executive Retirement Plan, dated December 16, 2004 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 17, 2004)
- 10(nn)-3 - Amendment No. 2 to said Supplemental Executive Retirement Plan, dated as of January 1, 2005 (Exhibit 10(ff)-3 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- 10(nn)-4 - Amendment No. 3 to said Supplemental Executive Retirement Plan, dated as of January 22, 2007 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(nn)-5 - Amendment No. 4 to said Supplemental Executive Retirement Plan, dated as of December 9, 2008 (Exhibit 10(aa)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- 10(nn)-6 - Amendment No. 5 to said Supplemental Executive Retirement Plan, dated as of February 15, 2012 (Exhibit 10(gg)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- 10(oo)-1 - Amended and Restated Incentive Compensation Plan, effective January 1, 2003 (Exhibit 10(p) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- 10(oo)-2 - Amendment No. 1 to said Incentive Compensation Plan, dated as of January 1, 2005 (Exhibit 10(gg)-2 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- 10(oo)-3 - Amendment No. 2 to said Incentive Compensation Plan, dated as of January 26, 2007 (Exhibit 10(dd)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(oo)-4 - Amendment No. 3 to said Incentive Compensation Plan, dated as of March 21, 2007 (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- 10(oo)-5 - Amendment No. 4 to said Incentive Compensation Plan, effective December 1, 2007 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2008)
- 10(oo)-6 - Amendment No. 5 to said Incentive Compensation Plan, dated as of December 16, 2008 (Exhibit 10(bb)-6 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2008)

- 10(oo)-7 - Form of Stock Option Agreement for stock option awards under the Incentive Compensation Plan (Exhibit 10(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- 10(oo)-8 - Form of Restricted Stock Unit Agreement for restricted stock unit awards under the Incentive Compensation Plan (Exhibit 10(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- 10(oo)-9 - Form of Performance Unit Agreement for performance unit awards under the Incentive Compensation Plan (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
- 10(pp)-1 - Amended and Restated Incentive Compensation Plan for Key Employees, effective January 1, 2003 (Schedule B to Proxy Statement of PPL Corporation, dated March 17, 2003)
- 10(pp)-2 - Amendment No. 1 to said Incentive Compensation Plan for Key Employees, dated as of January 1, 2005 (Exhibit (hh)-1 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- 10(pp)-3 - Amendment No. 2 to said Incentive Compensation Plan for Key Employees, dated as of January 26, 2007 (Exhibit 10(ee)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(pp)-4 - Amendment No. 3 to said Incentive Compensation Plan for Key Employees, dated as of March 21, 2007 (Exhibit 10(q) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- 10(pp)-5 - Amendment No. 4 to said Incentive Compensation Plan for Key Employees, dated as of December 15, 2008 (Exhibit 10(cc)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- 10(pp)-6 - Amendment No. 5 to said Incentive Compensation Plan for Key Employees, dated as of March 24, 2011 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2011)
- 10(qq) - Short-term Incentive Plan (Schedule A to Proxy Statement of PPL Corporation, dated April 6, 2011)
- 10(rr) - Employment letter, dated May 31, 2006, between PPL Services Corporation and William H. Spence (Exhibit 10(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(ss) - Form of Retention Agreement entered into between PPL Corporation and Messrs. DeCampli, Dudkin, Farr and Gabbard (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- 10(tt)-1 - Form of Severance Agreement entered into between PPL Corporation and the Named Executive Officers (Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- 10(tt)-2 - Amendment to said Severance Agreement (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2009)
- 10(uu) - Amended and Restated Employment and Severance Agreement, dated as of October 29, 2010, between E.ON U.S. LLC and Victor A. Staffieri (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- [\[\]10\(vv\)-1](#) - Form of Change in Control Severance Protection Agreement as adopted March 5, 2012 (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- [\[\]10\(vv\)-2](#) - Form of Change in Control Severance Protection Agreement entered into between PPL Corporation and Messrs. Dudkin and Staffieri (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- [\[\]10\(ww\)-1](#) - PPL Corporation 2012 Stock Incentive Plan (Annex A to Proxy Statement of PPL Corporation, dated April 3, 2012)
- [\[\]10\(ww\)-2](#) - Form of Performance Unit Agreement for performance unit awards under the Stock Incentive Plan (Exhibit 10(tt)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [\[\]10\(ww\)-3](#) - Form of Performance Contingent Restricted Stock Unit Agreement for restricted stock unit awards under the Stock Incentive Plan (Exhibit 10(tt)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [\[\]10\(ww\)-4](#) - Form of Nonqualified Stock Option Agreement for stock option awards under the Stock Incentive Plan (Exhibit 10(tt)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [\[\]10\(xx\)](#) - PPL Corporation Executive Severance Plan, effective as of July 26, 2012 (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- [*12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(b\)](#) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(c\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(d\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(f\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges
- [*21](#) - Subsidiaries of PPL Corporation
- [*23\(a\)](#) - Consent of Ernst & Young LLP - PPL Corporation
- [*23\(b\)](#) - Consent of Ernst & Young LLP - PPL Energy Supply, LLC
- [*23\(c\)](#) - Consent of Ernst & Young LLP - PPL Electric Utilities Corporation
- [*23\(d\)](#) - Consent of Ernst & Young LLP - LG&E and KU Energy LLC
- [*23\(e\)](#) - Consent of Ernst & Young LLP - Louisville Gas and Electric Company
- [*23\(f\)](#) - Consent of Ernst & Young LLP - Kentucky Utilities Company
- [*24](#) - Power of Attorney

- [*31\(a\)](#) - Certificate of PPL's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(b\)](#) - Certificate of PPL's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(c\)](#) - Certificate of PPL Energy Supply's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(d\)](#) - Certificate of PPL Energy Supply's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(e\)](#) - Certificate of PPL Electric's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(f\)](#) - Certificate of PPL Electric's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(g\)](#) - Certificate of LKE's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(h\)](#) - Certificate of LKE's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(i\)](#) - Certificate of LG&E's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(j\)](#) - Certificate of LG&E's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(k\)](#) - Certificate of KU's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*31\(l\)](#) - Certificate of KU's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- [*32\(a\)](#) - Certificate of PPL's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- [*32\(b\)](#) - Certificate of PPL Energy Supply's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- [*32\(c\)](#) - Certificate of PPL Electric's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- [*32\(d\)](#) - Certificate of LKE's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- [*32\(e\)](#) - Certificate of LG&E's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- [*32\(f\)](#) - Certificate of KU's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- [*99\(a\)](#) - PPL Corporation and Subsidiaries Long-term Debt Schedule

- 101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

**AMENDMENT TO AMENDED AND RESTATED
OPERATING AGREEMENT
OF
LG&E AND KU ENERGY LLC**

November 25, 2013

"8.12 Quorum and Voting. A quorum of the Board shall exist when no more than one member of the Board is absent from the meeting. If a quorum is present when a vote is taken, the affirmative vote of a majority of directors present shall be the act of the Board. A director who is present at a meeting of the Board or a committee of the Board when action is taken shall be deemed to have assented to the action taken unless (i) the director objects at the beginning of the meeting, or promptly upon the director's arrival, to holding it or transacting business at the meeting or (ii) the director's dissent or abstention from the action taken is entered in the minutes of the meeting or the director delivers written notice of the director's dissent or abstention to the presiding officer of the meeting before its adjournment or to the Company immediately after adjournment of the meeting. The right of dissent or abstention shall not be available to a director who votes in favor of the action taken."

The Board of Directors and sole Member of LG&E and KU Energy LLC approved resolutions dated as of November 25, 2013, to amend Article 8.12 of the Amended and Restated Operating Agreement to be and read in its entirety as set forth above

Gerald A. Reynolds
General Counsel, Chief Compliance Officer
and Corporate Secretary

**FIRST AMENDMENT TO THE UNCOMMITTED
 LINE OF CREDIT LETTER AGREEMENT**

This First Amendment to the Uncommitted Line of Credit Letter Agreement (this “Amendment”) is entered into on August 30, 2013, by and between, PPL ENERGY SUPPLY, LLC, a Delaware limited liability company (“Borrower”), and BANCO BILBAO VIZCAYA ARGENTARIA, S.A., acting through its New York Branch (the “Bank”). Capitalized terms not defined herein shall have the meaning assigned in the Agreement (as defined below) .

WHEREAS, Borrower and Bank entered into that certain Uncommitted Line of Credit Letter Agreement dated as of July 1, 2012 (the “Agreement”);

WHEREAS, the Borrower has requested the Bank to reduce the Facility Amount from US\$ 100,000,000 to US\$ 75,000,000 as of August 30, 2013;

WHEREAS, pursuant to the Agreement, any change to the Agreement or any Letter of Credit Document or to the terms thereof must be in writing signed by the parties thereto;

NOW, THEREFORE, the parties agree as follows:

1. Amendments. (a) The corresponding section of the Agreement denominated “Type and Amount of Facility” is hereby deleted and replaced with the following:

“Type and Amount of Facility:

Uncommitted revolving letter of credit facility in an aggregate principal amount not to exceed \$75,000,000 (the “Facility Amount”) at any one time outstanding. Under the line of credit, the Borrower may obtain letters of credit (each a “Letter of Credit”). No Letter of Credit shall be issued if, after giving effect thereto (i) the aggregate unpaid principal amount of all unreimbursed drawings under Letters of Credit plus (ii) the aggregate amount then available for drawing under all Letters of Credit would exceed the Facility Amount.”

(b) References in the Agreement to the Syndicated Credit Agreement shall mean that \$3,000,000,000 Revolving Credit Agreement dated as of November 6, 2012 by and among PPL Energy Supply, LLC, as Borrower, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, as amended, restated, supplemented or otherwise modified from time to time .

2. Effective Date. The amendment to the Agreement provided for herein shall become effective as of September 1, 2013, (the “Amendment Effective Date”).
3. Future Actions. The execution, delivery and effect of this Amendment shall be limited precisely as written and shall not be deemed to (i) be a consent to any other release, waiver, amendment or modification of any term or condition of the Agreement or any Letter of Credit Document now or in the future except as specifically provided herein, or (ii) prejudice any right, power or remedy that any party to the Agreement or any Letter of Credit Document now has or may have in the future under or in connection with the Agreement .
4. Acknowledgment and Ratification of Obligations. Borrower hereby acknowledges and agrees that both before and after giving effect to this Amendment, the Agreement and any Letter of Credit Document and the obligations contained therein and herein are legal, valid and binding, and enforceable against the Borrower in accordance to their terms, except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors’ rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification . Except as expressly amended hereby, all of the representations, warranties, terms, covenants, conditions and all other provisions of the existing Agreement and any Letter of Credit Document shall remain unchanged and shall continue to be, and shall remain, in full force and effect and unaffected hereby except, as set forth herein, from and after the Amendment Effective Date . The amendment set forth herein shall be limited precisely as provided for herein to the provisions expressly amended herein and shall not be deemed to be an amendment to, waiver of, consent to or modification of any other term or provision of the existing Agreement, as amended .
5. Representations and Warranties. Borrower hereby represents and warrants as follows: (i) the representations and warranties contained in the Agreement and in any Letter of Credit Document are true and correct in all material respects as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date, (ii) the execution, delivery and performance by the Borrower of this Amendment has been duly authorized by all necessary Limited Liability Company action, and the amendments contained herein do not contravene or conflict with any provision of (A) applicable law, (B) any judgment or decree or order, or (C) the organizational documents of the Borrower, and (iii) that there is no default or Event of Default (as defined in the Agreement) existing or continuing by execution, delivery or performance of the amendments contained herein or the consummation of the transactions contemplated hereby .

6. Governing Law; Jurisdiction. This Amendment shall be governed in accordance with the laws of the State of New York . The jurisdictional provisions in

the Agreement shall apply to this Amendment.

7. Binding Effect. This Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors and permitted assigns and any corporate successors, by merger, consolidation or other corporate organization without limitation .
8. Headings. The headings contained in this Amendment are solely for convenience and shall not be used or relied upon in any manner in the construction or interpretation of this Amendment.
9. Counterparts. This Amendment may be signed in any number of counterparts each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument .

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

PPL ENERGY SUPPLY, LLC

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

By: _____
Name: **MARK F. WILTEN**
Title: Vice President and Treasurer
Address: 2 North Ninth Street
Allentown, PA 18101

By: _____
Name:
Address: 1345 Avenue of the Americas 45th Fl.
New York, NY 10025

By: _____
Name:
Title:
Address: 1345 Avenue of the Americas 45th Fl
New York, NY 10025

AMENDED AND RESTATED
LETTER OF CREDIT ISSUANCE
AND REIMBURSEMENT AGREEMENT

between

PPL ENERGY SUPPLY, LLC

and

CANADIAN IMPERIAL BANK OF COMMERCE, NEW YORK AGENCY

dated as of

August 30, 2013

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THIS LETTER OF CREDIT ISSUANCE AND REIMBURSEMENT AGREEMENT dated as of August 30, 2013, by and between PPL ENERGY SUPPLY, LLC, a Delaware limited liability company (the "Company"), and Canadian Imperial Bank of Commerce, New York Agency ("CIBC").

ARTICLE I

SCOPE OF AGREEMENT

The Company has requested CIBC to issue one or more standby letters of credit in an Aggregate Stated Amount not to exceed the Maximum Stated Amount, for the account of the Company to support the Company's obligation to post collateral in support of its energy hedging activities. CIBC may (but shall not be obligated to) issue from time to time letters of credit for such purpose, and the Company and CIBC agree that the issuance of such letters of credit, and the obligations of the Company to CIBC with respect thereto, shall be governed by the terms and conditions of this Agreement.

ARTICLE II

DEFINITIONS; INTERPRETATION

Section 2.1 Defined Terms. For the purposes of this Agreement, unless the context otherwise requires, the following terms shall have the respective meanings assigned to them in this Article II or in the section or recital referred to:

"Affiliate" means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

"Aggregate Stated Amount" means, as of any date, the aggregate Stated Amount of all Letters of Credit issued hereunder that remain outstanding as of such date.

"Agreement" shall mean this Letter of Credit Issuance and Reimbursement Agreement, together with all amendments, waivers and modifications, and with all Letter of Credit Requests submitted by the Company.

"Amendment Closing Date" means August 30, 2013.

"Applicable Lending Office" means CIBC's office located at its address set forth in Section 9.1 or such other office as CIBC may hereafter designate by notice to the Company.

"Applicable Rate" means, as of any day, a rate per annum equal to the sum of (a) the higher of (i) the Prime Rate for such day, and (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day, plus (b) 2.00%.

"Availability Termination Date" means the earlier of (i) the date that is the second anniversary of the Closing Date, (ii) the date that the commitment of CIBC under the Existing Credit Agreement terminates or is reduced to zero, (iii) the date that shall have been advised as such date to the Company in writing by CIBC, being a date not less than sixty (60) days after an effective amendment or waiver of any provision of the Existing Credit Agreement, and (iv) the date referred in Section 8.1.

"Available Amount" means, as of any date, the sum of the Maximum Stated Amount minus the Aggregate Stated Amount as of such date.

"Bankruptcy Code" means Title 11 of the United States Code, as now or hereafter in effect, or any successor thereto.

"Business Day" means a day, other than a Saturday or a Sunday, on which commercial banks are not authorized or required to be closed in New York, New York and Toronto, Canada.

"Cash Collateralize" means the provision of funds to CIBC by the Company by way of (a) a deposit account at CIBC, (b) a blocked account arrangement for the sole benefit of CIBC or (c) such other arrangements, as may be in the case of clauses (b) and (c) above acceptable to CIBC in its sole and absolute discretion.

"Change of Control" has the meaning set forth in the Existing Credit Agreement.

"CIBC" has the meaning set forth in the preamble.

"Closing Date" means July 27, 2012.

"Code" or "Internal Revenue Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Company" shall have the meaning assigned to it in the preamble hereof.

"Consolidated Subsidiaries" has the meaning set forth in the Existing Credit Agreement.

"Credit Obligation" shall mean any and all obligations (including, without limitation, Reimbursement Obligations) of the Company to CIBC arising under or related to this Agreement, including, but not limited to, all present or future taxes, levies, imposts, duties, deductions, charges, liabilities or

withholdings imposed, levied, collected, withheld or assessed by any governmental authority on CIBC.

“Debt” has the meaning set forth in the Existing Credit Agreement.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Dollars” “\$” and “USD” shall mean the lawful currency of the United States of America.

“Drawing” shall mean a demand for payment under any Letter of Credit in accordance with its terms.

“Environmental Laws” has the meaning set forth in the Existing Credit Agreement.

“Environmental Liability” has the meaning set forth in the Existing Credit Agreement.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” has the meaning set forth in the Existing Credit Agreement.

“Event of Default” shall have the meaning assigned to it in Section 8.1 hereof.

“Existing Credit Agreement” means that certain \$3,000,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, by and among the Company, the lenders from time to time party thereto, and Wells Fargo Bank, National Association, without giving effect to any further amendments, waivers or consents in relation thereto, other than such amendments, waivers and consents as shall have been affirmatively granted by CIBC.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code and any regulations (whether final, temporary or proposed) that are issued thereunder or official government interpretations thereof.

“Federal Funds Rate” means, for any day, the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by CIBC from three federal funds brokers of recognized standing selected by CIBC.

“Foreign Subsidiary” means a Subsidiary which is not formed under the laws of the United States or any territory thereof.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Guarantee” has the meaning set forth in the Existing Credit Agreement.

“Hazardous Substance” has the meaning set forth in the Existing Credit Agreement.

“Indemnitee” has the meaning set forth in Section 9.3.

“Letter of Credit” shall mean any letter of credit issued pursuant to this Agreement, which letters of credit shall be documented in CIBC’s customary form.

“Letter of Credit Request” means a request and letter of credit application in CIBC’s customary form, duly completed and delivered by the Company to CIBC in accordance with Section 3.1 hereof.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Company or the Company and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Company to perform its obligations under this Agreement, or (iii) a material adverse effect on the validity or enforceability of this Agreement.

“Material Debt” means Debt of the Company and/or one or more of its Restricted Subsidiaries in a principal or face amount exceeding \$40,000,000.

“Material Plan” has the meaning set forth in the Existing Credit Agreement.

“Maximum Stated Amount” means \$100,000,000.

“Multiemployer Plan” has the meaning set forth in the Existing Credit Agreement.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Other Taxes” has the meaning set forth in Section 4.7(b).

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Person” shall mean an individual, sole proprietorship, partnership, joint venture, association, trust, estate, business trust, corporation, not-for-profit corporation, sovereign government or agency, instrumentality, or political subdivision thereof, or any similar entity or organization.

“Prime Rate” means the rate of interest publicly announced by CIBC from time to time as its Prime Rate for US credits.

“Reimbursement Obligations” means at any time all obligations of the Company to reimburse CIBC pursuant to Section 4.1 for amounts paid by CIBC in respect of drawings under Letters of Credit.

“Restricted Subsidiaries” means each Subsidiary listed on Schedule 6.11 and each other Subsidiary designated by the Company as a “Restricted Subsidiary” in writing to CIBC, in either case, for so long as such Restricted Subsidiary shall be a direct Wholly Owned Subsidiary of the Company or a direct Wholly Owned Subsidiary of a Restricted Subsidiary.

“Sanctioned Entity” shall mean (i) an agency of the government of, (ii) an organization directly or indirectly controlled by, or (iii) a Person resident in, a country that is subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html>, or as otherwise published from time to time as such program may be applicable to such agency, organization or Person.

“Sanctioned Person” shall mean a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

“Stated Amount” shall mean, as of any date and with respect to any Letter of Credit, the aggregate maximum amount that is available to be paid under such Letter of Credit.

“Subsidiary” means, with respect to any Person, another Person the majority of the outstanding equity interest of which are owned, directly or indirectly, by such Person or one or more other Subsidiaries of such Person.

“Taxes” has the meaning set forth in Section 4.7(a).

“Termination Date” means the date that is the second anniversary of the Closing Date.

“Unreimbursed Amount” means the principal amount of all Drawings in respect of which the Company shall not have satisfied its Reimbursement Obligations.

“Wholly Owned Subsidiary” has the meaning set forth in the Existing Credit Agreement.

Section 2.2 Other Definitional Provisions.

(a) All terms defined in this Agreement shall have the above-defined meanings when used in any certificate, report or other document made or delivered pursuant to this Agreement, unless the context therein shall otherwise require.

(b) Defined terms used in the singular shall import the plural and vice versa.

(c) The terms “hereof,” “herein,” “hereunder,” and similar terms when used in this Agreement shall refer to this Agreement as whole and not to any particular provisions of this Agreement.

(d) Any reference in this Agreement to a document or an instrument shall mean such document or instrument and all exhibits thereto as amended or supplemented from time to time. Any reference in this Agreement to any Person as a party to any document or instrument shall include its successors and assigns to such status.

Section 2.3 Incorporation by Reference to Existing Credit Agreement. The following rules of construction shall apply:

(a) Terms defined in the Existing Credit Agreement and used in the provisions incorporated herein, unless otherwise defined herein or the context otherwise requires, shall have the definitions set forth in Section 1.01 of the Existing Credit Agreement, and such definitions are hereby incorporated herein by reference, mutatis mutandis, and the Existing Credit Agreement will be deemed to be and to continue to be (for purposes hereof) in effect for the benefit of CIBC whether or not the Existing Credit Agreement remains outstanding or in effect, except as expressly agreed otherwise by CIBC. Without limitation of the foregoing, all definitions and covenants therein that are incorporated herein, shall be incorporated as of the date hereof and for purposes of this Agreement shall not be subject to any subsequent modification, supplement, amendment or waiver by the lenders under or other parties to the Existing Credit Agreement, unless CIBC agrees in writing to such modification, supplement, amendment or waiver in its capacity as a lender thereunder, or, if CIBC shall no longer be a lender thereunder, or the Existing Credit Agreement shall no longer remain outstanding, CIBC agrees in writing that any modification, supplement, amendment or waiver thereto shall apply to such provisions as incorporated herein.

(b) In addition, the parties hereto agree that, for the purposes of Article VII, references in the Existing Credit Agreement to (i) “the Borrower” shall be references to the Company, (ii) “this Agreement” or “the Loan Document(s)” shall be references to this Agreement, (iii) “the Lenders” or the “Administrative Agent” shall be references to CIBC, (iv) references to the “Issuing Lender” shall be references to CIBC, and (v) a “Default” or “Event of Default” shall be

references to a Default or Event of Default under this Agreement.

(c) Unless the context otherwise requires, whenever any statement is qualified by “to the best knowledge of” or “known to” (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

ARTICLE III

LETTER OF CREDIT FACILITY

Section 3.1 Method of Issuance of Letters of Credit. At any time on or after the Closing Date until the Availability Termination Date, the Company may request CIBC issue one or more Letters of Credit hereunder. The Company shall give CIBC a Letter of Credit Request, requesting the issuance or extension of a Letter of Credit, prior to 1:00 P.M. New York time on the proposed date of issuance or extension of any Letter of Credit (which shall be a Business Day) (or such shorter period as may be agreed by CIBC in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by the Lender, the Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. Notwithstanding the foregoing, no Letter of Credit shall have a term of more than one year. Any Letter of Credit Request submitted by the Company on behalf of another entity shall be deemed to be a Letter of Credit Request under this Agreement, and any resulting Letter of Credit shall be deemed to be a Letter of Credit for all purposes of this Agreement.

Section 3.2 Conditions to Issuance of Letters of Credit. The issuance by CIBC of each Letter of Credit shall, in addition to the conditions precedent set forth in Article V, be subject to the conditions precedent that (i) such Letter of Credit shall be satisfactory in form and substance to CIBC, (ii) the Company shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as CIBC shall have reasonably requested, (iii) the term of such Letter of Credit does not extend beyond 12 months after the date of issuance (after giving effect to any and all auto-renewal or extension provisions within such Letter of Credit); and (iv) CIBC shall have confirmed on the date of (and after giving effect to) such issuance that the Aggregate Stated Amount will not exceed Maximum Stated Amount. Notwithstanding any other provision of this Section 3.2, CIBC shall not be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain CIBC from issuing such Letter of Credit, or any requirement of law applicable to CIBC or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over CIBC shall prohibit, or request that CIBC refrain from, the issuance of letters of credit generally or such Letter of Credit in particular, or shall impose upon CIBC with respect to such Letter of Credit any restriction, reserve or capital requirement (for which CIBC is not otherwise compensated hereunder) not in effect on the date hereof, or shall impose upon CIBC any unreimbursed loss, cost or expense which was not applicable on the date hereof and which CIBC in good faith deems material to it.

Section 3.3 Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a Drawing under any Letter of Credit, CIBC shall determine in accordance with the terms of such Letter of Credit whether such Drawing should be honored. If CIBC determines that any such Drawing shall be honored, CIBC shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the Drawing and shall notify the Company of the amount to be paid as a result of such Drawing and the payment date.

Section 3.4 ISP98. The rules of the “International Standby Practices 1998” as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

Section 3.5 Proof of Credit Obligations. This Agreement, the executed Letter of Credit Requests, executed Letters of Credit issued pursuant to such Letter of Credit Requests, and executed Drawings presented under such Letters of Credit shall be presumptive evidence of the Company’s Credit Obligations.

ARTICLE IV

REIMBURSEMENT AND PAYMENT OBLIGATIONS

Section 4.1 Reimbursement Obligations. The Company shall be irrevocably and unconditionally obligated forthwith to reimburse CIBC for any amounts paid by CIBC upon any Drawing under any Letter of Credit, together with any and all reasonable charges and expenses which CIBC may pay or incur relative to such Drawing and interest on the amount drawn at the Applicable Rate for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 12:00 Noon New York time on the date CIBC notifies the Company of such Drawing, if such notice is given at or before 10:00 A.M. New York time on such date, or (ii) at or before 10:00 A.M. New York time on the next succeeding Business Day, if such notice is given after 10:00 A.M. New York time on such date; provided, that no payment otherwise required by this sentence to be made by the Company at or before 12:00 Noon New York time on any day shall be overdue hereunder if arrangements for such payment satisfactory to CIBC, in its reasonable discretion, shall have been made by the Company at or before 12:00 Noon, New York time on such day and such payment is actually made at or before 3:00 P.M. New York time on such day. In addition, the Company agrees to pay to CIBC interest, which shall accrue and be payable daily, on any and all amounts not paid by the Company to CIBC when due under this Section 4.1, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at the Applicable Rate. Each payment to be made by the Company pursuant to this Section 4.1 shall be made to CIBC in immediately available funds at its address referred to in Section 9.1.

Section 4.2 Obligations in Respect of Letters of Credit Unconditional. The obligations of the Company under Section 4.1 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Company may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), CIBC or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;
- (e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that CIBC's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of CIBC; or
- (g) any other act or omission to act or delay of any kind by CIBC or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Company's obligations hereunder.

Nothing in this Section 4.2 is intended to limit the right of the Company to make a claim against CIBC for damages as contemplated by the proviso to the first sentence of Section 4.3.

Section 4.3 Indemnification in Respect of Letters of Credit. The Company hereby indemnifies and holds harmless CIBC from and against any and all claims, damages, losses, liabilities, costs or expenses which CIBC may incur by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 4.2, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a Drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Company shall not be required to indemnify CIBC for any claims, damages, losses, liabilities, costs or expenses, and the Company shall have a claim against CIBC for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (a) the willful misconduct or gross negligence of CIBC in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (b) CIBC's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 4.3 is intended to limit the obligations of the Company under any other provision of this Agreement.

Section 4.4 Interest Calculations. Interest shall accrue on the outstanding Unreimbursed Amount, for each day from the date of the related Drawing until it is paid in full, at a rate per annum equal to the Applicable Rate. CIBC shall determine the Applicable Rate hereunder, and shall give prompt notice to the Company of each change in the Applicable Rate as so determined, and its determination thereof shall be conclusive in the absence of manifest error. Interest shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed.

Section 4.5 Fees. The Company shall pay to CIBC a fee, quarterly in arrears on the last day of each March, June, September and December falling after the Closing Date (or, if any such day is not a Business Day, the next succeeding Business Day), and on the Termination Date, at a rate equal to 1.25% per annum on the average Aggregate Stated Amount of all Letters of Credit outstanding on each day during such quarter, and for the number of days in such period; provided, however, such rate shall equal 0.95% per annum from and after the Amendment Closing Date. For the avoidance of doubt, the first quarterly payment shall be due on September 30, 2012, in respect of the period beginning on the Closing Date and ending on such date, and the payment due on the Termination Date shall be in respect of the period from the preceding quarter-end through the Termination Date. In addition, the Company shall pay to CIBC, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which CIBC is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it, unless CIBC shall (in its sole discretion) deliver a written waiver thereof to the Company.

Section 4.6 General Provisions as to Payments.

(a) Payments by the Company. The Company shall make each payment of principal of and interest on the Credit Obligations hereunder on the date when due, without set-off, counterclaim or other deduction, in immediately available funds in New York, New York, to CIBC at its address referred to in Section 9.1. Whenever any payment shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Increased Costs. If after the date hereof, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by CIBC with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued by, assets of, deposits with or for the account of or credit extended by, CIBC or shall impose on CIBC or on the United States market for certificates of deposit, or on obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to CIBC of issuing any Letter of Credit, or to

reduce the amount of any sum received or receivable by CIBC under this Agreement with respect thereto, then, within fifteen (15) days after demand by CIBC, the Company shall pay to CIBC such additional amount or amounts, as determined by CIBC in good faith, as will compensate CIBC for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by CIBC within ninety (90) days of such demand.

(c) Capital Adequacy. If CIBC shall have determined that, after the date hereof, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of CIBC (or any Person controlling CIBC) as a consequence of CIBC's obligations hereunder to a level below that which CIBC (or any Person controlling CIBC) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by CIBC, the Company shall pay to CIBC such additional amount or amounts as will compensate CIBC (or any Person controlling CIBC) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(d) Notices. CIBC will promptly notify the Company of any event of which it has knowledge, occurring after the date hereof, that will entitle CIBC to compensation pursuant to this Section, and will use reasonable efforts to avoid the need for or to reduce the amount of such compensation as are not, in the judgment of CIBC, otherwise disadvantageous to CIBC. A certificate of CIBC claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, CIBC may use any reasonable averaging and attribution methods.

Section 4.7 Taxes.

(a) Payments Net of Certain Taxes. Any and all payments by the Company to or for the account of CIBC hereunder shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, CIBC by the jurisdiction (or subdivision thereof) under the laws of which CIBC is organized or in which its principal executive office is located or, in which its Applicable Lending Office is located, (ii) any United States withholding tax imposed on such payments, but only to the extent that CIBC is subject to United States withholding tax at the time CIBC first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on CIBC if it is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Company shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to CIBC, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 4.7(a)) CIBC receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Company shall make such deductions, (iii) the Company shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Company shall furnish to CIBC the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Company agrees to pay any and all present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or from the execution, delivery, registration or enforcement of, or otherwise with respect to, this Agreement (collectively, "Other Taxes").

(c) Indemnification. The Company agrees to indemnify CIBC for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 4.7(c)), whether or not correctly or legally asserted, paid by CIBC and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Company by CIBC seeking indemnification pursuant to this Section 4.7(c). This indemnification shall be paid within 15 days after CIBC makes demand therefor.

(d) Refunds or Credits. If CIBC determines in its sole discretion it has received a refund from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Company or with respect to which the Company has paid additional amounts pursuant to this Section 4.7, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund to the Company (but only to the extent of indemnity payments made or additional amounts paid by the Company under this Section 4.7 with respect to the Taxes or Other Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses of CIBC and without interest (other than interest paid by the relevant taxation authority with respect to such refund); provided, however, that the Company agrees to repay, upon the request of CIBC, the amount paid over to the Company (plus penalties, interest or other charges) to CIBC in the event CIBC or Agent is required to repay such refund to such taxation authority.

(e) Tax Forms and Certificates. On the date hereof, and from time to time thereafter if reasonably requested by the Company or CIBC, and at any time it changes its Applicable Lending Office: (i) if CIBC is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code, it shall deliver to the Company two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Company, certifying that CIBC is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) if CIBC is not a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code, it shall deliver to the Company: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, certifying that CIBC is entitled to the benefits under an income tax treaty to which the United States is a party which exempts CIBC from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of CIBC; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States; or (C) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) CIBC is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a "10-percent shareholder" of the Company within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a "controlled foreign corporation" that is described in Section

881(c)(3)(C) of the Internal Revenue Code and is related to the Company within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by CIBC or are effectively connected but are not includible in CIBC's gross income for United States federal income tax purposes under an income tax treaty to which the United States is a party; or (D) to the extent CIBC is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8 ECI, W-8 BEN, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to CIBC hereunder would be subject to U.S. Federal withholding tax imposed by FATCA if CIBC fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), CIBC shall deliver to the Company (A) a certification that CIBC has complied with such applicable reporting requirements, and (B) other documentation required to be provided to a withholding agent by FATCA or otherwise reasonably requested by the Company sufficient for the Company to comply with their obligations under FATCA and to determine that CIBC has complied with such applicable reporting requirements. In addition, CIBC agrees that from time to time after the date hereof, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will upon the written request of the Company, deliver to the Company two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8 BEN, W-8 ECI or W-8 IMY or FATCA-related documentation described above, or successor forms, as the case may be, and, to the extent legally entitled to do so, such other forms as may be required in order to confirm or establish the entitlement of CIBC to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement, or it shall immediately notify the Company of its inability to deliver any such Form or certificate.

(f) Exclusions. The Company shall not be required to indemnify CIBC, or to pay any additional amount to CIBC, pursuant to Section 4.7(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of CIBC to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Company is required to pay additional amounts to or for the account of CIBC pursuant to this Section 4.7, then CIBC will use reasonable efforts (which shall include efforts to rebook the Credit Obligations held by CIBC to a new Applicable Lending Office, or through another branch or affiliate of CIBC) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of CIBC, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of CIBC, to CIBC. If CIBC is claiming any indemnity payment or additional amounts payable pursuant to this Section, it shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document reasonably requested in writing by the Company or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of CIBC, be otherwise disadvantageous to CIBC.

(h) Confidentiality. Nothing contained in this Section shall require CIBC to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

ARTICLE V

CONDITIONS

Section 5.1 Conditions to Closing. The initial availability of the facility contemplated by this Agreement is subject to the satisfaction of the following conditions:

(a) This Agreement. On or prior to the Amendment Closing Date, CIBC shall have received a counterpart hereof signed by the Company.

(b) Officers' Certificates. CIBC shall have received a certificate signed on behalf of the Company by the Chairman of the Board, the President, any Vice President, the Treasurer or the Assistant Treasurer of the Company stating that (A) on the Amendment Closing Date and after giving effect to the Letters of Credit being made or issued on the Amendment Closing Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Company contained herein are true and correct on and as of the Amendment Closing Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(c) Proceedings. On the Amendment Closing Date, CIBC shall have received (i) a certificate of the Secretary of State of the State of Delaware, dated as of a recent date, as to the good standing of the Company and (ii) a certificate of the Secretary or an Assistant Secretary of the Company dated the Amendment Closing Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Company's certificate of formation certified by the Secretary of State of the State of Delaware and (y) the limited liability company agreement of the Company, (B) as to the absence of dissolution or liquidation proceedings by or against the Company, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the managers of the Company authorizing the execution, delivery and performance of this Agreement and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Company executing this Agreement or any other document delivered in connection herewith or therewith.

(d) Opinions of Counsel. On the Amendment Closing Date, CIBC shall have received from counsel to the Company, opinions addressed to CIBC, dated the Amendment Closing Date, as to such customary matters as CIBC shall reasonably require.

(e) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, if any, in connection with the transactions contemplated by this Agreement and shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of CIBC, materially adverse conditions upon the consummation of such transactions.

(f) Payment of Fees. All costs, fees and expenses due to CIBC on or before the Amendment Closing Date shall have been paid.

(g) Counsel Fees. CIBC shall have received full payment from the Company of the fees and expenses of Mayer Brown LLP which are billed through the Amendment Closing Date.

Section 5.2 Conditions to Issuance. The obligation of CIBC to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

- (a) receipt by CIBC of a Letter of Credit Request as required hereunder;
- (b) after giving effect to the proposed issuance of such Letter of Credit, the Aggregate Stated Amount will not exceed the Maximum Stated Amount;
- (c) the fact that, immediately before and after giving effect to such issuance, renewal or extension, no Default shall have occurred and be continuing;
and
- (d) the fact that the representations and warranties of the Company contained in this Agreement shall be true and correct on and as of the date of such issuance, renewal or extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 6.4(c), Section 6.6, Section 6.15 and Section 6.16, which shall be deemed only to relate to the matters referred to therein on and as of the Amendment Closing Date.

Each issuance, renewal or extension of a Letter of Credit under this Agreement shall be deemed to be a representation and warranty by the Company on the date of such event as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

The Company represents and warrants that:

Section 6.1 Status. The Company is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and has the limited liability company authority to make and perform this Agreement.

Section 6.2 Authority; No Conflict. The execution, delivery and performance by the Company of this Agreement and each other Letter of Credit Request have been duly authorized by all necessary limited liability company action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its limited liability company agreement, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Company is a party.

Section 6.3 Legality; Etc. This Agreement and each Letter of Credit Request constitute the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 6.4 Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Company and its Consolidated Subsidiaries as of December 31, 2012 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst & Young, LLP, copies of which have been delivered to CIBC, fairly present, in conformity with GAAP, the consolidated financial position of the Company and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Company and its Consolidated Subsidiaries as of June 30, 2013 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Company and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2012, there has been no change in the business, assets, financial condition or operations of the Company and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Company's ability to perform any of its obligations under this Agreement.

Section 6.5 Rights to Properties. The Company and its Restricted Subsidiaries have good and valid fee, leasehold, easement or other right, title or interest in or to all the properties necessary to the conduct of their business as conducted on the Amendment Closing Date and as then proposed to be conducted, except to the extent the failure to have such rights or interests would not have a Material Adverse Effect.

Section 6.6 Litigation. Except as disclosed in or contemplated by the Company's Form 10-K Report to the SEC for the year ended December 31, 2012 or in any subsequent Form 10-K, 10-Q or 8-K Report, no litigation, arbitration or administrative proceeding against the Company is pending or, to the Company's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Company to perform any of its obligations under this Agreement. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Company, threatened which questions the validity of this Agreement.

Section 6.7 No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Company for the purpose of purchasing or carrying any “margin stock” within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such “margin stock”.

Section 6.8 ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 6.9 Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Company of this Agreement, except such authorizations, consents and approvals as shall have been obtained prior to the Amendment Closing Date and shall be in full force and effect.

Section 6.10 Investment Company Act. The Company is not an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

Section 6.11 Restricted Subsidiaries, Etc. Set forth in Schedule 6.11 hereto is a complete and correct list as of the Amendment Closing Date of the Restricted Subsidiaries of the Company, together with, for each such Subsidiary, the jurisdiction of organization of such Subsidiary. Except as disclosed in Schedule 6.11 hereto, as of the Amendment Closing Date, each such Subsidiary (i) was a Wholly Owned Subsidiary of the Company and (ii) was duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and had all corporate or other organizational powers to carry on its businesses as then conducted.

Section 6.12 Tax Returns and Payments. The Company and each of its Restricted Subsidiaries has filed or caused to be filed all federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Company or its Restricted Subsidiaries, as the case may be, shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 6.13 Compliance with Laws. To the knowledge of the Company or any of its Restricted Subsidiaries, the Company and each of its Restricted Subsidiaries is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement.

Section 6.14 No Default. No Default has occurred and is continuing.

Section 6.15 Environmental Matters.

(a) Except (i) as disclosed in or contemplated by the Company’s Form 10-K Report to the SEC for the year ended December 31, 2012 or in any subsequent Form 10-K, 10-Q or 8-K Report, or (ii) to the extent that the liabilities of the Company and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 6.15(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

- (i) no notice, notification, citation, summons, complaint or order has been received by the Company or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Company’s or any of its Subsidiaries’ knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Company or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Company or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;
- (ii) to the Company’s or any of its Subsidiaries’ knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Company or any of its Subsidiaries; and
- (iii) no property now or previously owned, leased or operated by the Company or any of its Subsidiaries or, to the Company’s or any of its Subsidiaries’ knowledge, any property to which the Company or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Company’s or any of its Subsidiaries’ knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (“CERCLA”), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Company’s Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, to the Company’s or any of its Subsidiaries’ knowledge, there are no Environmental Liabilities that have resulted

or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 6.15, the terms “the Company” and “Subsidiary” shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Company or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 6.16 Guarantees. As of the Amendment Closing Date, except as set forth in Schedule 6.16 hereto, the Company has no Guarantees of any Debt of any Foreign Subsidiary of the Company other than such Debt not in excess of \$25,000,000 in the aggregate.

Section 6.17 OFAC. None of the Company, any Subsidiary of the Company or any Affiliate of the Company: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Entities, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Entities.

ARTICLE VII

COVENANTS

The Company agrees with CIBC that, until all Letters of Credit issued under this Agreement shall have terminated, and all Credit Obligations shall have been indefeasibly paid in full, the Company will perform or cause to be performed each covenant of the “Borrower” contained in Article VI of the Existing Credit Agreement, with each definition and related term, as in effect on the Closing Date (and thereafter as in effect) being incorporated in this Agreement by this reference as though specifically set forth herein, subject in all cases to the terms of Section 2.3; provided that if CIBC shall cease to be a Lender under the Existing Credit Agreement, the Company agrees to amend this Agreement by inserting substantially all of the affirmative and negative covenants of the Company under the Existing Credit Agreement into this Agreement directly. With respect to Letters of Credit (if any) that have terms extending, or are extendible beyond, the Termination Date (after giving effect to any auto-renewal or extension periods within such Letters of Credit), the Company shall Cash Collateralize all such Letters of Credit no later than the Business Day immediately preceding the Termination Date in an amount not less than 101% of all outstanding Credit Obligations.

ARTICLE VIII

DEFAULTS

Section 8.1 Events of Default. If one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (a) the Company shall fail to pay when due any principal on any Credit Obligations; or
- (b) the Company shall fail to pay when due any interest on the Credit Obligations, any fee or any other amount payable hereunder for five (5) days following the date such payment becomes due hereunder; or
- (c) the Company shall fail to observe or perform any covenant or agreement (i) contained in clause (ii) of Section 6.05, or Sections 6.06, 6.08, 6.09, 6.11 or 6.12 of the Existing Agreement (as incorporated into this Agreement pursuant to Article VII), or (ii) contained in Section 6.01(d)(i) of the Existing Agreement (as incorporated into this Agreement pursuant to Article VII) for 30 days after any such failure, or (iii) contained in Section 6.01(d)(ii) of the Existing Agreement (as incorporated into this Agreement pursuant to Article VII) for ten (10) days after any such failure; or
- (d) the Company shall fail to observe or perform (i) its obligation to Cash Collateralize no later than the Business Day immediately preceding the Termination Date pursuant to Article VII or (ii) any other covenant or agreement contained in this Agreement for thirty (30) days after written notice thereof has been given to the Company by CIBC, including covenants and agreements incorporated herein pursuant to Article VII (other than those covered by clauses (a), (b) or (c) above); or
- (e) any representation, warranty or certification made by the Company in this Agreement or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or
- (f) the Company or any Restricted Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any grace period provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any grace period provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or
- (g) the Company or any Restricted Subsidiary of the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or
- (h) an involuntary case or other proceeding shall be commenced against the Company or any Restricted Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company or any Restricted

Subsidiary under the Bankruptcy Code; or

(i) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(j) the Company or any of its Restricted Subsidiaries shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Company or any such Restricted Subsidiary that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(k) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, CIBC may (A) by notice to the Company declare the Availability Termination Date to have occurred, and (B) by notice to the Company declare the Credit Obligations (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Credit Obligations shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company and require the Company to, and the Company shall, Cash Collateralize (in an amount not less than 100% thereof) all Credit Obligations then outstanding; provided, that, in the case of any Default or any Event of Default specified in clause 8.1(g) or 8.1(h) above with respect to the Company, without any notice to the Company or any other act by CIBC, the Availability Termination Date shall thereupon occur and the Credit Obligations (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company, and the Company shall Cash Collateralize (in an amount not less than 100% thereof) all Credit Obligations then outstanding.

ARTICLE IX

MISCELLANEOUS

Section 9.1 Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to CIBC pursuant to Article III if CIBC has notified the Company that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype, (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Company:

PPL Energy Supply, LLC
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151
Facsimile: 610-774-5235

with a copy to:

PPL Energy Supply, LLC
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

if to CIBC:

For Letter of Credit Requests:

Canadian Imperial Bank of Commerce, New York Agency
425 Lexington Avenue, 5th Avenue
New York, New York, 10017
Attn: Blair Kissack/Fred Page/Ryan Moonilal
Telephone: (416) 780-5543 and (416) 542-4344

Facsimile: (905) 948-1934

For all other notices:

Canadian Imperial Bank of Commerce, New York Agency
425 Lexington Avenue
New York, New York, 10017
Attn: General Counsel
Telephone: (212) 667-8316
Facsimile: (212) 667-8366

Section 9.2 No Waivers: Non-Exclusive Remedies. No failure by CIBC to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.3 Expenses; Indemnification.

(a) Expenses. The Company shall pay (i) all out-of-pocket expenses of CIBC, including legal fees and disbursements of Mayer Brown LLP and any other local counsel retained by CIBC, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of this Agreement, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by CIBC, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Company shall not be liable for any legal fees or disbursements of any counsel for CIBC other than Mayer Brown LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Agreement. The Company agrees to indemnify CIBC, its Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an “Indemnitee”) and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Company hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Company or any Subsidiary of the Company) in any way relating to or arising out of this Agreement or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee’s own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Company agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Company hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Company or any of its Subsidiaries or any predecessor of the Company or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Company hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Company shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the transactions contemplated hereby.

Section 9.4 Amendments and Waivers. Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Company and CIBC.

Section 9.5 Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of CIBC, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to this Agreement.

(b) Assignments to Federal Reserve Banks. CIBC may at any time assign all or any portion of its rights under this Agreement to a Federal Reserve Bank. No such assignment shall release CIBC from its obligations hereunder.

Section 9.6 Governing Law; Submission to Jurisdiction. This Agreement shall be governed by and construed in accordance with the internal laws

of the State of New York. The Company hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Company irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.7 Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Closing Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Closing Date, this Agreement and all the documents referred to herein shall constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.8 Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Company's independent public accountants) with the audited consolidated financial statements of the Company and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Company notifies CIBC that the Company wishes to amend any covenant herein to eliminate the effect of any change in GAAP on the operation of such covenant (or if CIBC notifies the Company that its wishes to amend this Agreement for such purpose), then the Company's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Company and CIBC.

Section 9.9 WAIVER OF JURY TRIAL. THE COMPANY HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JUR' IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.10 Confidentiality. CIBC agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent CIBC from disclosing such information (i) to any Person if reasonably incidental to the administration of the Credit Obligations, (ii) upon the order of any court or administrative agency, (iii) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (iv) which had been publicly disclosed other than as a result of a disclosure by CIBC prohibited by this Agreement, (v) in connection with any litigation to which CIBC or any of its Subsidiaries or Affiliates may be party, (vi) to the extent necessary in connection with the exercise of any remedy hereunder, (vii) to CIBC's Affiliates and their respective directors, officers, employees and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (viii) with the consent of the Company, (ix) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (x) subject to provisions substantially similar to those contained in this Section, to any securitization, swap or derivative transaction relating to the Credit Obligations hereunder. Notwithstanding the foregoing, CIBC or Mayer Brown LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Company or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense

Section 9.11 USA PATRIOT Act Notice. CIBC hereby notifies the Company that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow CIBC to identify the Company in accordance with the Patriot Act.

Section 9.12 No Fiduciary Duty. CIBC and its Affiliates (collectively, solely for purposes of this paragraph, the "CIBC Parties"), may have economic interests that conflict with those of the Company, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Company Parties"). The Company agrees that nothing in this Agreement or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any CIBC Party, on the one hand, and any Company Party, on the other. The CIBC Parties acknowledge and agree that (a) the transactions contemplated by this Agreement (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the CIBC Parties, on the one hand, and the Company, on the other and (b) in connection therewith and with the process leading thereto, (i) no CIBC Party has assumed an advisory or fiduciary responsibility in favor of any Company Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any CIBC Party has advised, is currently advising or will advise any Company Party on other matters) or any other obligation to any Company Party except the obligations expressly set forth in this Agreement and (ii) each CIBC Party is acting solely as principal and not as the agent or fiduciary of any Company Party. The Company acknowledges and agrees that the Company has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Company agrees that it will not claim that any CIBC Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Company Party, in connection with such transaction or the process leading thereto.

EXECUTED as of the day first written above.

PPL ENERGY SUPPLY, LLC

By: _____

Name:

Title:

CANADIAN IMPERIAL BANK OF COMMERCE, NEW YORK AGENCY

By: _____

Name:

Title:

CANADIAN IMPERIAL BANK OF COMMERCE, NEW YORK AGENCY

By: _____

Name:

Title:

Schedule 6.11

Restricted Subsidiaries¹

<u>Restricted Subsidiary</u>	<u>Jurisdiction of Organization</u>
PPL Generation, LLC	Delaware
PPL Montana Holdings, LLC	Delaware
PPL Montana, LLC	Delaware
PPL Martins Creek, LLC	Delaware
PPL Brunner Island, LLC	Delaware
PPL Montour, LLC	Delaware
PPL Susquehanna, LLC	Delaware
PPL Holtwood, LLC	Delaware
PPL EnergyPlus, LLC	Pennsylvania
PPL Investment Corporation	Delaware

¹ As of August 30, 2013

AMENDED AND RESTATED
COLLATERAL AGENCY AGREEMENT

Dated as of February 12, 2013

among

PPL IRONWOOD, LLC,

THE BANK OF NEW YORK MELLON,
as Trustee,

THE BANK OF NEW YORK MELLON,
as Collateral Agent,

and

THE BANK OF NEW YORK MELLON,
as Depositary Bank

705 MW (Net) Gas-Fired Combined Cycle Electric Generating Facility
South Lebanon Township, Lebanon County, Pennsylvania

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AMENDED AND RESTATED
COLLATERAL AGENCY AGREEMENT

THIS AMENDED AND RESTATED COLLATERAL AGENCY AGREEMENT (this “**Agreement**”) is dated as of February 12, 2013 by and among PPL IRONWOOD, LLC, a Delaware limited liability company (formerly AES Ironwood, L.L.C.) (the “**Company**”), THE BANK OF NEW YORK MELLON (as successor trustee to IBJ Whitehall Bank & Trust Company), as Trustee (the “**Trustee**”), THE BANK OF NEW YORK MELLON (as successor collateral agent to IBJ Whitehall Bank & Trust Company), as Collateral Agent (the “**Collateral Agent**”), and THE BANK OF NEW YORK MELLON (as successor depository bank to IBJ Whitehall Bank & Trust Company), as Depository Bank (the “**Depository Bank**”).

WITNESSETH:

WHEREAS, the Company constructed and owns a gas-fired combined cycle electric generating facility in South Lebanon Township, Lebanon County, Pennsylvania, with a net design capacity of approximately 705 megawatts and related property and facilities;

WHEREAS, the Company financed the construction and equipping of the Facility primarily through the issuance of the Bonds, the net proceeds of which, were received by the Company;

WHEREAS, the Company duly authorized the creation and issuance of the Bonds pursuant to the Indenture;

WHEREAS, in connection with the authentication and delivery of the first Bonds authenticated and delivered by the Trustee under the Indenture, the Company delivered the DSR Letter of Credit and the CP Letter of Credit;

WHEREAS, all obligations of the Company under the Indenture are secured as set forth in the Security Documents pursuant to which the Collateral Agent has been granted a Security Interest in the Collateral;

WHEREAS, a Collateral Agency and Intercreditor Agreement (the “**Original Agreement**”) among the Company, Dresdner Bank AG, New York Branch, in its capacity as Agent for the banks under the DSR LOC Reimbursement Agreement, Dresdner Bank AG, New York Branch, in its capacity as Agent for the banks under the CP LOC Reimbursement Agreement, the Trustee, the Collateral Agent and the Depository Bank was executed as of June 1, 1999;

WHEREAS, (i) the DSR Letter of Credit was fully drawn on and is no longer outstanding, and (ii) the CP Letter of Credit expired and is no longer outstanding;

WHEREAS, the Construction Account established pursuant to Section 3.1 of the Original Agreement has been closed because the Commercial Operation Date has been achieved;

WHEREAS, Sections 2.4, 2.5, 5.1(e) and 7.9 of the Original Agreement provide that the Original Agreement may be amended, modified or supplemented with the consent and at the direction of the Required Senior Parties (as defined below);

WHEREAS, the consent of the Required Senior Parties was solicited and obtained upon the terms and subject to the conditions set forth in the Prospectus of PPL Energy Supply, LLC, dated February 6, 2013 (the “**Prospectus**”) and the related letter of transmittal and consent;

WHEREAS, the Required Senior Parties have directed the Collateral Agent and the Depository Bank to exercise their respective rights under the Original Agreement to amend and restate the Original Agreement by executing and delivering an amended and restated Collateral Agency Agreement in the form attached to, and on the terms and conditions set forth in, the Prospectus and pursuant to Sections 2.4, 2.5, 5.1(e) and 7.9 of the Original Agreement;

WHEREAS the Company desires to execute this Agreement embodying the modifications of the Original Agreement made and approved as aforesaid;

WHEREAS the Board of Directors of the Company has authorized the Company to enter into this Agreement for the purpose of embodying the modification of the Original Agreement made and approved as aforesaid; and

WHEREAS the Company represents that all acts and things necessary have happened, been done, and been performed, to make this Agreement valid and binding in accordance with its terms.

NOW, THEREFORE, for and in consideration of the premises and of the covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, covenant and agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. Definitions.

The following terms shall have the meanings specified herein unless the context otherwise requires. Capitalized terms not otherwise defined herein shall have the meanings specified in the Indenture in the form of such terms as they exist on the date hereof; provided, however, that defined terms from the Indenture that have been added or amended subsequent to the date hereof shall have such added or amended meanings herein upon compliance with the

provisions of Section 5.1(e). For the purposes of this Agreement, the rules of construction set forth in the Indenture shall apply as if such rules were set forth herein.

“**Advances**” has the meaning specified in Section 3.6.

“**Authorized Representative**” of any Person means the individual or individuals authorized to act on behalf of such Person by the board of directors, management committee, board of control or any other governing body of such Person as designated from time to time in a certificate of such Person with specimen signatures and delivered to the Collateral Agent and upon which the Collateral Agent may conclusively rely.

“**Available Accounts**” means the Project Accounts other than the Debt Service Reserve Account.

“**Bond Payment Date**” means February 28, May 31, August 31 and November 30 of each year, which commenced on August 31, 1999, on which interest on and/or principal of the Bonds shall be payable in accordance with the Indenture.

“**Certificate as to Redemption**” means the certificate filed by an Authorized Representative of the Company in the case of an Event of Loss or an Event of Eminent Domain in order to determine (i) whether the Facility can be rebuilt, repaired or restored and (ii) the availability of Casualty Proceeds or Eminent Domain Proceeds for such rebuilding, repairing or restoring.

“**Claims**” means with respect to any Person, any and all suits, sanctions, legal proceedings, claims, assessments, judgments, damages, penalties, fines, liabilities, demands, out-of-pocket costs, reasonable out-of-pocket expenses of whatever kind (including reasonable attorneys’ fees and expenses) and losses incurred or sustained by or against such Person.

“**Collateral Agent**” has the meaning specified in the preamble of this Agreement.

“**Collateral Agent Claims**” means all obligations of the Company, now or hereafter existing, to pay fees, costs, expenses, liabilities or indemnities to the Collateral Agent under the Collateral Agency Agreement.

“**Combined Exposure**” means, as of any date of calculation, the sum (calculated without duplication) of the following, to the extent the same is held by or represented by a Senior Party: (i) the aggregate principal amount of all Outstanding Bonds; (ii) the aggregate principal amount of all outstanding Permitted Indebtedness (other than the Bonds, Subordinated Debt and Affiliate Subordinated Debt); and (iii) the aggregate amount of all available undrawn financing commitments under the documents governing the Permitted Indebtedness (other than the Bonds, Subordinated Debt and Affiliate Subordinated Debt) which the creditors party to such documents have no right to terminate.

“**Company**” has the meaning specified in the preamble of this Agreement.

“**Contract**” means any agreement, lease, license, evidence of Debt, indenture or other contract (including any design, construction, equipment, or other warranty or guarantee under any of the foregoing).

“**Debt Service Reserve Account**” means the Debt Service Reserve Account established pursuant to Section 3.1.

“**Depository Bank**” has the meaning specified in the preamble to this Agreement.

“**Designation Letter**” means a “Designation Letter” in the form of Exhibit 2.1, pursuant to which a Person agrees to be bound by the terms of this Agreement.

“**Distribution Account**” means the Distribution Account established pursuant to Section 3.1.

“**Equity Contribution**” means the equity contribution required to be made by PPL Ironwood under the Equity Subscription Agreement.

“**Event of Default**” means, so long as there are any Financing Commitments or any Financing Liabilities outstanding under such documents, an “Event of Default” as such term is defined in the Indenture, or an “Event of Default” or equivalent term under any working capital facility.

“**EWG**” means “exempt wholesale generator,” as defined in Section 32(a) of PUHCA.

“**Fair Market Value**” has the meaning specified in the Power Purchase Agreement.

“**Financing Commitment**” means any commitment pursuant to the Financing Documents to provide credit to the Company.

“**Financing Liabilities**” means all indebtedness, liabilities and obligations of the Company (of whatsoever nature and howsoever evidenced including, but not limited to, principal, interest, fees, reimbursement obligations, collateralization or deposit obligations, penalties, indemnities and legal expenses, whether due after acceleration or otherwise) under or pursuant to the Indenture, the Bonds and any evidence of indebtedness thereunder entered into, the Collateral Agency Agreement and any evidence of indebtedness thereunder entered into, any working capital facility and any evidence of indebtedness thereunder entered into, and the Security Documents, to the extent arising on or prior to the Final Maturity Date, in each case, direct or indirect, primary or secondary, fixed or contingent, now or hereafter arising out of or relating to any such agreements.

“**First Supplemental Indenture**” means the First Supplemental Indenture to the Trust Indenture, dated as of June 1, 1999, by and among the Company, IBJ Whitehall Bank & Trust Company as Trustee and IBJ Whitehall Bank & Trust Company as Depository Bank.

“**Fuel Conversion Payment Volume Rebate Account**” means the Fuel Conversion Payment Volume Rebate Account established pursuant to Section 3.1.

“**Indenture**” means the Trust Indenture, dated as of June 1, 1999, by and among the Company, IBJ Whitehall Bank & Trust Company as Trustee and IBJ Whitehall Bank & Trust Company as Depository Bank, together with the First Supplemental Indenture, Second Supplemental Indenture and Third Supplemental Indenture.

“**Liabilities**” means, as to any Person, all Debt, obligations and any other liabilities of such Person (whether absolute, accrued, contingent, fixed or otherwise, and whether due or to become due).

“**Major Maintenance Reserve Account**” means the Major Maintenance Reserve Account established pursuant to Section 3.1.

“**Operating and Maintenance Account**” means the Operating and Maintenance Account established pursuant to Section 3.1.

“**Project Accounts**” has the meaning specified in Section 3.1.

“**PUHCA**” means the Public Utility Holding Company Act of 1935.

“**Required Senior Parties**” means, at any time, Persons that at such time hold at least a majority of the Combined Exposure.

“**Responsible Officer**” when used with respect to the Collateral Agent, means any officer in the corporate trust and agency group (or any successor group) of the Collateral Agent including without limitation, any vice president, assistant vice president, assistant treasurer, assistant secretary or any other officer of the Collateral Agent customarily performing functions similar to those performed by any of the above designated officers, and with respect to a particular corporate trust matter, also means any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

“**Restoration Account**” means the Restoration Account established pursuant to Section 3.1.

“**Restoration Certificate**” means a certificate of the Company substantially in the Ruin of Exhibit 3.15.

“**Revenue Account**” means the Revenue Account established pursuant to Section 3.1.

“**Second Supplemental Indenture**” means the Second Supplemental Indenture to the Trust Indenture, dated as of May 12, 2000, by and among the Company, IBJ Whitehall Bank & Trust Company as Trustee and IBJ Whitehall Bank & Trust Company as Depository Bank.

“**Secured Obligations**” means, collectively, the Financing Liabilities, the Trustee Claims and the Collateral Agent Claims.

“**Security Interest**” means any perfected and enforceable Lien on Collateral granted to a Senior Party pursuant to any applicable Security Document.

“**Senior Debt Termination Date**” means the date on which all Financing Liabilities, other than contingent liabilities and obligations which are unasserted at such date, have been paid and satisfied in full and all Financing Commitments have been terminated.

“**Senior Documents**” has the meaning specified in Section 6.1.

“**Senior Parties**” means, collectively, the Trustee, the Collateral Agent, the Depository Bank and any working capital provider and each successor to any of such Persons.

“**Senior Party Certificate**” means a certificate of a Senior Party substantially in the form of Exhibit 2.3, signed by an Authorized Representative of such Senior Party, (i) setting forth the principal amount of the Financing Liabilities owed to such Senior Party as of the date of such certificate and the outstanding unutilized commitments to extend credit to the Company or the Company by such Senior Party as of the date of such certificate, (ii) setting forth a contact person for such Senior Party and including phone and facsimile numbers for such person, (iii) directing the Collateral Agent to take a specified action and (iv) stating specifically the action the Collateral Agent is directed to take and the Security Document and the provision thereof pursuant to which the Collateral Agent is being directed to act.

“**Subordinated Debt Account**” means the Subordinated Debt Account established pursuant to Section 3.1.

“**Terms of Subordination**” means the Terms of Subordination attached hereto as Exhibit 2.2.

“**Third Supplemental Indenture**” means the Third Supplemental Indenture to the Trust Indenture, dated as of February 12, 2013, by and among the Company, The Bank of New York Mellon as Trustee and The Bank of New York Mellon as Depository Bank.

“**Trigger Event**” means (i) an “Event of Default” under the Indenture and an acceleration of the indebtedness issued thereunder, (ii) an “Event of Default” or the equivalent under any working capital facility and an acceleration of the indebtedness entered into thereunder, or (iii) a Bankruptcy Event in respect of the Company and the expiration of the shortest applicable grace period.

“**Trustee**” has the meaning specified in the preamble of this Agreement.

“**UCC**” means the Uniform Commercial Code as is in effect from time to time in the State of New York and any other jurisdiction the laws of which

control the creation or perfection of security interests under the Security Documents.

ARTICLE II

SECURITY INTERESTS AND EXERCISE OF RIGHTS

SECTION 2.1. Sharing; Priority of Security Interests.

(a) Each Senior Party agrees that, (i) as among the Senior Parties, the Security Interest of each Senior Party in any Collateral ranks and will rank equally in priority with the Security Interest of the other Senior Parties in the same Collateral and (ii) in respect of matters voted on by the Senior Parties collectively, the Trustee shall vote all Bonds according to the votes of a majority of Bondholders voting.

(b) The priorities specified herein are applicable irrespective of any statement in any Security Document or in any other agreement to the contrary, the time or order or method of attachment or perfection of Liens, the time or order of filing of financing statements or the giving or failure to give notice of the acquisition or expected acquisition of purchase money or other security interests.

(c) The Company hereby covenants and agrees to cause each person holding Senior Debt to become a party to this Agreement by executing a Designation Letter and becoming a Senior Party hereunder.

SECTION 2.2. Subordinated Debt.

Notwithstanding any provision in any Transaction Document to the contrary, the Senior Parties hereby agree that (i) the Subordinated Debt Providers shall be entitled to share in the Collateral or any other payment, security or guarantee from the Company or any of its Affiliates only to the extent provided in, and only in accordance with, Articles III and IV and the Terms of Subordination and (ii) the Subordinated Debt Providers shall not be entitled to vote or take any actions pursuant to this Agreement or any other Security Document, or take any other actions with respect to the Collateral until such time as all of the Secured Obligations owing to all of the Senior Parties have been satisfied in full. Each Subordinated Debt Provider agrees to be bound by the Terms of Subordination and agrees that such Terms of Subordination shall be explicitly incorporated into the Subordinated Loan Agreement to which it is a party. Each party becoming a Subordinated Debt Provider pursuant to a Designation Letter shall agree, in such Designation Letter, to be bound by such Terms of Subordination.

SECTION 2.3. Exercise of Rights Under Security Documents.

So long as any Secured Obligations remain outstanding, the following provisions shall apply:

(a) Subject to Section 5.2(e), if a Trigger Event shall have occurred and be continuing, and only in such event, upon the written direction of the Required Senior Parties contained in Senior Party Certificates, the Collateral Agent, on behalf of the Trustee and any other Senior Party that is a party to this Agreement, as applicable, shall be permitted and is hereby authorized to take any and all actions and to exercise any and all rights, remedies and options which it may have under the Security Documents or this Agreement; provided, however, that if the underlying event which caused the Trigger Event is a Bankruptcy Event in respect of the Company of which the Collateral Agent shall have received written notice, no written request of the Required Senior Parties shall be required in order for the Collateral Agent following such Trigger Event to take any and all actions and to exercise any and all rights and remedies specified in the Security Documents or this Agreement to be taken in such circumstances. Nothing contained herein shall be construed as restricting the right of any Senior Party to cause the acceleration, in accordance with the Indenture of the Senior Debt held by such Party.

(b) The Senior Parties hereby agree to give each other and the Collateral Agent written notice of the occurrence of an Event of Default and of a Trigger Event as soon as practicable after the occurrence thereof; provided, however, that the failure to provide such notice shall not limit or impair the rights of the Senior Parties hereunder or under the Financing Documents.

(c) Each Senior Party hereby acknowledges and agrees that all funds held by the Trustee in accordance with Article 5 of the Indenture are held for the benefit of the Bondholders and that the Trustee shall hold such funds solely for the benefit of such Bondholders.

(d) Each Senior Party hereby acknowledges and agrees that all funds held in the Debt Service Reserve Account by the Collateral Agent in accordance with this Agreement are held for the benefit of the Trustee (on behalf of the Bondholders) and that the Collateral Agent shall hold such funds solely for the benefit of such Persons.

(e) Each Senior Party hereby acknowledges and agrees that the Collateral Agent, subject to Section 5.2(c) and (e), shall administer the Collateral in the manner contemplated by the Security Documents and this Agreement and the Collateral Agent shall exercise, as directed by the Required Senior Parties in Senior Party Certificates in accordance with Section 2.3(a) such rights and remedies with respect to the Collateral (including the curing of defaults under the Transaction Documents) as are granted to it under the Security Documents, this Agreement and Applicable Law. No Senior Party and no class or classes of Senior Parties shall have any right (i) to direct the Collateral Agent to take any action in respect of the Collateral other than in accordance with Section 2.3(a) or (ii) to take any action with respect to the Collateral (A) independently of the Collateral Agent or (B) other than to direct the Collateral Agent in writing to take action in accordance with Section 2.3(a); *provided, however*, that nothing in this Section 2.3(e) shall be deemed to limit the ability of any Senior Party to take any action in accordance with Section 2.3(g).

(f) Each of the Company and each Senior Party covenants and agrees that, upon the occurrence and during the continuation of a Trigger Event, the Collateral Agent shall be entitled, as instructed by the Required Senior Parties in Senior Party Certificates in accordance with Section 2.3(a), to give notices or instructions that the Company would otherwise be entitled to give under this Agreement.

(g) From time to time during the continuation of a Trigger Event, the Collateral Agent shall, as instructed by the Required Senior Parties in Senior Party Certificates in accordance with Section 2.3(a), direct the Depository Bank to render an accounting of the current balance of each Project Account or other amounts or funds administered by the Depository Bank under this Agreement, and the Depository Bank agrees to render the same, subject to the terms, conditions and protections contained in this Agreement.

(h) The Company covenants and agrees that it shall not take any action that would prohibit or impair the ability of the Collateral Agent from participating in any objection to any foreclosure or similar proceeding instituted by a junior lienor against the Company; *provided, however*, that nothing in this Section 2.3(h) shall, or shall be deemed to, affect the relationship among the Senior Parties or the relationship between the Senior Parties and the Collateral Agent, nor shall anything in this Section 2.3(h) affect any representation, warranty, covenant or agreement of any Senior Party in this Agreement.

(i) The Company covenants and agrees that it shall send to the Collateral Agent on or before five (5) days prior to each Bond Payment Date an Officer's Certificate signed by an Authorized Representative of the Company setting forth (i) the names of each Senior Party as of the date of the certificate, (ii) the principal amount of the Financing Liabilities owed to each such Senior Party as of the date of the certificate and (iii) the unutilized outstanding commitments of each Senior Party to extend credit to the Company as of the date of the certificate. The Collateral Agent shall be entitled to rely on the information contained in such certificate.

(j) Notwithstanding the foregoing provisions of this Article II, each Senior Party individually shall be authorized to cure any default of the Company under any Project Contract in accordance with the consent to assignment executed in connection with such Project Contract; *provided, however*, that funds advanced in connection with such cure shall not constitute Senior Debt unless such funds would otherwise satisfy the requirements for the issuance of Senior Debt.

(k) Each Senior Party hereby acknowledges and agrees that if (i) there is an Event of Default under the Indenture and such Event of Default is not caused directly or indirectly by a default or event of default under the Power Purchase Agreement, (ii) the Collateral Agent receives the written request of the Required Senior Parties specified in Section 2.3(a), and (iii) the Trustee has been directed by the required Bondholders to declare the aggregate principal amount of the Outstanding Bonds, all interest accrued and unpaid thereon and all premium payable thereon in accordance with the terms of the Indenture immediately due and payable, the Collateral Agent at the direction of the Required Senior Parties shall notify the Power Purchaser in writing at the address provided in the Power Purchase Agreement of the opportunity to purchase the Facility for an amount equal to the greater of (x) the Fair Market Value of the Facility and (y) all Financing Liabilities due and owing to the Senior Parties and any Subordinated Debt Provider. If the Power Purchaser has not within 90 days of the date of such notice provided the Collateral Agent with a binding written notice of its intent to purchase the Facility for such amount, the Collateral Agent shall no longer have any obligation under this paragraph. If the Power Purchaser offers within such period to purchase the Facility for such amount within 120 days after the expiration of such 90 day period, the Collateral Agent shall take such actions as required to consummate such sale promptly as directed by the Required Senior Parties in Senior Party Certificates.

SECTION 2.4. Rights of Senior Parties.

The Senior Parties and the Collateral Agent (upon receipt of Senior Party Certificates from the Required Senior Parties) may, at any time and from time to time, without any consent of or notice to any Subordinated Debt Providers, (i) amend in any manner any Security Document or any agreement under which any of the Financing Liabilities is outstanding in accordance with the terms thereof, (ii) sell, exchange, release, not perfect and otherwise deal with any property at any time pledged, assigned or mortgaged to secure the Financing Liabilities in accordance with the Security Documents, (iii) release anyone liable in any manner under or in respect of the Financing Liabilities, (iv) exercise or refrain from exercising any rights against the Company and others and (v) apply any sums from time to time received to payment or satisfaction of the Financing Liabilities.

ARTICLE III

ACCOUNTS

SECTION 3.1. Establishment of Project Accounts.

The Collateral Agent hereby confirms that it has established with the Depository Bank at its office at the address listed in Section 7.4, New York, New York, the following special, segregated accounts (the "**Project Accounts**"):

- (i) Revenue Account;
- (ii) Operating and Maintenance Account;
- (iii) Debt Service Reserve Account;
- (iv) Restoration Account;
- (v) Major Maintenance Reserve Account;
- (vi) Fuel Conversion Payment Volume Rebate Account;
- (vii) Subordinated Debt Account; and
- (viii) Distribution Account.

All amounts from time to time held in each Project Account shall be held (a) in the name of the Collateral Agent subject to the lien and security interest of the Collateral Agent for the benefit of the Senior Parties or certain of them as set forth herein and (b) in the custody of the Depository Bank for and on behalf

of the Collateral Agent for the purposes and on the terms set forth in this Agreement. All such amounts shall constitute a part of the Collateral and shall not constitute payment of any Indebtedness or any other obligation of the Company until applied as hereinafter provided.

SECTION 3.2. Investment of Funds in the Project Accounts.

(a) Amounts deposited in the Project Accounts (and each subaccount thereof) and each other account or fund created hereunder (unless expressly stated otherwise), at the written request and direction of the Company, shall be invested by the Collateral Agent in Permitted Investments. Such investments shall mature in such amounts and not later than such times as may be necessary to provide funds when needed to make payments from such funds as provided in this Agreement. Net interest or gain received from such investments shall be applied as provided in this Agreement.

(b) So long as an outstanding balance shall remain in the Project Accounts or any other account or fund created hereunder, the Collateral Agent shall provide the Company with statements by the tenth (10th) Business Day of each month showing the amount of all receipts, the net investment income or gain received and collected, all disbursements and the amount then available as of the last Business Day of the prior calendar month in the Project Accounts (and each subaccount thereof) and each other account or fund created hereunder. The Depository Bank agrees to provide the Collateral Agent with such information as it may reasonably have available to it in order to permit the Collateral Agent to provide such statements in accordance with the requirements hereof.

SECTION 3.3. Valuation and Sale of Investments.

(a) Obligations purchased as an investment of funds in any Project Account or any other separate account or fund created under the provisions hereof shall be deemed at all times to be a part of such account or fund and, unless otherwise specified herein, any profit realized from the liquidation of such investment shall be credited to such Project Account or such other separate account or fund created hereunder, and any loss resulting from the liquidation of such investment shall be charged to the respective Project Account or such other separate account or fund.

(b) The Collateral Agent shall determine the value of all investments in any of the Project Accounts or the Bond Payment Account as of the last Business Day of each month, with any deficit in any account balance to be funded from Project Revenues and any investments valued in excess of the amounts required to be on deposit in an account shall be liquidated and the amount of such excess shall be deposited in the Revenue Account for application in accordance with Section 3.8.

(c) The Collateral Agent shall determine the value of all investments in the Debt Service Reserve Account in accordance with this Section 3.3.

(d) In computing the amount of any funds in any Project Account, or other separate account or fund created under the provisions hereof for any purpose provided in this Agreement, obligations purchased as an investment of funds therein shall be valued at the market value of such obligations, exclusive of accrued interest; provided, however, that if there is no readily determinable market value for such obligations, the value of such obligations shall be determined with reference to the acquisition price of such obligations, plus accrued but unpaid interest.

(e) The Depository Bank agrees to provide the Collateral Agent with such information as it may reasonably have available to it in order to permit the Collateral Agent to make such determinations and transfers as may be required by this Section 3.3.

SECTION 3.4. Possession of Accounts; Liquidation.

(a) Each of the Project Accounts shall at all times be in the exclusive possession of the Depository Bank acting for and on behalf of the Collateral Agent acting for and on behalf of the Senior Parties.

(b) Notwithstanding any provision hereof to the contrary, if a Trigger Event shall have occurred and be continuing, the Collateral Agent shall promptly liquidate all amounts in the Project Accounts and all related investments and distribute all such monies so received in accordance with Section 4.1.

SECTION 3.5. The Depository Bank; Limited Company Rights.

(a) The Depository Bank.

(i) Establishment of Securities Accounts. The Depository Bank hereby agrees and confirms that (A) the Depository Bank has established the Project Accounts as set forth in Section 3.1, (B) each Project Account is and will be maintained as a "securities account" (within the meaning of Section 8-501 of the UCC), (C) the Company is the "entitlement holder" (within the meaning of Section 8-102(a)(7) of the UCC) in respect of the "financial assets" (within the meaning of Section 8-102(a)(9) of the UCC) credited to the Project Accounts, (D) all property delivered to the Depository Bank pursuant to the Transaction Documents or this Agreement will be held by the Depository Bank and promptly credited to a Project Account by an appropriate entry in its records in accordance with this Agreement, (E) all "financial assets" (within the meaning of Section 8-102(a)(9) of the UCC) in registered form or payable to or to the order of and credited to any Project Account shall be registered in the name of, payable to or to the order of, or endorsed to, the Depository Bank or in blank, or credited to another securities account maintained in the name of the Depository Bank, and in no case will any financial asset credited to any Project Account be registered in the name of, payable to or to the order of, or endorsed to, the Company except to the extent the foregoing have been subsequently endorsed by the Company to the Depository Bank or in blank and (F) the Depository Bank shall not change the name or account number of any Project Account without the prior written consent of the Collateral Agent.

(ii) Financial Assets Election. The Depository Bank agrees that each item of property (excluding cash, but including any security, instrument or obligation, share, participation, interest or other property whatsoever) credited to any Project Account shall be treated as a "financial asset" within the meaning of Section 8-102(a)(9) of the UCC.

(iii) Entitlement Orders. If at any time the Depository Bank shall receive any “entitlement order” (within the meaning of Section 8-102(a)(8) of the UCC) or any other order from the Collateral Agent acting in accordance with this Agreement directing the transfer or redemption of any financial asset relating to the Project Accounts, the Depository Bank shall comply with such entitlement order or other order without further consent by the Company or any other Person. The parties hereto hereby agree that the Collateral Agent shall have “control” (within the meaning of Section 8-106(d) of the UCC) of the Company’s “security entitlement” (within the meaning of Section 8-102(a)(17) of the UCC) with respect to the financial assets credited to the Project Accounts and the Company hereby disclaims any entitlement to claim “control” of such “security entitlement”.

(iv) Subordination of Lien; Waiver of Set-off. If the Depository Bank has or subsequently obtains by agreement, operation of law or otherwise a lien or security interest in any Project Account or any security entitlement credited thereto, the Depository Bank agrees that such lien or security interest shall be subordinate to the lien and security interest of the Collateral Agent. The financial assets standing to the credit of the Project Accounts will not be subject to deduction, set-off, banker’s lien, or any other right in favor of any Person other than the Collateral Agent in its capacity as such (except that the face amount of any checks which have been credited to any Project Account but are subsequently returned unpaid because of uncollected or insufficient funds).

(v) No Other Agreements. The Depository Bank and the Company have not entered into any agreement with respect to the Project Accounts or any financial assets credited to any Project Account other than this Agreement and the other Security Documents. The Depository Bank has not entered into any agreement with the Company or any other Person purporting to limit or condition the obligation of the Depository Bank to comply with entitlement orders originated by the Collateral Agent in accordance with this Section 3.5. In the event of any conflict between this Section 3.5 or any other Security Document or any other agreement now existing or hereafter entered into, the terms of this Section 3.5 shall prevail.

(vi) Notice of Adverse Claims. Except for the claims and interest of the Collateral Agent and the Company in each of the Project Accounts, the Depository Bank does not know of any claim to, or interest in, any Project Account or in any financial asset credited thereto. If any Person asserts any lien, encumbrance or adverse claim (including any writ, garnishment, judgment, warrant of attachment, execution or similar process) against any Project Account or in any financial asset credited thereto, the Depository Bank will promptly notify the Collateral Agent and the Company thereof.

(vii) Rights and Powers of the Collateral Agent. The rights and powers granted by the Collateral Agent to the Depository Bank have been granted in order to perfect its lien and security interests in the Project Accounts, are powers coupled with an interest and will neither be affected by the bankruptcy of the Company nor the lapse of time.

(viii) Choice of Law. Both this Agreement and each Project Account (including all security entitlements relating thereto) shall be governed by the law of the State of New York. Regardless of any provision in any other agreement, for purposes of the UCC, the “securities intermediary’s jurisdiction” of the Depository Bank with respect to the Project Accounts is the State of New York.

(b) Limited Company Rights. The Company shall not have any rights against or to monies held in the Project Accounts, as third-party beneficiary or otherwise or any right to direct the Depository Bank or the Collateral Agent to apply or transfer monies in any Project Account, except the right to receive or make requisitions of monies held in the Project Accounts, as permitted by this Agreement and to direct the investment of monies held in the Project Accounts as permitted by Section 3.2. Except as expressly provided in this Agreement, in no event shall any amounts or Permitted Investments deposited in or credited to any Project Account be registered in the name of the Company, payable to the order of the Company or specially endorsed to the Company except to the extent that the foregoing have been specially endorsed to the Collateral Agent or in blank.

SECTION 3.6. Advances.

(a) Notwithstanding any other provision hereof to the contrary, the Company may, by delivering an Officer’s Certificate to the Collateral Agent, withdraw funds on deposit in or credited to any of the Available Accounts (“**Advances**”); *provided, however*, that, at the time of the making of such Advance, no Default or Event of Default shall have occurred and be continuing and the Officer’s Certificate of the Company shall so certify. The Collateral Agent may conclusively rely on such Officer’s Certificate certifying that all conditions for withdrawals from the Available Accounts have been met.

(b) The Company shall repay immediately or cause to be repaid any Advances to the extent that the funds on deposit in such Available Accounts are, on the Business Day next preceding the day on which such funds are to be withdrawn or transferred from such Available Accounts pursuant to this Article III, insufficient to make the necessary withdrawals and transfers. In addition, the Company shall cause to be repaid immediately the aggregate amount of all Advances upon the occurrence of (i) a default in the payment of principal of, premium, if any, or interest on the Bonds or (ii) any Event of Default. Any amounts so repaid shall be allocated to and deposited in the Available Accounts to which such repayment is required to be made as directed by the Company in an Officer’s Certificate.

SECTION 3.7. Collection of Project Revenues.

The Company shall arrange for the direct payment to the Collateral Agent of all Project Revenues.

SECTION 3.8. Revenue Account.

(a) The Revenue Account shall be funded with all Project Revenues received pursuant to Section 3.7.

(b) Upon receipt by the Collateral Agent, not less than three (3) Business Days prior to the date of the proposed transfer, of an Officer’s Certificate of the Company detailing the amounts to be paid, the Collateral Agent shall transfer funds in the Revenue Account by wire transfer in accordance with such Officer’s Certificate and the following order of priority:

first, on a monthly basis, to the Trustee and the Collateral Agent, any amounts certified by the Company as the amounts then due and payable in

respect of Trustee Claims and Collateral Agent Claims, respectively; *provided, however*, that if funds in the Revenue Account are insufficient on any date to make the payments specified in this paragraph first, distribution of funds shall be made ratably to the specified recipients;

second, on a monthly basis, to the Trustee, for deposit in the Interest Payment Subaccount, an amount equal to one-third of the interest becoming due on the Bonds on the next succeeding Bond Payment Date;

third, on a monthly basis, to the Trustee, for deposit in the Principal Payment Subaccount, an amount equal to one-third of the principal becoming due on the Bonds on the next succeeding Bond Payment Date;

fourth, on a monthly basis, to the Collateral Agent for deposit in the Debt Service Reserve Account, an amount necessary to fund the Debt Service Reserve Account up to the DSRA Required Balance;

fifth, on a monthly basis, to any Project Account in the sole discretion of the Company.

(c) When making the transfers specified in Section 3.8(b), each transfer shall be adjusted as necessary, taking into account investment gains or losses in such Project Account or Indenture Account and further adjusting such transfers by the amount any prior over-fundings or any prior shortfalls in such Project Account or Indenture Account, to ensure that the aggregate amounts so transferred to such Project Accounts or Indenture Accounts are sufficient to pay the amount due and payable from such Project Accounts and Indenture Accounts on the applicable payment date.

SECTION 3.9. Operating and Maintenance Account.

(a) The Operating and Maintenance Account may be funded from funds transferred by the Collateral Agent from the Revenue Account.

(b) Upon receipt by the Collateral Agent of an Officer's Certificate of the Company detailing the amounts to be paid, the Collateral Agent shall transfer funds in the Operating and Maintenance Account to the Company or to whomsoever the Company directs.

SECTION 3.10. Debt Service Reserve Account.

(a) The Debt Service Reserve Account may be funded, if necessary, from monies transferred from the Revenue Account.

(b) When there are insufficient monies in the Bond Payment Account on any Bond Payment Date to pay the interest or principal then due on the Bonds, the Collateral Agent shall, upon receipt prior to such Bond Payment Date of an Officer's Certificate of the Company and as directed on such certificate, withdraw monies on deposit in the Debt Service Reserve Account to the extent necessary to make such interest or principal payment on the Bonds and transfer such monies to the Trustee for deposit in the Bond Payment Account for application against such payment.

SECTION 3.11. Major Maintenance Reserve Account.

(a) The Major Maintenance Reserve Account may be funded from funds transferred by the Collateral Agent from the Revenue Account.

(b) Upon receipt by the Collateral Agent of an Officer's Certificate of the Company detailing the amounts to be paid, the Collateral Agent shall transfer funds in the Major Maintenance Reserve Account to the Company or to whomsoever the Company directs.

SECTION 3.12. Distribution Account.

(a) The Distribution Account may be funded from funds transferred from the Revenue Account.

(b) Funds on deposit in or credited to the Distribution Account may be distributed to, or as directed by, the Company upon receipt by the Collateral Agent of an Officer's Certificate of the Company requesting such a distribution.

SECTION 3.13. Restoration Account.

(a) All Casualty Proceeds and Eminent Domain Proceeds shall be deposited into the Restoration Account. Subject to Sections 3.13(d) and 3.13(e), the Collateral Agent shall apply the amounts in the Restoration Account as directed in writing by the Company to the payment, or reimbursement to the extent the same have been paid or satisfied by the Company, of the costs of rebuilding, repair and restoration of the Facility or any part thereof that has been affected by an Event of Loss or an Event of Eminent Domain.

(b) The Collateral Agent is hereby authorized to disburse from the Restoration Account the amount required to be paid for the repair or replacement of the Facility or any part thereof as specified in Section 3.13(a). The Collateral Agent is hereby authorized and directed to issue its checks or transfer funds electronically for each disbursement from the Restoration Account, upon receipt of a Restoration Certificate signed by an Authorized Representative of the Company. The Collateral Agent shall be entitled to rely on all certifications and statements in such Restoration Certificate.

(c) If an Event of Loss or an Event of Eminent Domain shall occur with respect to any Collateral, the Company shall (i) diligently pursue all its rights to compensation against any Person with respect to such Event of Loss or Event of Eminent Domain, (ii) in the reasonable judgment of the Company, compromise or settle any claim against any Person with respect to such Event of Loss or Event of Eminent Domain and (iii) hold all amounts of Casualty Proceeds or Eminent Domain Proceeds (including instruments) received in respect of any Event of Loss or Event of Eminent Domain (after deducting all reasonable expenses incurred by it in litigating, arbitrating, compromising or settling any claims) in trust for the benefit of the Collateral Agent segregated from other funds of the Company and will promptly transfer to the Collateral Agent for deposit in the Restoration Account such Casualty Proceeds or Eminent Domain Proceeds.

(d) If either an Event of Loss or an Event of Eminent Domain shall occur, as soon as reasonably practicable but no later than the date of receipt by the Company or the Collateral Agent of Eminent Domain Proceeds or Casualty Proceeds, as the case may be, the Company shall make a reasonable good faith determination as to whether (i) the Facility or any portion thereof can be rebuilt, repaired or restored to permit operation of the Facility or a portion thereof on a commercially feasible basis and (ii) the Casualty Proceeds or the Eminent Domain Proceeds, as the case may be, together with any other amounts that are available to the Company for such rebuilding, repair or restoration, are sufficient to permit such rebuilding, repair or restoration of the Facility or a portion thereof, including the making of all required payments of interest and principal on the Company's Debt during such rebuilding, repair or restoration. The determination of the Company shall be evidenced by a Certificate as to Redemption filed with the Collateral Agent which, in the event the Company determines that the Facility or a portion thereof can be rebuilt, repaired or restored to permit operation thereof on a commercially feasible basis and that the Casualty Proceeds or the Eminent Domain Proceeds, as the case may be, together with any other amounts that are available to the Company for such rebuilding, repair or restoration, are sufficient, shall also set forth a reasonable good faith estimate by the Company of the total cost of such rebuilding, repair or restoration. The Company shall deliver to the Collateral Agent at the time it delivers the Certificate as to Redemption referred to above a certificate of the Independent Engineer, dated the date of the Certificate as to Redemption, stating that, based upon reasonable investigation and review of the determination made by the Company, the Independent Engineer believes the determination and the estimate of the total cost set forth in the Certificate as to Redemption to be reasonable.

(e) (i) If, following an Event of Loss or an Event of Eminent Domain, the determination is made pursuant to Section 3.13(d) above that the Facility cannot be rebuilt, repaired or restored to permit operation on a commercially feasible basis or that the Casualty Proceeds or the Eminent Domain Proceeds, together with any other amounts that are available to the Company for such rebuilding, repair or restoration, are not sufficient to permit such rebuilding, repair or restoration, all of the Casualty Proceeds or the Eminent Domain Proceeds, as the case may be, shall be distributed in accordance with Section 4.2(a).

(ii) If, following an Event of Loss or an Event of Eminent Domain, the determination is made pursuant to Section 3.13(d) above that the entire Facility can be rebuilt, repaired or restored to permit operation on a commercially feasible basis and that the Casualty Proceeds or the Eminent Domain Proceeds, together with any other amounts that are available to the Company for such rebuilding, repair or restoration, are sufficient to permit such rebuilding, repair or restoration, all of the Casualty Proceeds or the Eminent Domain Proceeds, as the case may be, together with such other amounts as are available to the Company for such rebuilding, repair or restoration, shall be deposited in the Restoration Account in accordance with Section 3.13(a) and applied in accordance with Section 3.13(b).

(iii) If, following an Event of Loss or an Event of Eminent Domain, the determination is made pursuant to Section 3.13(d) above that a portion of the Facility can be rebuilt, repaired or restored to permit operation on a commercially feasible basis and that the Casualty Proceeds or the Eminent Domain Proceeds, together with any other amounts that are available to the Company for such rebuilding, repair or restoration, are sufficient to permit such rebuilding, repair or restoration, (A) an amount equal to the estimate of the total cost of such rebuilding, repair or restoration set forth in the Certificate as to Redemption filed with the Collateral Agent pursuant to Section 3.13(d) above shall be deposited in the Restoration Account in accordance with Section 3.13(a) and applied in accordance with Section 3.13(b) and (B) the amount, if any, by which all of the Casualty Proceeds or the Eminent Domain Proceeds, as the case may be, exceed the estimate of the total cost shall be distributed in accordance with Section 4.2(a).

(f) In the event the Company receives Casualty Proceeds or Eminent Domain Proceeds, as the case may be, from an Event of Loss or an Event of Eminent Domain that do not exceed in the aggregate \$5,000,000 during any Fiscal Year of the Company, the Company shall not have to comply with the provisions of Section 3.13(d) and the Casualty Proceeds or the Eminent Domain Proceeds, as the case may be, shall be deposited in the Restoration Account in accordance with Section 3.13(a) and applied in accordance with Section 3.13(b).

SECTION 3.14. Fuel Conversion Volume Rebate Account.

(a) The Fuel Conversion Volume Rebate Account may be funded from funds transferred by the Collateral Agent from the Revenue Account.

(b) Upon receipt of an Officer's Certificate of the Company detailing the amounts to be paid, funds in the Fuel Conversion Volume Rebate Account shall be transferred to the Power Purchaser as set forth in such Officer's Certificate within two (2) Business Days of receipt of such Officer's Certificate.

SECTION 3.15. Subordinated Debt Account.

(a) The Subordinated Debt Account may be funded from funds transferred by the Collateral Agent from the Revenue Account.

(b) Upon receipt of an Officer's Certificate of the Company detailing the amounts to be paid, funds in the Subordinated Debt Account shall be transferred to the appropriate Subordinated Debt Providers as set forth in such Officer's Certificate within two (2) Business Days of receipt of such Officer's Certificate.

ARTICLE IV

APPLICATION OF CERTAIN PROCEEDS

SECTION 4.1. Division of Foreclosure Proceeds.

(a) Following a foreclosure or other exercise of remedies following a Trigger Event, the proceeds of any sale, disposition or other realization by the Collateral Agent or by any Senior Party upon the Collateral (or any portion thereof) pursuant to the Security Documents shall be distributed in the following order of priorities:

first, to the Collateral Agent and the Trustee, ratably, all administrative fees, costs and expenses owed to such Parties under the Financing Documents; *provided*, that prior to any such distribution to the Trustee, the Collateral Agent shall have received a certificate signed by an Authorized Representative of the Trustee, in form and substance satisfactory to the Collateral Agent, setting forth the amount payable to the Trustee as of the date of such distribution;

second, to the Senior Parties, ratably (based on the amount owing to specified recipients), an amount equal to the unpaid amount of all Financing Liabilities owed to the Senior Parties by the Company; *provided*, that prior to any such distribution, the Collateral Agent shall have received a certificate executed by an Authorized Representative of each such Senior Party, in form and substance reasonably satisfactory to the Collateral Agent, setting forth the amount payable to such Senior Party pursuant to this clause as of the date of such distribution;

third, to any Subordinated Debt Providers, ratably, an amount equal to the unpaid obligations owed to such Subordinated Debt Providers by the Company under any Subordinated Loan Agreement; *provided*, that prior to any such distribution, the Collateral Agent shall have received a certificate executed by an Authorized Representative of each such Subordinated Debt Provider, in form and substance reasonably satisfactory to the Collateral Agent, setting forth the amount payable to such Subordinated Debt Provider pursuant to this clause as of the date of such distribution; and

fourth, to the Company (or its successors or assigns) or to whomever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, any surplus then remaining from such proceeds.

(b) As used in this Section 4.1, "proceeds" of Collateral shall mean cash, securities and other property realized in respect of, and distributions in kind of, Collateral, including any thereof received under any reorganization, liquidation or adjustment of Debt of the Company or any issuer of or obligor on any of the Collateral.

(c) The Collateral Agent shall, upon receipt of indemnity satisfactory to it, use reasonable efforts to join in any foreclosure or similar proceeding instituted by a junior lienor with respect to the Collateral. The Collateral Agent shall hold all proceeds of the Collateral received by it in connection with such proceeding instituted by a junior lienor and not consolidated with any action by the Collateral Agent on behalf of the Senior Parties pending application of such proceeds by the Collateral Agent in accordance with the written instructions of the Required Senior Parties.

SECTION 4.2. Application of Casualty Proceeds and Eminent Domain Proceeds.

(a) If the determination is made pursuant to Section 3.13(d) above that all or a portion of the Facility is incapable of being rebuilt, repaired or restored to permit operation on a commercially feasible basis, all Casualty Proceeds or Eminent Domain Proceeds received by the Collateral Agent shall be distributed by the Collateral Agent within five (5) Business Days of receipt in the following order of priorities:

first, to the Collateral Agent and the Trustee in an amount equal to the amounts owed in respect of the Collateral Agent Claims and the Trustee Claims, respectively, due and payable as of the date of such distribution; *provided*, that, prior to any such distribution to the Collateral Agent or the Trustee, the Collateral Agent shall have received a certificate signed by an Authorized Representative of the Trustee, in form and substance satisfactory to the Collateral Agent, setting forth the amount payable to the Trustee as of the date of such distribution;

second, to the Senior Parties, ratably (based on the amount owing to the specified recipients), an amount equal to the unpaid amount of all Financing Liabilities owed to or required to be deposited for the account of such Senior Parties, including the amount required to be applied to a mandatory redemption of the Bonds pursuant to the Indenture; *provided*, that prior to any such distribution the Collateral Agent shall have received a certificate executed by an Authorized Representative of each such Senior Party, in form and substance reasonably satisfactory to the Collateral Agent, setting forth the amount payable to such Senior Party pursuant to this clause as of the date of such distribution;

third, to the Subordinated Debt Providers, ratably, an amount equal to the unpaid amounts owed to or required to be deposited for the account of such Subordinated Debt Providers by the Company under any Subordinated Loan Agreement; *provided*, that prior to any such distribution, the Collateral Agent shall have received a certificate executed by an Authorized Representative of each such Subordinated Debt Provider, in form and substance reasonably satisfactory to the Collateral Agent, setting forth the amount payable to such Subordinated Debt Provider pursuant to this clause as of the date of such distribution; and

fourth, to the Company or their successors or assigns or to whomever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, any surplus then remaining from such proceeds.

ARTICLE V

COLLATERAL AGENT; DEPOSITARY BANK

SECTION 5.1. Appointment and Duties of Collateral Agent and Depositary Bank.

(a) The Senior Parties hereby designate and appoint The Bank of New York Mellon to act as the Collateral Agent under the Security Documents and this Agreement, and each of the Senior Parties hereby authorizes The Bank of New York Mellon, as the Collateral Agent, to take such actions on its behalf under the provisions of the Security Documents and this Agreement and to exercise such powers and perform such duties as are expressly delegated to the Collateral Agent by the terms of the Security Documents and this Agreement, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in the Security Documents and this Agreement, the Collateral Agent shall not have any duties or responsibilities, except those expressly set forth in the Security Documents and this Agreement, or any discretionary or fiduciary duties or responsibilities with any Senior Party under this Agreement or any other Security Documents, and no implied covenants, functions or responsibilities shall be read into the Security Documents, this Agreement or otherwise exist against the Collateral Agent. The Collateral Agent shall not be liable for any action taken or omitted to be

taken by it hereunder or under any Security Document, or in connection herewith or therewith, or in connection with the Collateral, unless caused by its gross negligence or willful misconduct.

(b) The Collateral Agent and each other Senior Party hereby designate and appoint The Bank of New York Mellon to act as the Depository Bank under this Agreement, and the Depository Bank hereby agrees to act as “securities intermediary” (within the meaning of Section 8-102(a)(14) of the UCC) with respect to the Project Accounts. The Company hereby acknowledges that the Depository Bank shall act as securities intermediary with respect to the Project Accounts and pursuant to this Agreement. The Depository Bank shall not have any duties or responsibilities except those expressly set forth in this Agreement.

(c) The Collateral Agent will give notice to the Senior Parties of any action taken, or notices received, hereunder or under any Security Document; notice of action taken shall be given prior to the taking of such action unless the Collateral Agent determines that to do so would be detrimental to the interest of the Senior Parties, in which event such notice shall be given promptly after the taking of such action.

(d) The Senior Parties agree that all liens and security interests in the Collateral securing the Secured Obligations shall be held in the name of the Collateral Agent and administered by and through the Collateral Agent and in accordance with this Agreement and the other Security Documents. If, as of the date hereof, or at any time in the future, any Senior Party at any time holds a lien or security interest on any Collateral in its own name, it agrees to assign it, without warranty or recourse, to the Collateral Agent (to be held by the Collateral Agent as the collateral agent for the Senior Parties). The Collateral Agent shall hold its security interests in and liens on the Collateral for the benefit of the Senior Parties as provided herein and in the Security Documents.

(e) Notwithstanding anything to the contrary in this Agreement or any Security Document, the Collateral Agent shall not be required to exercise any rights or remedies under any of the Security Documents or this Agreement or give any consent under any of the Security Documents or this Agreement or enter into any agreement amending, modifying, supplementing or waiving any provision of any Security Document unless it shall have been directed to do so in Senior Party Certificates of the Required Senior Parties.

SECTION 5.2. Rights of Collateral Agent.

(a) The Collateral Agent may execute any of its duties under the Security Documents or this Agreement by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties.

(b) Neither the Collateral Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it under or in connection with any Security Document or this Agreement (except for its gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Senior Parties for any recitals, statements, representations or warranties made in any Security Document or this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received by the Collateral Agent under or in connection with, any Security Document or this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of the Security Documents or this Agreement or for any failure of the Company or any other Person to perform their obligations thereunder. The Collateral Agent shall not be under any obligation to any Senior Party or any other Person to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, any Security Document or this Agreement, or to inspect the properties, books or records of the Company.

(c) The Collateral Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, request, direction, certificate, notice, consent, affidavit, letter, cablegram, telegram, teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and/or upon advice and/or statements of legal counsel (including, without limitation, counsel to the Company), independent accountants and other experts selected by the Collateral Agent. In connection with any request or direction of the Required Senior Parties, the Collateral Agent shall be entitled to rely, and shall be fully protected in relying on any Senior Party Certificate delivered by a Senior Party; *provided, however*, that in the event the Collateral Agent receives conflicting directions contained in Senior Party Certificates representing two or more groups of Required Senior Parties, the Collateral Agent shall act in accordance with directions contained in Senior Party Certificates representing the greatest percentage of the Combined Exposure. The Collateral Agent shall be fully justified in failing or refusing to take any action under any Security Document or this Agreement (i) if such action would, in the opinion of the Collateral Agent (which may be based on the opinion of legal counsel), be contrary to law or the terms of this Agreement or the other Security Documents, (ii) if such action is not specifically provided for in such Security Document or this Agreement or it shall not have received any such advice or concurrence of the Required Senior Parties as it deems appropriate, (iii) if, in connection with the taking of any such action hereunder or under any Security Document that would constitute an exercise of remedies under such Security Document or this Agreement, it shall not first be indemnified to its satisfaction by the Senior Parties (other than the Trustee in its individual capacity and the Collateral Agent) against any and all risk of nonpayment, liability and expense which may be incurred by it by reason of taking or continuing to take any such action or (iv) if, notwithstanding anything to the contrary contained in Section 5.2(e), in connection with the taking of any such action that would constitute a payment due under any Transaction Document, it shall not first have received from the Senior Parties funds equal to the amount payable. The Collateral Agent shall in all cases be fully protected in acting, or in refraining from acting, under any Security Document or this Agreement in accordance with a request of the Required Senior Parties contained in Senior Party Certificates, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Senior Parties.

(d) If, with respect to a proposed action to be taken by it, the Collateral Agent shall determine in good faith that the provisions of any Security Document or this Agreement relating to the functions or responsibilities or discretionary powers of the Collateral Agent are or may be ambiguous or inconsistent, the Collateral Agent shall notify the Senior Parties, identifying the proposed action, and may decline either to perform such function or responsibility or to take the action requested unless it has received the written confirmation of the Required Senior Parties executed by Authorized Representatives of such Persons that the Required Senior Parties concur in the circumstances that the action proposed to be taken by the Collateral Agent is consistent with the terms of this Agreement or such Security Document or is otherwise appropriate. The Collateral Agent shall be fully protected in acting or refraining from acting upon the confirmation of the Required Senior Parties in this respect, and such confirmation shall be binding upon the Collateral Agent and the other Senior Parties.

(e) The Collateral Agent shall not be deemed to have actual, constructive, direct or indirect knowledge or notice of the occurrence of any default

or Event of Default or any other event unless and until a Responsible Officer of the Collateral Agent has received a written notice or a certificate from an Authorized Representative of a Senior Party or the Company stating that a default or an Event of Default has occurred. The Collateral Agent shall have no obligation whatsoever either prior to or after receiving such notice or certificate to inquire whether a default or an Event of Default has in fact occurred and shall be entitled to rely conclusively, and shall be fully protected in so relying, on any notice or certificate so furnished to it. No provision of this Agreement or any other Security Document shall require the Collateral Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or under any Security Document or the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability including an advance of funds necessary to take the action requested is not reasonably assured to it, except that in respect of any potential environmental liability or the taking of title to any real property, the Collateral Agent may decline to act unless it receives indemnity satisfactory to it in its sole discretion, including, but not limited to, an advance of funds necessary to take the action requested. If the Collateral Agent receives such a notice of the occurrence of any Event of Default, the Collateral Agent shall give notice thereof to the Senior Parties. The Senior Parties shall provide evidence of satisfactory indemnity to the Collateral Agent for any action directed by the Required Senior Parties including, but not limited to, an advance of funds necessary to take the action requested. The Collateral Agent shall take such action with respect to such Event of Default as so requested pursuant to Section 2.3(a) subject, however, to the third sentence of this Section 5.2(e).

(f) The Company will pay upon demand to the Collateral Agent the amount of any and all reasonable fees and out-of-pocket expenses, including the reasonable fees and expenses of its counsel (and any one local counsel) and of any experts and agents, which the Collateral Agent may incur in connection with (i) the administration of this Agreement and the other Security Documents, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii) the exercise or enforcement (whether through negotiations, legal proceedings or otherwise) of any of the rights of the Collateral Agent or the Senior Parties hereunder or under the other Security Documents or (iv) the failure by the Company to perform or observe any of the provisions hereof or of any of the other Security Documents. The provision of this Section 5.2(f) shall survive the expiration or earlier termination of this Agreement.

SECTION 5.3. Lack of Reliance on the Collateral Agent.

Each of the Senior Parties expressly acknowledges that neither the Collateral Agent nor any of its officers, directors, employees, agents or attorneys-in-fact has made any representations or warranties to it and that no act by the Collateral Agent hereafter taken, including, without limitation, any review of the Facility or of the affairs of the Company, shall be deemed to constitute any representation or warranty by the Collateral Agent to any Senior Party. Each Senior Party (other than the Trustee) represents to the Collateral Agent that it has, independently and without reliance upon the Collateral Agent or any other Senior Party, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Facility and the Company. Each Senior Party (other than the Trustee) also represents that it will, independently and without reliance upon the Collateral Agent or any other Senior Party, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Facility and the Company. Except for notices, reports and other documents expressly required to be furnished to the Senior Parties by the Collateral Agent hereunder, the Collateral Agent shall not have any duty or responsibility to provide any Senior Party with any credit or other information concerning the business, operations, property, financial and other condition or creditworthiness of the Facility and the Company which may come into the possession of the Collateral Agent or any of its officers, directors, employees, agents or attorneys-in-fact.

SECTION 5.4. Indemnification.

(a) The Senior Parties (other than the Collateral Agent) severally agree to indemnify the Collateral Agent in its capacity as such and in its individual capacity (to the extent not reimbursed by the Company and without limiting the obligation of the Company to do so), ratably according to the aggregate amounts of their respective Secured Obligations on the date the activities giving rise to the Collateral Agent's demand for indemnification occurred, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time be imposed on, incurred by or asserted against the Collateral Agent in its capacity as such and in its individual capacity in any way relating to or arising out of the Security Documents or this Agreement, or the performance of its duties as Collateral Agent hereunder or thereunder or any action taken or omitted by the Collateral Agent in its capacity as such under or in connection with any of the foregoing (including, but not limited to, any claim that the Collateral Agent is the owner or operator of the Facility and liable as such pursuant to the Comprehensive Environmental Response, Compensation and Liability Act or any other Environmental Requirement); *provided*, that the Senior Parties shall not be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements to the extent that any of the foregoing result from the Collateral Agent's gross negligence or willful misconduct. The agreements in this Section 5.4 shall survive the payment or satisfaction in full of the Secured Obligations or any other termination of this Agreement.

(b) The Company agrees to indemnify the Collateral Agent and each Senior Party from and against any and all claims, losses and liabilities growing out of or resulting from (i) any Security Document or this Agreement (including, without limitation, enforcement of such Security Document, but excluding any such claims, losses or liabilities resulting from the Collateral Agent's or such Senior Party's gross negligence or willful misconduct) or (ii) any refund or adjustment of any amount paid or payable to the Collateral Agent or any Senior Party under or in respect of any Transaction Document or any other Collateral, or any interest thereon, which may be ordered or otherwise required by any Person. The agreements under this Section 5.4(b) shall survive the payment in full of any secured obligation or termination of this Agreement or any other Security Document.

SECTION 5.5. Resignation of the Collateral Agent or Depository Bank.

(a) Either of the Collateral Agent or Depository Bank may resign its appointment hereunder at any time without providing any reason therefor by giving not less than 60 days' prior written notice to that effect to each of the other parties hereto, provided that no such resignation pursuant to this Section 5.5 or removal pursuant to Section 5.6 shall be effective until:

(i) a successor for the Collateral Agent or Depository Bank is appointed in accordance with (and subject to) the succeeding provisions of this Section 5.5;

(ii) the resigning or removed Collateral Agent or Depository Bank has transferred to its successor all of its rights and obligations in its capacity as Collateral Agent or Depository Bank under this Agreement and the other Transaction Documents; and

(iii) the successor Collateral Agent or Depository Bank has executed and delivered an agreement to be bound by the terms hereof and the other Transaction Documents and perform all duties required of the Collateral Agent or Depository Bank hereunder and under the other Transaction Documents.

(b) If the Collateral Agent or Depository Bank has given notice of its resignation pursuant to this Section 5.5 or if the Required Senior Parties give the Collateral Agent, or the Collateral Agent gives the Depository Bank, notice of removal pursuant to Section 5.6, then a successor to the Collateral Agent or Depository Bank may be appointed by the Required Senior Parties during the period of such notice but, if no such successor is so appointed within sixty (60) days after the above notice, the Collateral Agent or Depository Bank may appoint such a successor which (i) is authorized under the laws of its jurisdiction of formation to exercise corporation trust powers, (ii) shall have a combined capital and surplus of at least U.S.\$250,000,000 and (iii) shall be acceptable to the Required Senior Parties (*provided*, that if the Required Senior Parties do not confirm such acceptance or reject such appointee in writing within thirty (30) days following selection of such successor by the Collateral Agent or Depository Bank, then they shall be deemed to have given acceptance thereof and such successor shall be deemed appointed as the Collateral Agent or Depository Bank hereunder by and on behalf of the Senior Parties).

(c) If a successor to the Collateral Agent or Depository Bank is appointed under the provisions of clauses (a) or (b) above, then:

(i) the predecessor Collateral Agent or Depository Bank shall be discharged from any further obligation hereunder (but without prejudice to any accrued liabilities);

(ii) the predecessor Collateral Agent or Depository Bank's resignation pursuant to this Section 5.5 or removal pursuant to Section 5.6 notwithstanding, the provisions of this Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it under this Agreement and the other Transaction Documents while it was acting as the Collateral Agent or Depository Bank; and

(iii) the successor Collateral Agent or Depository Bank and each of the other parties hereto shall have the same rights and obligations amongst themselves as they would have had if such successor Collateral Agent or Depository Bank had been an original party hereto.

SECTION 5.6. Removal of the Collateral Agent or Depository Bank.

The Required Senior Parties may remove the Collateral Agent from its appointment hereunder, and the Collateral Agent may remove the Depository Bank hereunder, in each case with or without cause by giving not less than 60 days' prior written notice to that effect to the Collateral Agent (or to the Depository Bank, as the case may be); *provided*, that no such removal shall be effective until a successor for the Collateral Agent (or the Depository Bank, as the case may be) is appointed in accordance with Section 5.5.

SECTION 5.7. Merger, Conversion, Consolidation or Succession to Business.

Any corporation or bank into which the Collateral Agent may be merged or converted or with which it may be consolidated, or any corporation or bank resulting from any merger, conversion or consolidation to which the Collateral Agent shall be a party, or any corporation or bank succeeding to all or substantially all of the corporate trust business of the Collateral Agent, shall be the successor of the Collateral Agent hereunder, provided such corporation or bank shall be otherwise qualified and eligible under this Article V, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

SECTION 5.8. Power of Attorney.

Each Senior Party (other than the Collateral Agent) hereby gives a power of attorney, coupled with an interest, to the Collateral Agent and appoints, makes, constitutes and designates the Collateral Agent its true and lawful attorney-in-fact, subject to Section 5.1, to consent on its behalf under the Security Documents and the other Transaction Documents to which the Collateral Agent is a party to the extent that the consent of the Required Senior Parties (whether or not acting through the Collateral Agent) is required under any agreement and upon the instructions of the Required Senior Parties acting pursuant to this Agreement, and to take such actions on its behalf under the provisions of such agreements as are reasonably incidental thereto, to execute and deliver in the name of and on behalf of, or in its own name, as the case may be, all documents required to be executed by such Senior Party (in its capacity as such) in connection therewith and to do, take and perform each and every act and thing whatsoever requisite, proper or necessary to be done, in the exercise of any of the rights and powers herein granted, as fully to all intents and purposes as such Senior Party (in its capacity as such) might or could do, with full power of substitution or revocation, hereby ratifying and confirming all that such attorney-in-fact, or its substitute or substitutes, shall lawfully do or cause to be done by virtue of this power of attorney and the rights and powers herein granted; *provided*, that the Collateral Agent shall not so consent or take such other actions other than in accordance with this Agreement, the Security Documents and the other Transaction Documents to which the Collateral Agent is a party. The enumeration of specific items, rights, acts or powers herein does not limit or restrict and is not intended to limit or restrict, and is not to be construed or interpreted as limiting or restricting, the powers herein granted to such attorney-in-fact. The rights, power and authority of such attorney-in-fact herein granted shall commence and be in full force and effect on the date hereof, and such rights, powers and authority shall remain in full force and effect thereafter until this Agreement is terminated or until the Collateral Agent's resignation or removal hereunder.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

SECTION 6.1. Representations and Warranties.

(a) The Company hereby makes the following representations and warranties as of the date hereof with respect to itself for the benefit of the Senior Parties:

(i) The Company (A) is a limited liability corporation duly formed, validly existing and in good standing under the laws of the State of Delaware and (B) is duly authorized, to the extent necessary, to do business in the Commonwealth of Pennsylvania and in each other jurisdiction where the character of its properties or the nature of its activities makes such qualification necessary, except to the extent any failure could not reasonably be expected to have a Material Adverse Effect. The Company has all requisite power and authority to own and operate the property it purports to own and to carry on its business as now being conducted and as proposed to be conducted in respect of the Facility.

(ii) The Company has all necessary power and authority to execute, deliver and perform its obligations under this Agreement. All action on the part of the Company that is required for the authorization, execution, delivery and performance of this Agreement, in each case has been duly and effectively taken; and the execution, delivery and performance of this Agreement does not require the approval or consent of any holder or trustee of any debt or other obligations of the Company which has not been obtained.

(iii) This Agreement has been duly executed and delivered by the Company. This Agreement constitutes a legal, valid and binding obligation of the Company enforceable against them in accordance with the terms thereof, except as such enforceability (A) may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights and remedies generally and (B) is subject to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

(iv) Neither the execution, delivery and performance of this Agreement nor the consummation of any of the transactions contemplated hereby nor performance of or compliance with the terms and conditions hereof (A) contravenes any material requirement of Applicable Law applicable to the Company or any of the Collateral which contravention would reasonably be expected to have a Material Adverse Effect, (B) constitutes a default under or results in the violation of the provisions of the certificate of formation or operating agreement, or of any Transaction Documents that would reasonably be expected to have a Material Adverse Effect or (C) results in the creation or imposition of any Liens (other than Permitted Liens) on any of the Collateral under, or results in the acceleration of, any obligation.

(v) Other than as set forth in the Indenture, there are no actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending against the Company or, to the best of the Company's knowledge, threatened against the Company or any property or other assets or rights of the Company or with respect to this Agreement that would reasonably be expected to have a Material Adverse Effect.

(b) The Trustee hereby makes the following representations and warranties as of the date hereof with respect to itself and for the benefit of the Collateral Agent and the Depository Bank:

(i) It is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and is duly qualified to do business in, and is in good standing in all jurisdictions where the nature of its business makes such qualification necessary, except where the failure to effect such qualification would not have a material adverse effect upon its ability to perform its obligations pursuant to this Agreement or the Indenture to which it is a party.

(ii) It has all necessary corporate power to execute, deliver and perform under this Agreement and the Indenture. All action on its part that is required for the authorization, execution, delivery and performance of this Agreement and the Indenture has been duly and effectively taken; and the execution, delivery and performance of this Agreement and the Indenture do not require the approval or consent of any shareholder or the holder or trustee of any debt or other obligations which has not been obtained.

(iii) This Agreement and the Indenture have been duly executed and delivered by the Trustee and constitute the legal, valid and binding obligation of the Trustee, enforceable against the Trustee in accordance with the terms thereof, except as such enforceability (A) may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights and remedies generally and (B) is subject to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

(iv) Neither the execution, delivery and performance of this Agreement and the Indenture nor the consummation of any of the transactions contemplated hereby or thereby nor performance of or compliance with the terms and conditions hereof or thereof (A) contravenes any material Applicable Law to such Person or (B) constitutes a default under or results in the violation of the provisions in the charter, certificate of incorporation or by-laws of such Person or of any indenture, loan or credit agreement or any other agreement, lease, instrument or document to which such Person is a party or by which it or its properties may be bound.

(v) There are no actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the best of such Person's knowledge, threatened which could reasonably be expected to have a material and adverse effect on the performance by such Person of its obligations hereunder or under the Indenture or which questions the validity, binding effect or enforceability hereof or of the Indenture, any action to be taken pursuant hereto or thereto or any transactions contemplated hereby or thereby.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1. Agreement for Benefit of Parties Hereto.

Nothing in this Agreement, express or implied, is intended or shall be construed to confer upon, or to give to, any Person other than the parties hereto

and their respective successors and assigns, any right, remedy or claim under or by reason of this Agreement or any covenant, condition or stipulation hereof; and the covenants, stipulations and agreements contained in this Agreement are and shall be for the sole and exclusive benefit of the parties hereto and their respective successors and assigns.

SECTION 7.2. No Warranties.

Except as otherwise expressly provided herein, the Senior Parties have not made to each other nor do they hereby or otherwise make to each other any warranties, express or implied, nor do they assume any liability to each other with respect to the enforceability, validity, value or collectability of the Collateral (or any portion thereof). No Senior Party shall be liable to any other Senior Party for any action or failure to act or any error of judgment, negligence, or mistake, or oversight whatsoever on the part of any Senior Party or any Senior Party's agents, officers, employees or attorneys with respect to any transaction relating to any of the notes or agreements evidencing or entered into with respect to any of the Secured Obligations or any security therefor.

SECTION 7.3. Severability.

In case any one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected and/or impaired thereby.

SECTION 7.4. Notices.

All notices, demands, certificates or other communications hereunder shall be in writing and shall be deemed sufficiently given or served for all purposes when delivered personally, when sent by certified or registered mail, postage prepaid, return receipt requested or by private courier service, or, if followed and confirmed by mail or courier service notice, when telecopied, in each case, with the proper address as indicated below. Each party may, by written notice given to the other parties, designate any other address or addresses to which notices, certificates or other communications to them shall be sent as contemplated by this Agreement. Until otherwise so provided by the respective parties, all notices, certificates and communications to each of them shall be addressed as follows:

Company: PPL Ironwood, LLC
829 Cumberland Street
Lebanon, PA 17042
Attention: Project Manager
Facsimile: 717-228-1271

Trustee: The Bank of New York Mellon
101 Barclay Street, 4W
New York, NY 10286
Attention: Corporate Trust Administration
Facsimile: 212-815-5596

Collateral Agent: The Bank of New York Mellon
101 Barclay Street, 4W
New York, NY 10286
Attention: Corporate Trust Administration
Facsimile: 212-815-5596

Depository Bank: The Bank of New York Mellon
101 Barclay Street, 4W
New York, NY 10286
Attention: Corporate Trust Administration
Facsimile: 212-815-5596

SECTION 7.5. Successors and Assigns.

Whenever in this Agreement any party hereto is named or referred to, the successors and assigns of such party shall be deemed to be included and all covenants, promises and agreements in this Agreement by or on behalf of the respective parties hereto shall bind and inure to the benefit of the respective successors and assigns of such parties, whether so expressed or not.

SECTION 7.6. Counterparts.

This Agreement may be executed in any number of counterparts, each executed counterpart constituting an original but all counterparts together constituting only one instrument.

SECTION 7.7. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York applicable to contracts made and to be performed in such state. All terms used herein which are not defined herein and are defined in the UCC shall have the meanings therein stated, unless the context otherwise requires.

SECTION 7.8. Impairments of Other Rights.

Subject to Section 7.13, nothing in this Agreement is intended or shall be construed to impair, diminish or otherwise adversely affect any other rights the Senior Parties may have or may obtain against the Company pursuant to the Financing Documents.

SECTION 7.9. Amendment: Waiver.

No amendment, modification or supplement of this Agreement shall be effective unless such amendment, modification or supplement was effected in accordance with this Agreement. Any approval of an amendment to, or any waiver of any provision of, this Agreement shall be effective only in the specific instance and for the specific purpose for which such approval or waiver is given. No delay on the part of any Senior Party in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial waiver by such Senior Party of any right, power or remedy preclude any further exercise thereof, or the exercise of any other right, power or remedy.

SECTION 7.10. Headings.

Headings herein are for convenience only and shall not be relied upon in interpreting or enforcing this Agreement.

SECTION 7.11. Termination.

This Agreement shall remain in full force and effect until payment in full of all the Financing Liabilities and termination of the Financing Commitments. Following the Senior Debt Termination Date, this Agreement shall continue in full force and effect among the Company, the Subordinated Debt Providers, and the Collateral Agent, and the Subordinated Debt Providers shall have all powers, duties and obligations granted hereunder to the Senior Parties or the Senior Parties as if it were a Senior Party.

SECTION 7.12. Entire Agreement.

This Agreement, including the documents referred to herein, embodies the entire agreement and understanding of the parties hereto and supersedes all prior agreements and understandings of the parties hereto relating to the subject matter herein contained.

SECTION 7.13. Limitation of Liability.

Satisfaction of the obligations of the Company under this Agreement and each other Financing Documents, for the payment of the principal of or premium, if any, or interest on any Financing Liability, or any part thereof, or for any claim based thereon or otherwise in respect thereof or related thereto, shall be had solely from the Collateral and the assets of the Company and no recourse shall be had in the event of any non-performance by the Company of any such obligations to (i) any assets or properties of the Members (or any Person that controls any Member within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) or (ii) any Affiliate of the Company or any incorporators, officers, directors or employees thereof, and no judgment for any deficiency upon the obligations of the Company under this Agreement or any other Financing Document, for the payment of the principal of or premium, if any, or interest on any Financing Liability, or any part thereof, or for any claim based thereon or otherwise in respect thereof or related thereto, shall be obtainable by the Senior Parties or any of them against any Member or Affiliate of the Company or any other incorporator, stockholder, officer, employee or director, past, present or future of the Company or any Affiliate of the Company; *provided, however*, that nothing contained herein shall prevent the taking of any action permitted by law against the Company or any of its Affiliates, or in any way affect or impair the rights of the Trustee or Bondholders to take any action permitted by law, in either case to realize upon the Collateral and; *provided, further*, that nothing herein shall be deemed to affect the obligations of any Affiliate of the Company under any Transaction Document to which such Affiliate is a party.

SECTION 7.14. Replacement and/or Removal of Independent Engineer; Payment of Independent Engineer .

The Company shall in accordance with Section 1 of the Independent Engineer Agreement, have the right to replace the then current Independent Engineer at the expiration of the then current term of the Independent Engineer Agreement and shall appoint a successor Independent Engineer from the engineers listed on Exhibit 7.14. The Collateral Agent shall, upon receipt of a written request contained in Senior Party Certificates of the Required Senior Parties, remove the Independent Engineer if at any time the Independent Engineer becomes incapable of acting or is, or is reasonably likely to be, adjudged bankrupt or insolvent or a receiver is appointed for, or any public officer shall take charge or control of, the Independent Engineer or its property or its affairs for the purpose of rehabilitation, conservation or liquidation, and shall appoint a successor Independent Engineer from those engineers then listed on Exhibit 7.14. Within thirty (30) days of receipt by the Collateral Agent of a written notification from the Company to the effect that the Independent Engineer has failed to carry out its obligations in a timely manner, the Collateral Agent shall, unless directed in Senior Party Certificates of the Required Senior Parties not to do so, remove the Independent Engineer and appoint a successor Independent Engineer from those engineers then listed on Exhibit 7.14. The Company shall pay for all services performed by the Independent Engineer and its reasonable costs and expenses related thereto.

SECTION 7.15. Third-Party Engineer Dispute Resolution.

(a) If the Company and the Independent Engineer are in dispute in respect of a notice, plan, report, certificate or budget and they are unable to resolve the dispute within seven (7) days of the Independent Engineer expressing its disagreement with such notice, plan, report, certificate or budget, a single independent engineer (the “**Third-Party Engineer**”) shall be designated to consider and decide the issues raised by such dispute. The selection of such Third-Party Engineer shall be made from the list of engineers described below, the initial version of which is attached as Exhibit 7.14. The Company, as the case may be, shall designate the Third-Party Engineer from such list not later than the third (3rd) day following the expiration of the seven (7) day period described above and such designation shall become effective in three (3) days. Within three (3) days of the designation of a Third-Party Engineer, each of the Company and the Independent Engineer shall submit to the Third-Party Engineer a notice setting forth in detail such Person’s position in respect of the issues in dispute. Such notice shall include supporting documentation, if appropriate.

(b) The Third-Party Engineer shall complete all proceedings and issue his decision with regard to the issues in dispute as promptly as reasonably possible, but in any event within ten (10) days of the date on which he is designated as the Third-Party Engineer unless the Third-Party Engineer

reasonably determines that additional time is required in order to give adequate consideration to the issues raised. In such case the Third-Party Engineer shall state in writing his reasons for believing that additional time is needed and shall specify the additional period required, which such period shall not exceed ten (10) days without the Company's agreement.

(c) If the Third-Party Engineer determines that the position set forth in the Independent Engineer's notice is correct, it shall so state and shall state the corrective actions to be taken by the Company. In such case, the Company shall promptly take such actions. The Company shall thereafter bear all costs which may arise from actions taken pursuant to the Third-Party Engineer's decision. If the Third-Party Engineer determines that the position set forth in the Independent Engineer's notice is not correct, it shall so state and shall state the appropriate actions to be taken by the Company. In such case, the Company shall take such actions and for purposes of the Financing Documents, the Independent Engineer and the Collateral Agent shall be deemed to have approved, confirmed, concurred in or consented to the notice, plan, report, certificate or budget in dispute. The decision of the Third-Party Engineer shall be final and non-appealable. The Company shall bear all reasonable costs incurred by the Third-Party Engineer in connection with this dispute resolution mechanism.

(d) The Third-Party Engineer shall be chosen from the list of qualified engineers set forth in Exhibit 7.14. Such list shall be used by the Collateral Agent (upon written direction of the Required Senior Parties) to choose a successor Independent Engineer as well. At any time either the Company or the Collateral Agent (upon written direction of the Required Senior Parties) may remove a particular engineer from the list by obtaining the other Person's reasonable consent to such removal. However, neither the Company nor the Collateral Agent may remove a name or names from the list if such removal would leave the list without at least two (2) names, unless, concurrently therewith, the Company and the Collateral Agent (upon direction of the Required Senior Parties) reasonably agree to the addition of one (1) or more names to such list.

(e) During January of each year, each of the Company and the Collateral Agent (upon direction of the Required Senior Parties) shall review the current list of Third-Party Engineers and give notice to the other of any proposed additions to the list and any intended deletions. Intended deletions shall automatically become effective forty-five (45) days after notice is received by the other Person unless written objection is made by such other Person within thirty (30) days and provided that such deletions do not leave the list without at least two (2) names. Proposed additions to the list shall automatically become effective thirty forty-five (45) after notice is received by the other Person unless written objection is made by such other Person within thirty (30) days. By mutual agreement between the Company and the Collateral Agent (upon direction of the Required Senior Parties), a new name or names may be added to the list of Third-Party Engineers at any time.

[Remainder of This Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Collateral Agency Agreement to be duly executed by their respective officers thereunto duly authorized, as of the day and year first above written.

PPL Ironwood, LLC

By: _____
Name:
Title:

The Bank of New York Mellon, as Trustee

By: _____
Name:
Title:

The Bank of New York Mellon,
as Collateral Agent

By: _____
Name:
Title:

The Bank of New York Mellon,
as Depository Bank

By: _____
Name:
Title:

[A&R Collateral Agency Agreement]

EXHIBIT 2.1

FORM OF DESIGNATION LETTER

[Date]

The Bank of New York Mellon

[_____]

Re: PPL Ironwood Project

Ladies and Gentlemen:

Reference is made to the Amended and Restated Collateral Agency Agreement (the “**Collateral Agency Agreement**”) dated as of February 12, 2013 among PPL Ironwood L.L.C. (the “**Company**”), The Bank of New York Mellon, as Trustee, The Bank of New York Mellon, as Collateral Agent, and The Bank of New York Mellon, as Depository Bank. Capitalized terms used herein and not defined herein shall have the meanings set forth in the Collateral Agency Agreement.

The Company and the undersigned have agreed that the undersigned shall be [an additional Lender] [the Agent for additional Lenders] under the Collateral Agency Agreement ([each such Lender,] an “**Additional Lender**”) under the [*describe new debt document*].

The undersigned is delivering this Designation Letter pursuant to the Collateral Agency Agreement in order to permit (i) [the undersigned] [each Additional Lender] to become a [Senior] [Subordinated] Party thereunder and (ii) the undersigned [and the Additional Lender] to become secured parties under the Collateral Agency Agreement and the other Financing Documents and to benefit from the Collateral under the other Security Documents in accordance with the terms of the Collateral Agency Agreement and the other Security Documents.

Attached hereto is a copy of the Collateral Agency Agreement.

The undersigned [on behalf of itself and the Additional Lenders] accedes to and agrees to be bound by all of the terms and provisions of the Collateral Agency Agreement, the Security Documents and the other Financing Documents. You are hereby instructed to deliver a copy of this Designation Letter to each Person party to the Collateral Agency Agreement.

Our address for notices is:

[Insert information]

Our wire transfer instructions are:

[Insert Information]

[*Insert in the case of Additional Lenders that are to be Subordinated Debt Providers only:* Attached hereto as Annex A are the Terms of Subordination set forth in the Collateral Agency Agreement, and the undersigned [on behalf of the Additional Lenders] agrees that such Terms of Subordination shall be incorporated herein and that [it] [the Additional Lenders] shall be bound by the terms thereof.] If there is any conflict between such Terms of Subordination and the lending documents between the Company and the undersigned, such Terms of Subordination shall govern.

This Designation Letter may be executed in any number of counterparts, each executed counterpart constituting an original but all counterparts together constituting only one instrument.

THIS DESIGNATION LETTER SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK EXCLUDING (TO THE GREATEST EXTENT A NEW YORK COURT WOULD PERMIT) ANY RULE OF LAW THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF NEW YORK.

[ADDITIONAL LENDER]

By: _____

Name:

Title:

Acknowledged:

PPL Ironwood, LLC

By: _____

Name:
Title:

Acknowledged:

The Bank of New York Mellon,
as Collateral Agent

By:

Name:
Title:

EXHIBIT 2.2

TERMS OF SUBORDINATION

Reference is made herein to a certain Amended and Restated Collateral Agency Agreement, dated as of February 12, 2013 (as amended and in effect from time to time, the “**Collateral Agency Agreement**”), entered into among The Bank of New York Mellon, as Collateral Agent (in such capacity, together with its successors and permitted assigns in such capacity, the “**Collateral Agent**”), The Bank of New York Mellon, (in such capacity, together with its successors and permitted assigns in such capacity, the “**Depository Bank**”), The Bank of New York Mellon, as Trustee under the Indenture named therein, on its own behalf and on behalf of the Bondholders described therein (in such capacity, together with its successors and permitted assigns in such capacity, the “**Trustee**”), the other Senior Parties identified therein, the Subordinated Debt Providers referred to therein, and PPL Ironwood, LLC (the “**Company**”). Capitalized terms used but not defined herein shall have the respective meanings ascribed thereto in the Collateral Agency Agreement, the terms of which are incorporated herein.

(i) Subordination of Subordinated Obligations. The Company, for itself and its successors and assigns, covenants and agrees, and each Subordinated Debt Provider that has entered into these Terms of Subordination set forth in this annex or appendix (the “**Terms of Subordination**”), who then through the incorporation of these terms into an executed agreement or otherwise, on its own behalf and on behalf of each subsequent holder of the Subordinated Obligations (defined below), likewise covenants and agrees, that, to the extent and in the manner set forth in these Terms of Subordination, the Subordinated Debt, whether of principal of and interest and premium (including any Make-Whole Premium) or prepayment or liquidation penalty (if any) on the Subordinated Debt and fees and expenses incurred in enforcement of the same (collectively, the “**Subordinated Obligations**”), are hereby expressly made subordinate and subject in right of payment to the prior payment in full in cash of all obligations in respect of Senior Debt, whether of principal, interest or premium (including any Make-Whole Premium), if any, and fees and expenses incurred in the enforcement of the same and the fees, expenses and indemnities to be paid to the Collateral Agent and the Depository Bank pursuant to the Collateral Agency Agreement (collectively, the “**Senior Obligations**”); *provided, however,* that nothing in these Terms of Subordination shall be deemed to prohibit any Subordinated Debt Provider from receiving payments in accordance with the terms of the Collateral Agency Agreement, including but not limited to Article IV thereof

(ii) Payment of Proceeds Upon Dissolution. In the event of (i) any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relative to the Company or to its creditors, as such, or to its assets, or (ii) any liquidation, dissolution or other winding up of the Company, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (iii) any assignment for the benefit of creditors or any other marshalling of assets and liabilities of the Company, then and in any such event:

(A) the Senior Parties shall be entitled to receive payment in full in cash of all amounts due or to become due on or in respect of all Senior Obligations, or provision shall be made for such payment, before any Subordinated Debt Provider shall be entitled to receive any payment of the Subordinated Obligations;

(B) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, by set-off or otherwise, to which any Subordinated Party would be entitled but for the provisions of these Terms of Subordination, including any such payment or distribution that may be payable or deliverable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Subordinated Obligations, shall be paid by the liquidating trustee or agent or other Person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, to the Collateral Agent for distribution in accordance with the terms of the Collateral Agency Agreement.

(C) if, notwithstanding the foregoing provisions of this clause (ii) of these Terms of Subordination, any Subordinated Debt Provider shall have received, before all Senior Obligations are paid in full in cash or payment thereof provided for, any such payment or distribution of assets of the Company of any kind or character, whether in cash; property or securities, including any such payment or distribution arising out of the exercise by any Subordinated Debt Provider of a right of set-off or counterclaim and any such payment or distribution received by reason of any other indebtedness of the Company being subordinated to the Subordinated Obligations, then, and in such event, such payment or distribution shall be held in trust for the benefit of, and shall be immediately paid over or delivered to, the Collateral Agent for distribution in accordance with the terms of the Collateral Agency Agreement; and

(D) if any Subordinated Debt Provider shall have failed to file claims or proofs of claim with respect to the Subordinated Obligations earlier than [15] days prior to the deadline for any such filing, the Subordinated Debt Provider shall execute and deliver to the Senior Parties such powers of attorney, assignments or other instruments as the Required Senior Parties may reasonably request to file such claims or proofs of claim.

The consolidation of the Company with, or the merger of the Company into, another entity or the liquidation or dissolution of the Company following the conveyance or transfer of its properties and assets substantially as an entirety to another entity upon the terms and conditions set forth in the Indenture or the correlative provisions of any other Financing Document shall not be deemed a dissolution, winding up, liquidation, reorganization, assignment for the benefit of creditors or marshalling of assets and liabilities of the Company for purposes of these Terms of Subordination if the entity formed by such consolidation or into which the Company is merged or the entity that acquires by conveyance or transfer such properties and assets substantially as an entirety, as the case may be, shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions set forth in the Indenture or such correlative provisions of any other Financing Document.

(iii) No Payment. Each Subordinated Debt Provider hereby agrees that, unless and until the Senior Obligations shall have been paid in full in cash, (i) no payment on account of the Subordinated Obligations or any judgment with respect thereto (and no payment on account of the purchase or redemption or other acquisition of the Subordinated Obligations) shall be made by the Company or by the Collateral Agent or the Depository Bank on behalf of the Company and (ii) no Subordinated Debt Provider shall (A) ask, demand, sue for, take or receive from the Company, by set-off or in any other manner, or (B) seek any other remedy allowed at law or in equity against the Company for breach of the Company’s obligations under the instruments representing such Subordinated Obligations, *provided* that nothing herein shall be deemed to prohibit payment of any of the Subordinated Obligations on any day that,

under the terms thereof, is a scheduled payment date to the extent expressly permitted by the Collateral Agency Agreement and the correlative provisions of any other Financing Document and solely to the extent of available funds.

In the event that, notwithstanding the foregoing provisions of this clause (iii) of these Terms of Subordination, any Subordinated Debt Provider shall have received any payment prohibited by the foregoing provisions of this clause (iii) including, without limitation, any such payment arising out of the exercise by any Subordinated Debt Provider of a right of set-off or counterclaim and any such payment received by reason of other indebtedness of the Company being subordinated to the Subordinated Obligations, then, and in any such event, such payment shall be held in trust for the benefit of, and shall be immediately paid over or delivered to, the Collateral Agent for application in accordance with the Collateral Agency Agreement.

The provisions of this clause (iii) of these Terms of Subordination shall not alter the rights of the Senior Parties under the provisions of clause (ii) of these Terms of Subordination.

(iv) Subrogation. Subject to the payment in full in cash of all Senior Obligations, the Subordinated Debt Providers shall be subrogated equally and ratably with the holders of all indebtedness of the Company that by its express terms is subordinated to Senior Obligations of the Company to the same extent as the Subordinated Obligations are subordinated and that is entitled to like rights of subrogation) to the rights of the Senior Parties to receive payments and distributions of cash, property and securities applicable to the Senior Obligations until the Subordinated Obligations shall be paid in full in cash. For purposes of such subrogation, no payments or distributions to the Senior Parties of any such, property or securities to which any Subordinated Debt Provider would be entitled except for the provisions of these Terms of Subordination, and no payments over pursuant to the provisions of these Terms of Subordination to the Senior Parties by any Subordinated Debt Providers, shall be deemed to be a payment or distribution by the Company to or on account of the Senior Obligations.

(v) Provisions Solely to Define Relative Rights. The provisions of these Terms of Subordination are and are intended solely for the purpose of defining the relative rights of the Subordinated Debt Providers on the one hand and the Senior Parties and the Collateral Agent on the other hand. Nothing contained in these Terms of Subordination or elsewhere in any of the Financing Documents relating to the Subordinated Obligations is intended to or shall:

(A) affect, as among the Company, its creditors other than the Senior Parties and the Subordinated Debt Providers, the obligation of the Company to pay to the Subordinated Debt Providers, the Subordinated Obligations as and when the same shall become due and payable in accordance with their terms;

(B) affect the relative rights against the Company of the Subordinated Debt Providers and creditors of the Company other than the Senior Parties;

(C) vitiate the occurrence of an "Event of Default" under the Indenture or the correlative provisions of any other Financing Document to the extent that any failure to make a payment of principal of, or interest on, any Subordinated Obligations by reason of the conditions specified in clause (ii) or (iii) of these Terms of Subordination would otherwise constitute such an Event of Default; or

(D) prevent any Subordinated Debt Provider from exercising all remedies otherwise permitted by Applicable Law upon default under any of the Financing Documents relating to the Subordinated Obligations, subject to the rights, if any, under these Terms of Subordination of the Senior Parties, (i) in the event of any proceeding, dissolution, liquidation or other winding up, assignment for the benefit of creditors or other-marshalling of assets and liabilities of the Company referred to in clause (ii) of these Terms of Subordination, to receive, pursuant to and in accordance with such clause (ii), cash, property and securities otherwise payable or deliverable to the Subordinated Debt Providers, or (ii) under the conditions specified in clause (iii) of these Terms of Subordination, to prevent any payment or action prohibited by such clause (iii).

(vi) No Waiver of Subordination Provisions. No right of any present or future Senior Party or the Collateral Agent to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by, such Senior Party, or by any non-compliance by the Company with the terms, provisions and covenants of these Terms of Subordination, regardless of any knowledge thereof such Senior Party may have or be otherwise charged with.

Without in any way limiting the generality of the foregoing paragraph, the occurrence of any one or more of the following (without the consent of or notice to any Subordinated Debt Provider), shall not cause any Senior Party to incur any responsibility to any Subordinated Debt Provider or the obligations hereunder of any Subordinated Debt Provider to the Senior Parties:

(A) at any time or from time to time, the time for any performance of or compliance with any Subordinated Obligation or any Senior Obligation shall be extended, or such performance or compliance shall be waived;

(B) any of the acts mentioned in any of the provisions of any of the Collateral Agency Agreement, the Indenture, any other Transaction Document, any other Financing Document or any other agreement or instrument referred to herein or therein shall be done or omitted;

(C) the maturity of any Subordinated Obligation or Senior Obligation shall be accelerated, or any Subordinated Obligation or any Senior Obligation shall be modified, supplemented or amended in any respect, or any right under any of the Collateral Agency Agreement, the Indenture, any other Transaction Document, any other Financing Document or any other agreement or instrument referred to herein or therein shall be waived or any other guarantee of any Subordinated Obligation or any Senior Obligation or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with; or

(D) any lien or security interest granted to, or in favor of, the Collateral Agent, the Depository Bank or any Senior Party as security for any Subordinated Obligation or any Senior Obligation shall fail to be perfected.

(vii) Notice to Subordinated Debt Providers. The Company shall give prompt written notice to each Subordinated Debt Provider of any fact

known to the Company that would prohibit the making of any payment to it in respect of the Subordinated Obligations. Notwithstanding the provisions of these Terms of Subordination, no Subordinated Debt Provider shall be charged with knowledge of the existence of any facts that would prohibit the making of any payment to it in respect of the Subordinated Obligations, unless and until such Subordinated Debt Provider shall have received written notice thereof from the Company or a Senior Party or from any trustee, fiduciary or agent therefor; and, prior to the receipt of any such written notice, each Subordinated Debt Provider shall be entitled in all respects to assume that no such facts exist.

Each Subordinated Debt Provider shall be entitled to rely on the delivery to it of a written notice by a Person representing itself to be a Senior Party (or a trustee, fiduciary or agent therefor) or the Collateral Agent to establish that such notice has been given by a Senior Party (or a trustee, fiduciary or agent therefor).

(viii) Reliance on Judicial Order or Certificate of Liquidation Agent. Upon any payment or distribution of assets of the Company referred to in these Terms of Subordination, the Subordinated Debt Providers shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee for the benefit of creditors, agent or other Person making such payment or distribution, delivered to the Subordinated Debt Providers, for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the Senior Parties and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to these Terms of Subordination.

(ix) Specific Performance. Each of the Senior Parties may demand specific performance of these terms of subordination, whether or not the Company shall have complied with any of the provisions hereof applicable to them at any time when the Subordinated Debt Provider shall have failed to comply with any of such provisions applicable to it. The Subordinated Debt Providers hereby irrevocably waive any defense based on the adequacy of a remedy at law, which might be asserted as a bar to such remedy of specific performance.

(x) Participation of Subordinated Debt Providers. So long as any of the Senior Obligations shall remain unpaid or otherwise unsatisfied, no Subordinated Debt Provider shall commence or join with any creditor other than the Collateral Agent in commencing any proceeding referred to above for the payment of any amounts which otherwise would be payable or deliverable upon or with respect to the Subordinated Obligations.

(xi) Survival. The obligations of the Company under these Terms of Subordination shall survive the repayment of the Subordinated Obligations.

(xii) Headings. The section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of these Terms of Subordination.

EXHIBIT 2.3

FORM OF SENIOR PARTY CERTIFICATE

The Bank of New York Mellon
as Collateral Agent

PPL Ironwood Project
Senior Party Certificate
[Date]

Reference is made to that certain Amended and Restated Collateral Agency Agreement, dated as of February 12, 2013 (as amended, modified or supplemented from time to time, the “**Collateral Agency Agreement**”), among PPL Ironwood, L.L.C., (together with its successors and assigns, the “**Company**”) and The Bank of New York Mellon, as trustee and depository bank (together with its successors in such capacity, the “**Collateral Agent**”). Each capitalized term used herein and not otherwise defined herein shall have the meaning assigned to it in the Indenture.

The undersigned, [INSERT NAME OF SENIOR PARTY], is a Senior Party under the Collateral Agency Agreement and hereby certifies the following:

- (a) Trigger Event has occurred and is continuing [insert description of Trigger Event, if applicable];
- (b) the aggregate principal amount of Senior Debt owed to the Senior Party by the Company is \$[INSERT AMOUNT];
- (c) the aggregate amount of all undrawn financing commitments from the Senior Party to the Company is \$[INSERT AMOUNT] ¹.

The undersigned hereby directs the Collateral Agent to, in accordance with the terms of the Security Documents, take the following actions:

[INSERT DESCRIPTION OF THE ACTION TO BE TAKEN BY THE COLLATERAL AGENT]

[Name of Senior Party]

By: _____

Name:

Title:

¹ Include the principal amount of any undrawn letter of credit here.

EXHIBIT 7.14

THIRD-PARTY ENGINEERS

Black & Veatch - Kansas City Office

R.W. Beck - Framingham (Boston) Office

Sergeant & Lundy

Stone & Webster (to the extent not the Independent Engineer)

THIRD SUPPLEMENTAL INDENTURE

dated as of February 12, 2013

to

TRUST INDENTURE

dated as of June 1, 1999

among

PPL IRONWOOD, LLC,

THE BANK OF NEW YORK MELLON, as Trustee

and

THE BANK OF NEW YORK MELLON, as Depositary Bank

THIRD SUPPLEMENTAL INDENTURE (the “**Third Supplemental Indenture**”), dated as of February 12, 2013, to the Trust Indenture, dated as of June 1, 1999 (the “**Original Indenture**”), among PPL IRONWOOD, LLC (f/k/a AES IRONWOOD, L.L.C.), a Delaware limited liability company (together with its successors and assigns, the “**Company**”), its principal office and mailing address being at Two North Ninth Street, Allentown, Pennsylvania 18101, THE BANK OF NEW YORK MELLON (as successor to IBJ WHITEHALL BANK & TRUST COMPANY) (the “**Trustee**”), its corporate trust office and mailing address being at 101 Barclay Street, New York, New York 10286, and THE BANK OF NEW YORK MELLON (as successor to IBJ WHITEHALL BANK & TRUST COMPANY), as depositary bank (the “**Depositary Bank**”), its office and mailing address being at 101 Barclay Street, New York, New York 10286.

WITNESSETH:

WHEREAS, the Company and the Trustee have heretofore executed and delivered the Original Indenture to provide for the issuance from time to time of the Company’s Bonds (as defined in the Original Indenture) to be issued in one or more series;

WHEREAS, the Company, the Trustee and the Depositary Bank have heretofore executed and delivered a supplemental indenture dated as of June 1, 1999 (the “**First Supplemental Indenture**”) and a supplemental indenture dated as of May 12, 2000 (the “**Second Supplemental Indenture**”) and together with the Original Indenture and First Supplemental Indenture, the “**Indenture**”) providing for the issuance of 8.857% Senior Secured Bonds due 2025 (the “**Securities**”) of the Company;

WHEREAS, there is currently outstanding under the Indenture \$308,500,000 in aggregate principal face amount of the Securities (the “**Outstanding Securities**”);

WHEREAS, Section 12.2 of the Original Indenture provides that the Company, the Trustee and the Depositary Bank may, with the consent of not less than a majority in aggregate principal amount of the Outstanding Securities, enter into a supplemental indenture for the purpose of amending the Indenture with respect to the Securities;

WHEREAS, the Holders of at least a majority of the Outstanding Securities have accepted PPL Energy Supply, LLC’s offer to exchange not less than a majority in aggregate principal amount and up to all of the Outstanding Securities for the Exchange Consideration referred to in such offer and have consented upon the terms and subject to the conditions set forth in the Prospectus of PPL Energy Supply, LLC dated February 6, 2013 (as the same may be amended or supplemented from time to time, the “**Prospectus**”), and in the related Letter of Transmittal and Consent (as the same may be amended or supplemented from time to time, and, together with the Prospectus, the “**Offer**”), to the amendments contained in this Third Supplemental Indenture;

WHEREAS, the Offer is conditioned upon, among other things, the proposed amendments (the “**Proposed Amendments**”) to the Indenture set forth herein with respect to the Securities having been approved by not less than a majority in aggregate principal amount of the Outstanding Securities (and a supplemental indenture in respect thereof having been executed and delivered) with the effectiveness of such Proposed Amendments being subject to the acceptance for payment by PPL Energy Supply, LLC of the Securities representing not less than a majority in aggregate principal amount of the Outstanding Securities pursuant to the Offer and the related payment thereof in accordance with the terms of the Offer (the “**Acceptance and Payment**”);

WHEREAS, the Company has received and delivered to the Trustee evidence of the requisite consents to effect the Proposed Amendments under the Indenture with respect to the Securities;

WHEREAS, the Company has been authorized by resolutions of its Board of Managers to enter into this Third Supplemental Indenture;

WHEREAS, the Company has delivered to the Trustee an Officer’s Certificate to the effect that all conditions precedent provided for in the Indenture to the execution and delivery of this Third Supplemental Indenture by the Trustee have been complied with; and

WHEREAS, all acts and things necessary to make this Third Supplemental Indenture a valid and binding agreement for the purposes expressed herein, in accordance with its terms, have been duly done and performed, and the execution of this Third Supplemental Indenture has in all respects been duly authorized, and the Company, in the exercise of the legal right and power vested in it, executes this Third Supplemental Indenture;

NOW, THEREFORE, in consideration of the premises and the covenants and agreements contained herein, and for other good and valuable consideration, the receipt of which is hereby acknowledged, and for the equal and proportionate benefit of the Holders of the Securities, the Company, the Trustee and the Depositary Bank hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 Definitions.

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Original Indenture.

Section 1.1 of the Indenture is amended with respect to the Securities by deleting all definitions of terms, and references to definitions of terms, that are used exclusively in the text of the Indenture and in the text of the Securities that are being otherwise eliminated by this Third Supplemental Indenture.

ARTICLE II

THE TERMS OF THE BONDS

SECTION 2.1 Amendments to Table of Contents.

The Table of Contents of the Indenture is amended by deleting the titles to Sections 6.2, 6.5, 6.6, 6.7, 6.8, 6.9, 6.10, 6.11, 6.13, 6.14, 6.16, 6.17, 6.18, 6.19, 6.20, 6.21, 6.22, 6.23 and 6.25 in their entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.2 Amendment of Section 6.2 of the Indenture.

The provisions of Section 6.2 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.3 Amendment of Section 6.3 of the Indenture.

The provisions of Section 6.3 of the Indenture are amended by deleting the text of Sections 6.3(a), 6.3(b), 6.3(c), 6.3(d)(ii), 6.3(d)(iii), 6.3(d)(iv), 6.3(d)(v), 6.3(d)(vi), 6.3(d)(vii), 6.3(e), 6.3(f), 6.3(g) and 6.3(h) in their entirety.

SECTION 2.4 Amendment of Section 6.5 of the Indenture.

The provisions of Section 6.5 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.5 Amendment of Section 6.6 of the Indenture.

The provisions of Section 6.6 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.6 Amendment of Section 6.7 of the Indenture.

The provisions of Section 6.7 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.7 Amendment of Section 6.8 of the Indenture.

The provisions of Section 6.8 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.8 Amendment of Section 6.9 of the Indenture.

The provisions of Section 6.9 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.9 Amendment of Section 6.10 of the Indenture.

The provisions of Section 6.10 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.10 Amendment of Section 6.11 of the Indenture.

The provisions of Section 6.11 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.11 Amendment of Section 6.12 of the Indenture.

The provisions of Section 6.12 of the Indenture are amended by deleting the first, second and third sentences, and the first two words of the fourth sentence of Section 6.12.

SECTION 2.12 Amendment of Section 6.13 of the Indenture.

The provisions of Section 6.13 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.13 Amendment of Section 6.14 of the Indenture.

The provisions of Section 6.14 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.14 Amendment of Section 6.16 of the Indenture.

The provisions of Section 6.16 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.15 Amendment of Section 6.17 of the Indenture.

The provisions of Section 6.17 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.16 Amendment of Section 6.18 of the Indenture.

The provisions of Section 6.18 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.17 Amendment of Section 6.19 of the Indenture.

The provisions of Section 6.19 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.18 Amendment of Section 6.20 of the Indenture.

The provisions of Section 6.20 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.19 Amendment of Section 6.21 of the Indenture.

The provisions of Section 6.21 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.20 Amendment of Section 6.22 of the Indenture.

The provisions of Section 6.22 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.21 Amendment of Section 6.23 of the Indenture.

The provisions of Section 6.23 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.22 Amendment of Section 6.25 of the Indenture.

The provisions of Section 6.25 of the Indenture are amended by deleting the text of such Section in its entirety and inserting in lieu thereof the phrase “[intentionally omitted]”.

SECTION 2.23 Amendment to the Securities.

The Securities include certain of the foregoing provisions from the Indenture to be deleted or amended pursuant to Sections 2.1 to 2.22 hereof. On and after the Acceptance and Payment, such provisions from the Securities, and such cross references and definitions as may relate thereto, shall be deemed deleted or amended as applicable.

ARTICLE III

MISCELLANEOUS

SECTION 3.1 Effectiveness of Amendments.

This Third Supplemental Indenture shall be effective upon its execution and delivery by the parties hereto. The Amendments set forth in Article Two hereof will only become operative concurrently with the Acceptance and Payment.

SECTION 3.2 Continuing Effect of Indenture.

Except as expressly provided herein, all of the terms, provisions and conditions of the Indenture and the Outstanding Securities thereunder shall remain in full force and effect. On and after the execution and delivery hereof, each reference in the Indenture to “the Indenture,” “this Indenture,” “hereunder,” “hereof” or “herein” shall mean and be a reference to the Indenture as supplemented by this Third Supplemental Indenture unless the context otherwise requires.

SECTION 3.3 Construction of Supplemental Indenture.

This Third Supplemental Indenture is executed and shall be construed as an indenture supplemental to the Indenture and, as provided in the Original Indenture, this Third Supplemental Indenture forms a part thereof. The Indenture, as amended and supplemented by this Third Supplemental Indenture, is in all respects ratified and confirmed.

SECTION 3.4 Concerning the Trustee.

The Trustee shall not be responsible in any manner for or with respect to the validity or sufficiency of this Third Supplemental Indenture, or the due execution hereof by the Company, or for or with respect to the recitals and statements contained herein, all of which recitals and statements are made solely by the Company.

SECTION 3.5 Counterparts.

This Third Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original; but all such counterparts shall together constitute but one and the same instrument.

SECTION 3.6 GOVERNING LAW.

THIS THIRD SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF NEW YORK.

SECTION 3.7 Headings.

The section headings herein are for convenience only and shall not affect the construction thereof.

SECTION 3.8 Severability.

In case any provision in this Third Supplemental Indenture or the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

[Remainder of This Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have caused this Third Supplemental Indenture to be duly executed by their respective officers thereunder duly authorized as of the date and year first above written.

PPL IRONWOOD, LLC

By: _____

Name:

Title:

THE BANK OF NEW YORK MELLON, as Trustee

By: _____

Name:

Title:

THE BANK OF NEW YORK MELLON, as Depositary Bank

By: _____

Name:

Title:

[PPL Ironwood, LLC – Third Supplemental Indenture]

\$75,000,000

REVOLVING CREDIT AGREEMENT

DATED AS OF OCTOBER 30, 2013

AMONG

LG&E AND KU ENERGY LLC,

THE LENDERS FROM TIME TO TIME PARTY HERETO

AND

**PNC BANK, NATIONAL ASSOCIATION,
AS THE ADMINISTRATIVE AGENT AND THE ISSUING LENDER**

**PNC CAPITAL MARKETS LLC,
AS SOLE LEAD ARRANGER AND SOLE BOOKRUNNER**

**FIFTH THIRD BANK,
AS SYNDICATION AGENT**

**CENTRAL BANK & TRUST COMPANY,
AS DOCUMENTATION AGENT**

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EXHIBIT C	-	FORM OF ASSIGNMENT AND ASSUMPTION AGREEMENT
EXHIBIT D	-	FORMS OF OPINION OF COUNSEL FOR THE BORROWER
EXHIBIT E	-	FORM OF NOTICE OF REVOLVING INCREASE

REVOLVING CREDIT AGREEMENT (THIS “AGREEMENT”) DATED AS OF OCTOBER 30, 2013 IS ENTERED INTO AMONG LG&E AND KU ENERGY LLC, A KENTUCKY LIMITED LIABILITY COMPANY (THE “BORROWER”), THE LENDERS PARTY HERETO FROM TIME TO TIME AND PNC BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT. THE PARTIES HERETO AGREE AS FOLLOWS:

RECITALS

THE BORROWER HAS REQUESTED THAT THE LENDERS PROVIDE A REVOLVING CREDIT FACILITY TO THE BORROWER IN AN AGGREGATE PRINCIPAL AMOUNT, SUBJECT TO SECTION 2.19, NOT TO EXCEED \$75,000,000. IN CONSIDERATION OF THEIR MUTUAL COVENANTS AND AGREEMENTS HEREINAFTER SET FORTH AND INTENDING TO BE LEGALLY BOUND HEREBY, THE PARTIES HERETO COVENANT AND AGREE AS FOLLOWS:

**ARTICLE I
DEFINITIONS**

SECTION 1.01 DEFINITIONS. ALL CAPITALIZED TERMS USED IN THIS AGREEMENT OR IN ANY APPENDIX, SCHEDULE OR EXHIBIT HERETO WHICH ARE NOT OTHERWISE DEFINED HEREIN OR THEREIN SHALL HAVE THE RESPECTIVE MEANINGS SET FORTH BELOW.

“ADJUSTED LONDON INTERBANK OFFERED RATE” MEANS, FOR ANY INTEREST PERIOD, A RATE PER ANNUM EQUAL TO THE QUOTIENT OBTAINED (ROUNDED UPWARD, IF NECESSARY, TO THE NEAREST 1/100TH OF 1%) BY DIVIDING (i) THE LONDON INTERBANK OFFERED RATE FOR SUCH INTEREST PERIOD BY (ii) 1.00 MINUS THE EURO-DOLLAR RESERVE PERCENTAGE.

“ADMINISTRATIVE AGENT” MEANS PNC BANK, IN ITS CAPACITY AS ADMINISTRATIVE AGENT FOR THE LENDERS HEREUNDER AND UNDER THE OTHER LOAN DOCUMENTS, AND ITS SUCCESSOR OR SUCCESSORS IN SUCH CAPACITY.

“ADMINISTRATIVE QUESTIONNAIRE” MEANS, WITH RESPECT TO EACH LENDER, AN ADMINISTRATIVE QUESTIONNAIRE IN THE FORM PROVIDED BY THE ADMINISTRATIVE AGENT AND SUBMITTED TO THE ADMINISTRATIVE AGENT (WITH A COPY TO THE BORROWER) DULY COMPLETED BY SUCH LENDER.

“AFFILIATE” MEANS, WITH RESPECT TO ANY PERSON, ANY OTHER PERSON WHO IS DIRECTLY OR INDIRECTLY CONTROLLING, CONTROLLED BY OR UNDER COMMON CONTROL WITH SUCH PERSON. A PERSON SHALL BE DEEMED TO CONTROL ANOTHER PERSON IF SUCH PERSON POSSESSES, DIRECTLY OR INDIRECTLY, THE POWER TO DIRECT OR CAUSE THE DIRECTION OF THE MANAGEMENT OR POLICIES OF THE CONTROLLED PERSON, WHETHER THROUGH THE OWNERSHIP OF STOCK OR ITS EQUIVALENT, BY CONTRACT OR OTHERWISE.

“AGREEMENT” HAS THE MEANING SET FORTH IN THE INTRODUCTORY PARAGRAPH HERETO, AS THIS AGREEMENT MAY BE AMENDED, RESTATED, SUPPLEMENTED OR MODIFIED FROM TIME TO TIME.

“APPLICABLE LENDING OFFICE” MEANS, WITH RESPECT TO ANY LENDER, ITS OFFICE LOCATED AT ITS ADDRESS SET FORTH IN ITS ADMINISTRATIVE QUESTIONNAIRE OR SUCH OTHER OFFICE AS SUCH LENDER MAY HEREAFTER DESIGNATE BY NOTICE TO THE BORROWER AND THE ADMINISTRATIVE AGENT.

“APPLICABLE PERCENTAGE” MEANS, FOR PURPOSES OF CALCULATING (i) THE APPLICABLE INTEREST RATE FOR ANY DAY FOR ANY BASE RATE LOANS OR EURO-DOLLAR LOANS, (ii) THE APPLICABLE RATE FOR THE COMMITMENT FEE FOR ANY DAY FOR PURPOSES OF SECTION 2.07(A) OR (iii) THE APPLICABLE RATE FOR THE LETTER OF CREDIT FEE FOR ANY DAY FOR PURPOSES OF SECTION 2.07(B), THE APPROPRIATE APPLICABLE PERCENTAGE SET FORTH BELOW CORRESPONDING TO THE THEN CURRENT BORROWER’S RATINGS; PROVIDED, THAT, IN THE EVENT THAT THE BORROWER’S RATINGS SHALL FALL WITHIN DIFFERENT LEVELS AND RATINGS ARE MAINTAINED BY BOTH RATING AGENCIES, THE APPLICABLE RATING SHALL BE BASED ON THE HIGHER OF THE TWO RATINGS UNLESS ONE OF THE RATINGS IS TWO OR MORE LEVELS LOWER THAN THE OTHER, IN WHICH CASE THE APPLICABLE RATING SHALL BE DETERMINED BY REFERENCE TO THE LEVEL ONE RATING LOWER THAN THE HIGHER OF THE TWO RATINGS:

	BORROWER’S RATINGS (S&P /MOODY’S)	APPLICABLE PERCENTAGE FOR COMMITMENT FEES	APPLICABLE PERCENTAGE FOR BASE RATE LOANS	APPLICABLE PERCENTAGE FOR EURO-DOLLAR LOANS AND LETTER OF CREDIT FEES
CATEGORY A	≥ A FROM S&P / A2 FROM MOODY’S	0.100%	0.000%	1.000%
CATEGORY B	A- FROM S&P / A3 FROM MOODY’S	0.125%	0.125%	1.125%
CATEGORY C	BBB+ FROM S&P / BAA1 FROM MOODY’S	0.175%	0.250%	1.250%
CATEGORY D	BBB FROM S&P / BAA2 FROM MOODY’S	0.200%	0.500%	1.500%
CATEGORY E	BBB- FROM S&P / BAA3 FROM MOODY’S	0.250%	0.625%	1.625%
CATEGORY F	≤ BB+ FROM S&P / BA1 FROM MOODY’S	0.350%	0.875%	1.875%

“ASSET SALE” MEANS ANY SALE OF ANY ASSETS, INCLUDING BY WAY OF THE SALE BY THE BORROWER OR ANY OF ITS SUBSIDIARIES OF EQUITY INTERESTS IN SUCH SUBSIDIARIES.

“ASSIGNEE” HAS THE MEANING SET FORTH IN SECTION 9.06(c).

“ASSIGNMENT AND ASSUMPTION AGREEMENT” MEANS AN ASSIGNMENT AND ASSUMPTION AGREEMENT, SUBSTANTIALLY IN THE FORM OF ATTACHED EXHIBIT C, UNDER WHICH AN INTEREST OF A LENDER HEREUNDER IS TRANSFERRED TO AN ELIGIBLE ASSIGNEE PURSUANT TO SECTION 9.06(c).

“AUTHORIZED OFFICER” MEANS THE PRESIDENT, THE CHIEF OPERATING OFFICER, THE CHIEF FINANCIAL OFFICER, THE CHIEF ACCOUNTING OFFICER, ANY VICE PRESIDENT, THE TREASURER OR THE CONTROLLER OF THE BORROWER OR SUCH OTHER INDIVIDUALS REASONABLY ACCEPTABLE TO THE ADMINISTRATIVE AGENT AS MAY BE

DESIGNATED IN WRITING BY THE BORROWER FROM TIME TO TIME.

“AVAILABILITY PERIOD” MEANS THE PERIOD FROM AND INCLUDING THE EFFECTIVE DATE TO BUT EXCLUDING THE TERMINATION DATE.

“BANKRUPTCY CODE” MEANS THE BANKRUPTCY REFORM ACT OF 1978, AS AMENDED, OR ANY SUCCESSOR STATUTE.

“BASE RATE” MEANS FOR ANY DAY, A FLUCTUATING PER ANNUM RATE OF INTEREST EQUAL TO THE HIGHEST OF (i) THE FEDERAL FUNDS RATE PLUS 0.5%, (ii) THE PRIME RATE, AND (iii) THE DAILY LIBOR RATE PLUS 100 BASIS POINTS (1.0%). ANY CHANGE IN THE BASE RATE (OR ANY COMPONENT THEREOF) SHALL TAKE EFFECT AT THE OPENING OF BUSINESS ON THE DAY SUCH CHANGE OCCURS.

“BASE RATE BORROWING” MEANS A BORROWING COMPRISED OF BASE RATE LOANS.

“BASE RATE LOAN” MEANS A LOAN IN RESPECT OF WHICH INTEREST IS COMPUTED ON THE BASIS OF THE BASE RATE.

“BORROWER” HAS THE MEANING SET FORTH IN THE INTRODUCTORY PARAGRAPH HERETO.

“BORROWER’S RATING” MEANS THE SENIOR UNSECURED LONG-TERM DEBT RATING OF THE BORROWER FROM S&P OR MOODY’S.

“BORROWING” MEANS A GROUP OF LOANS OF A SINGLE TYPE MADE BY THE LENDERS ON A SINGLE DATE AND, IN THE CASE OF A EURO-DOLLAR BORROWING, HAVING A SINGLE INTEREST PERIOD.

“BUSINESS DAY” MEANS ANY DAY OTHER THAN A SATURDAY OR SUNDAY OR A LEGAL HOLIDAY ON WHICH COMMERCIAL BANKS ARE AUTHORIZED OR REQUIRED TO BE CLOSED FOR BUSINESS IN PITTSBURGH, PENNSYLVANIA AND IF THE APPLICABLE BUSINESS DAY RELATES TO ANY EURO-DOLLAR LOAN, SUCH DAY MUST ALSO BE A DAY ON WHICH DEALINGS ARE CARRIED ON IN THE LONDON INTERBANK MARKET.

“CAPITAL LEASE” MEANS ANY LEASE OF PROPERTY WHICH, IN ACCORDANCE WITH GAAP, SHOULD BE CAPITALIZED ON THE LESSEE’S BALANCE SHEET.

“CAPITAL LEASE OBLIGATIONS” MEANS, WITH RESPECT TO ANY PERSON, ALL OBLIGATIONS OF SUCH PERSON AS LESSEE UNDER CAPITAL LEASES, IN EACH CASE TAKEN AT THE AMOUNT THEREOF ACCOUNTED FOR AS LIABILITIES IN ACCORDANCE WITH GAAP.

“CHANGE OF CONTROL” MEANS (i) THE ACQUISITION BY ANY PERSON, OR TWO OR MORE PERSONS ACTING IN CONCERT, OF BENEFICIAL OWNERSHIP (WITHIN THE MEANING OF RULE 13D-3 OF THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED) OF 25% OR MORE OF THE OUTSTANDING SHARES OF VOTING STOCK OF PPL CORPORATION OR ITS SUCCESSORS OR (ii) THE FAILURE AT ANY TIME OF PPL CORPORATION OR ITS SUCCESSORS TO OWN 80% OR MORE OF THE OUTSTANDING SHARES OF THE VOTING STOCK IN THE BORROWER.

“COMMITMENT” MEANS, WITH RESPECT TO ANY LENDER, THE COMMITMENT OF SUCH LENDER TO (i) MAKE LOANS UNDER THIS AGREEMENT AND (ii) PURCHASE PARTICIPATIONS IN LETTERS OF CREDIT PURSUANT TO ARTICLE III HEREOF, AS SET FORTH IN THE COMMITMENT APPENDIX AND AS SUCH COMMITMENT MAY BE REDUCED FROM TIME TO TIME PURSUANT TO SECTION 2.08 OR SECTION 9.06(c) OR INCREASED FROM TIME TO TIME PURSUANT TO SECTION 2.19 OR SECTION 9.06(c).

“COMMITMENT APPENDIX” MEANS THE APPENDIX ATTACHED UNDER THIS AGREEMENT IDENTIFIED AS SUCH.

“COMMITMENT FEE” HAS THE MEANING SET FORTH IN SECTION 2.07(A).

“COMMITMENT RATIO” MEANS, WITH RESPECT TO ANY LENDER, THE PERCENTAGE EQUIVALENT OF THE RATIO WHICH SUCH LENDER’S COMMITMENT BEARS TO THE AGGREGATE AMOUNT OF ALL COMMITMENTS.

“CONSOLIDATED CAPITALIZATION” MEANS THE SUM OF, WITHOUT DUPLICATION, (i) THE CONSOLIDATED DEBT (WITHOUT GIVING EFFECT TO CLAUSE (B) OF THE DEFINITION OF “CONSOLIDATED DEBT”) AND (ii) THE CONSOLIDATED MEMBERS’ EQUITY (DETERMINED IN ACCORDANCE WITH GAAP) OF THE COMMON, PREFERENCE AND PREFERRED EQUITYHOLDERS OF THE BORROWER AND MINORITY INTERESTS RECORDED ON THE BORROWER’S CONSOLIDATED FINANCIAL STATEMENTS (EXCLUDING FROM MEMBERS’ EQUITY (A) THE EFFECT OF ALL UNREALIZED GAINS AND LOSSES REPORTED UNDER FINANCIAL ACCOUNTING STANDARDS BOARD ACCOUNTING STANDARDS CODIFICATION TOPIC 815 IN CONNECTION WITH (X) FORWARD CONTRACTS, FUTURES CONTRACTS, OPTIONS CONTRACTS OR OTHER DERIVATIVES OR HEDGING AGREEMENTS FOR THE FUTURE DELIVERY OF ELECTRICITY, CAPACITY, FUEL OR OTHER COMMODITIES AND (Y) INTEREST RATE PROTECTION AGREEMENTS, FOREIGN CURRENCY EXCHANGE AGREEMENTS OR OTHER INTEREST OR EXCHANGE RATE HEDGING ARRANGEMENTS AND (B) THE BALANCE OF ACCUMULATED OTHER COMPREHENSIVE INCOME/LOSS OF THE BORROWER ON ANY DATE OF DETERMINATION SOLELY WITH RESPECT TO THE EFFECT OF ANY PENSION AND OTHER POST-RETIREMENT BENEFIT LIABILITY ADJUSTMENT RECORDED IN ACCORDANCE WITH GAAP), EXCEPT THAT FOR PURPOSES OF CALCULATING CONSOLIDATED CAPITALIZATION OF THE BORROWER, CONSOLIDATED DEBT OF THE BORROWER SHALL EXCLUDE NON-RECOURSE DEBT AND CONSOLIDATED CAPITALIZATION OF THE BORROWER SHALL EXCLUDE THAT PORTION OF MEMBERS’ EQUITY ATTRIBUTABLE TO ASSETS SECURING NON-RECOURSE DEBT.

“CONSOLIDATED DEBT” MEANS THE CONSOLIDATED DEBT OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES (DETERMINED IN ACCORDANCE WITH GAAP), EXCEPT THAT FOR PURPOSES OF THIS DEFINITION (A) CONSOLIDATED DEBT SHALL EXCLUDE NON-RECOURSE DEBT OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES AND (B) CONSOLIDATED DEBT SHALL EXCLUDE (i) HYBRID SECURITIES OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES IN AN AGGREGATE AMOUNT AS SHALL NOT EXCEED 15% OF CONSOLIDATED CAPITALIZATION AND (ii) EQUITY-LINKED SECURITIES IN AN AGGREGATE AMOUNT AS SHALL NOT EXCEED 15% OF CONSOLIDATED CAPITALIZATION.

“CONSOLIDATED SUBSIDIARY” MEANS WITH RESPECT TO ANY PERSON AT ANY DATE ANY SUBSIDIARY OF SUCH PERSON OR OTHER ENTITY THE ACCOUNTS OF WHICH WOULD BE CONSOLIDATED WITH THOSE OF SUCH PERSON IN ITS CONSOLIDATED FINANCIAL STATEMENTS IF SUCH STATEMENTS WERE PREPARED AS OF SUCH DATE IN ACCORDANCE WITH GAAP.

“CONTINUING LENDER” MEANS WITH RESPECT TO ANY EVENT DESCRIBED IN SECTION 2.08(B), A LENDER WHICH IS NOT A RETIRING LENDER, AND “CONTINUING LENDERS” MEANS ANY TWO OR MORE OF SUCH CONTINUING LENDERS.

“CORPORATION” MEANS A CORPORATION, ASSOCIATION, COMPANY, JOINT STOCK COMPANY, LIMITED LIABILITY COMPANY, PARTNERSHIP OR BUSINESS TRUST.

“CREDIT EVENT” MEANS A BORROWING OR THE ISSUANCE, RENEWAL OR EXTENSION OF A LETTER OF CREDIT.

“DAILY LIBOR RATE” MEANS, FOR ANY DAY, THE RATE PER ANNUM DETERMINED BY THE ADMINISTRATIVE AGENT BY DIVIDING (X) THE RATE OF INTEREST PUBLISHED EACH BUSINESS DAY IN *The Wall Street Journal* “MONEY RATES” LISTING UNDER THE CAPTION “LONDON INTERBANK OFFERED RATES” FOR A ONE MONTH PERIOD (OR, IF NO SUCH RATE IS PUBLISHED THEREIN FOR ANY REASON, THEN THE RATE AT WHICH U.S. DOLLAR DEPOSITS ARE OFFERED BY LEADING BANKS IN THE LONDON INTERBANK DEPOSIT MARKET FOR A ONE MONTH PERIOD AS PUBLISHED IN ANOTHER PUBLICATION SELECTED BY THE ADMINISTRATIVE AGENT) BY (Y) A NUMBER EQUAL TO 1.00 MINUS THE EURO-DOLLAR RESERVE PERCENTAGE ON SUCH DAY.

“DEBT” OF ANY PERSON MEANS, WITHOUT DUPLICATION, (i) ALL OBLIGATIONS OF SUCH PERSON FOR BORROWED MONEY, (ii) ALL OBLIGATIONS OF SUCH PERSON EVIDENCED BY BONDS, DEBENTURES, NOTES OR SIMILAR INSTRUMENTS, (iii) ALL GUARANTEES BY SUCH PERSON OF DEBT OF OTHERS, (iv) ALL CAPITAL LEASE OBLIGATIONS AND SYNTHETIC LEASES OF SUCH PERSON, (v) ALL OBLIGATIONS OF SUCH PERSON IN RESPECT OF INTEREST RATE PROTECTION AGREEMENTS, FOREIGN CURRENCY EXCHANGE AGREEMENTS OR OTHER INTEREST OR EXCHANGE RATE HEDGING ARRANGEMENTS (THE AMOUNT OF ANY SUCH OBLIGATION TO BE THE NET AMOUNT THAT WOULD BE PAYABLE UPON THE ACCELERATION, TERMINATION OR LIQUIDATION THEREOF), BUT ONLY TO THE EXTENT THAT SUCH NET OBLIGATIONS EXCEED \$150,000,000 IN THE AGGREGATE AND (vi) ALL OBLIGATIONS OF SUCH PERSON AS AN ACCOUNT PARTY IN RESPECT OF LETTERS OF CREDIT AND BANKERS’ ACCEPTANCES; PROVIDED, HOWEVER, THAT “DEBT” OF SUCH PERSON DOES NOT INCLUDE (A) OBLIGATIONS OF SUCH PERSON UNDER ANY INSTALLMENT SALE, CONDITIONAL SALE OR TITLE RETENTION AGREEMENT OR ANY OTHER AGREEMENT RELATING TO OBLIGATIONS FOR THE DEFERRED PURCHASE PRICE OF PROPERTY OR SERVICES, (B) OBLIGATIONS UNDER AGREEMENTS RELATING TO THE PURCHASE AND SALE OF ANY COMMODITY, INCLUDING ANY POWER SALE OR PURCHASE AGREEMENTS, ANY COMMODITY HEDGE OR DERIVATIVE (REGARDLESS OF WHETHER ANY SUCH TRANSACTION IS A “FINANCIAL” OR PHYSICAL TRANSACTION), (C) ANY TRADE OBLIGATIONS OR OTHER OBLIGATIONS OF SUCH PERSON INCURRED IN THE ORDINARY COURSE OF BUSINESS OR (D) OBLIGATIONS OF SUCH PERSON UNDER ANY LEASE AGREEMENT (INCLUDING ANY LEASE INTENDED AS SECURITY) THAT IS NOT A CAPITAL LEASE OR A SYNTHETIC LEASE.

“DEFAULT” MEANS ANY CONDITION OR EVENT WHICH CONSTITUTES AN EVENT OF DEFAULT OR WHICH WITH THE GIVING OF NOTICE OR LAPSE OF TIME OR BOTH WOULD, UNLESS CURED OR WAIVED, BECOME AN EVENT OF DEFAULT.

“DEFAULTING LENDER” MEANS AT ANY TIME ANY LENDER WITH RESPECT TO WHICH A LENDER DEFAULT IS IN EFFECT AT SUCH TIME.

“DEMAND NOTE” MEANS THAT CERTAIN \$300,000,000 DEMAND NOTE, DATED AS OF NOVEMBER 30, 2012, OWING BY THE BORROWER TO CEP RESERVES, INC.

“DOLLARS” AND THE SIGN “\$” MEANS LAWFUL MONEY OF THE UNITED STATES OF AMERICA.

“EFFECTIVE DATE” MEANS THE DATE ON WHICH THE ADMINISTRATIVE AGENT DETERMINES THAT THE CONDITIONS SPECIFIED IN OR PURSUANT TO SECTION 4.01 HAVE BEEN SATISFIED.

“ELIGIBLE ASSIGNEE” MEANS (i) A LENDER (OTHER THAN A DEFAULTING LENDER); (ii) A COMMERCIAL BANK ORGANIZED UNDER THE LAWS OF THE UNITED STATES; (iii) A COMMERCIAL BANK ORGANIZED UNDER THE LAWS OF ANY OTHER COUNTRY WHICH IS A MEMBER OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, OR A POLITICAL SUBDIVISION OF ANY SUCH COUNTRY; PROVIDED, THAT SUCH BANK IS ACTING THROUGH A BRANCH OR AGENCY LOCATED AND LICENSED IN THE UNITED STATES; OR (iv) AN AFFILIATE OF A LENDER THAT IS AN “ACCREDITED INVESTOR” (AS DEFINED IN REGULATION D UNDER THE SECURITIES ACT OF 1933, AS AMENDED); PROVIDED, THAT, IN EACH CASE (A) UPON AND FOLLOWING THE OCCURRENCE OF AN EVENT OF DEFAULT, AN ELIGIBLE ASSIGNEE SHALL MEAN ANY PERSON OTHER THAN THE BORROWER OR ANY OF ITS AFFILIATES AND (B) NOTWITHSTANDING THE FOREGOING, “ELIGIBLE ASSIGNEE” SHALL NOT INCLUDE THE BORROWER OR ANY OF ITS AFFILIATES.

“ENVIRONMENTAL LAWS” MEANS ANY AND ALL FEDERAL, STATE AND LOCAL STATUTES, LAWS, REGULATIONS, ORDINANCES, RULES, JUDGMENTS, ORDERS, DECREES, PERMITS, CONCESSIONS, GRANTS, FRANCHISES, LICENSES OR OTHER WRITTEN GOVERNMENTAL RESTRICTIONS RELATING TO THE ENVIRONMENT OR TO EMISSIONS, DISCHARGES OR RELEASES OF POLLUTANTS, CONTAMINANTS, PETROLEUM OR PETROLEUM PRODUCTS, CHEMICALS OR INDUSTRIAL, TOXIC OR HAZARDOUS SUBSTANCES OR WASTES INTO THE ENVIRONMENT INCLUDING, WITHOUT LIMITATION, AMBIENT AIR, SURFACE WATER, GROUND WATER, OR LAND, OR OTHERWISE RELATING TO THE MANUFACTURE, PROCESSING, DISTRIBUTION, USE, TREATMENT, STORAGE, DISPOSAL, TRANSPORT OR HANDLING OF POLLUTANTS, CONTAMINANTS, PETROLEUM OR PETROLEUM PRODUCTS, CHEMICALS OR INDUSTRIAL, TOXIC OR HAZARDOUS SUBSTANCES OR WASTES.

“ENVIRONMENTAL LIABILITIES” MEANS ALL LIABILITIES (INCLUDING ANTICIPATED COMPLIANCE COSTS) IN CONNECTION WITH OR RELATING TO THE BUSINESS, ASSETS, PRESENTLY OR PREVIOUSLY OWNED, LEASED OR OPERATED PROPERTY, ACTIVITIES (INCLUDING, WITHOUT LIMITATION, OFF-SITE DISPOSAL) OR OPERATIONS OF THE BORROWER OR ANY OF ITS SUBSIDIARIES WHICH ARISE UNDER ENVIRONMENTAL LAWS.

“EQUITY-LINKED SECURITIES” MEANS ANY SECURITIES OF THE BORROWER OR ANY OF ITS SUBSIDIARIES WHICH ARE CONVERTIBLE INTO, OR EXCHANGEABLE FOR, EQUITY SECURITIES OF THE BORROWER, SUCH SUBSIDIARY OR PPL CORPORATION, INCLUDING ANY SECURITIES ISSUED BY ANY OF SUCH PERSONS WHICH ARE PLEDGED TO SECURE ANY OBLIGATION OF ANY HOLDER TO PURCHASE EQUITY SECURITIES OF THE BORROWER, ANY OF ITS SUBSIDIARIES OR PPL CORPORATION.

“ERISA” MEANS THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR ANY SUCCESSOR STATUTE.

“ERISA GROUP” MEANS THE BORROWER AND ALL MEMBERS OF A CONTROLLED GROUP OF CORPORATIONS AND ALL TRADES OR BUSINESSES (WHETHER OR NOT INCORPORATED) UNDER COMMON CONTROL WHICH, TOGETHER WITH THE BORROWER, ARE TREATED AS A SINGLE EMPLOYER UNDER SECTION 414(B) OR (C) OF THE INTERNAL REVENUE CODE.

“EURO-DOLLAR BORROWING” MEANS A BORROWING COMPRISED OF EURO-DOLLAR LOANS.

“EURO-DOLLAR LOAN” MEANS A LOAN IN RESPECT OF WHICH INTEREST IS COMPUTED ON THE BASIS OF THE ADJUSTED LONDON INTERBANK OFFERED RATE

PURSUANT TO THE APPLICABLE NOTICE OF BORROWING OR NOTICE OF CONVERSION/CONTINUATION.

“EURO-DOLLAR RESERVE PERCENTAGE” OF ANY LENDER FOR THE INTEREST PERIOD OF ANY EURO-DOLLAR LOAN MEANS THE MAXIMUM PERCENTAGE IN EFFECT ON SUCH DAY, (i) AS PRESCRIBED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (OR ANY SUCCESSOR) FOR DETERMINING THE RESERVE REQUIREMENTS (INCLUDING SUPPLEMENTAL, MARGINAL AND EMERGENCY RESERVE REQUIREMENTS) WITH RESPECT TO EURO CURRENCY FUNDING (CURRENTLY REFERRED TO AS “EURO CURRENCY LIABILITIES”); AND (ii) TO BE MAINTAINED BY A LENDER AS REQUIRED FOR RESERVE LIQUIDITY, SPECIAL DEPOSIT, OR SIMILAR PURPOSE BY ANY GOVERNMENTAL OR MONETARY AUTHORITY OF ANY COUNTRY OR POLITICAL SUBDIVISION THEREOF (INCLUDING ANY CENTRAL BANK), AGAINST (A) ANY CATEGORY OF LIABILITIES THAT INCLUDES DEPOSITS BY REFERENCE TO WHICH A LONDON INTERBANK OFFERED RATE IS TO BE DETERMINED, OR (B) ANY CATEGORY OF EXTENSION OF CREDIT OR OTHER ASSETS THAT INCLUDES LOANS OR GROUPS OF LOANS TO WHICH A LONDON INTERBANK OFFERED RATE APPLIES. THE ADJUSTED LONDON INTERBANK OFFERED RATE SHALL BE ADJUSTED AUTOMATICALLY ON AND AS OF THE EFFECTIVE DATE OF ANY CHANGE IN THE EURO-DOLLAR RESERVE PERCENTAGE.

“EVENT OF DEFAULT” HAS THE MEANING SET FORTH IN SECTION 7.01.

“FATCA” MEANS SECTIONS 1471 THROUGH 1474 OF THE INTERNAL REVENUE CODE AND ANY REGULATIONS (WHETHER FINAL, TEMPORARY OR PROPOSED) THAT ARE ISSUED THEREUNDER OR OFFICIAL GOVERNMENT INTERPRETATIONS THEREOF AND ANY AGREEMENTS ENTERED INTO PURSUANT TO SECTION 1471(B) OF THE CODE.

“FEDERAL FUNDS RATE” MEANS FOR ANY DAY THE RATE PER ANNUM (BASED ON A YEAR OF 360 DAYS AND ACTUAL DAYS ELAPSED AND ROUNDED UPWARD, IF NECESSARY, TO THE NEAREST 1/100 OF 1%) ANNOUNCED BY THE FEDERAL RESERVE BANK OF NEW YORK (OR ANY SUCCESSOR) ON SUCH DAY AS BEING THE WEIGHTED AVERAGE OF THE RATES ON OVERNIGHT FEDERAL FUNDS TRANSACTIONS ARRANGED BY FEDERAL FUNDS BROKERS ON THE PREVIOUS TRADING DAY, AS COMPUTED AND ANNOUNCED BY SUCH FEDERAL RESERVE BANK (OR ANY SUCCESSOR) IN SUBSTANTIALLY THE SAME MANNER AS SUCH FEDERAL RESERVE BANK COMPUTES AND ANNOUNCES THE WEIGHTED AVERAGE IT REFERS TO AS THE “FEDERAL FUNDS EFFECTIVE RATE” AS OF THE EFFECTIVE DATE; PROVIDED, IF SUCH FEDERAL RESERVE BANK (OR ITS SUCCESSOR) DOES NOT ANNOUNCE SUCH RATE ON ANY DAY, THE “FEDERAL FUNDS RATE” FOR SUCH DAY SHALL BE THE FEDERAL FUNDS RATE FOR THE LAST DAY ON WHICH SUCH RATE WAS ANNOUNCED.

“FEE LETTER” MEANS THE FEE LETTER DATED AS OF SEPTEMBER 18, 2013 AMONG THE BORROWER, THE ADMINISTRATIVE AGENT AND PNC CAPITAL MARKETS.

“FRONTING FEE” HAS THE MEANING SET FORTH IN SECTION 2.07(B).

“GAAP” MEANS UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES APPLIED ON A CONSISTENT BASIS.

“GOVERNMENTAL AUTHORITY” MEANS ANY FEDERAL, STATE OR LOCAL GOVERNMENT, AUTHORITY, AGENCY, CENTRAL BANK, QUASI-GOVERNMENTAL AUTHORITY, COURT OR OTHER BODY OR ENTITY, AND ANY ARBITRATOR WITH AUTHORITY TO BIND A PARTY AT LAW.

“GROUP OF LOANS” MEANS AT ANY TIME A GROUP OF REVOLVING LOANS CONSISTING OF (i) ALL REVOLVING LOANS WHICH ARE BASE RATE LOANS AT SUCH TIME OR (ii) ALL REVOLVING LOANS WHICH ARE EURO-DOLLAR LOANS OF THE SAME TYPE HAVING THE SAME INTEREST PERIOD AT SUCH TIME; PROVIDED, THAT, IF A LOAN OF ANY PARTICULAR LENDER IS CONVERTED TO OR MADE AS A BASE RATE LOAN PURSUANT TO SECTIONS 2.15 OR 2.18, SUCH LOAN SHALL BE INCLUDED IN THE SAME GROUP OR GROUPS OF LOANS FROM TIME TO TIME AS IT WOULD HAVE BEEN IN IF IT HAD NOT BEEN SO CONVERTED OR MADE.

“GUARANTEE” OF OR BY ANY PERSON MEANS ANY OBLIGATION, CONTINGENT OR OTHERWISE, OF SUCH PERSON GUARANTEEING OR HAVING THE ECONOMIC EFFECT OF GUARANTEEING ANY DEBT OF ANY OTHER PERSON (THE “PRIMARY OBLIGOR”) IN ANY MANNER, WHETHER DIRECTLY OR INDIRECTLY, AND INCLUDING ANY OBLIGATION OF SUCH PERSON, DIRECT OR INDIRECT, (i) TO PURCHASE OR PAY (OR ADVANCE OR SUPPLY FUNDS FOR THE PURCHASE OR PAYMENT OF) SUCH DEBT OR TO PURCHASE (OR TO ADVANCE OR SUPPLY FUNDS FOR THE PURCHASE OF) ANY SECURITY FOR PAYMENT OF SUCH DEBT, (ii) TO PURCHASE OR LEASE PROPERTY, SECURITIES OR SERVICES FOR THE PURPOSE OF ASSURING THE OWNER OF SUCH DEBT OF THE PAYMENT OF SUCH DEBT OR (iii) TO MAINTAIN WORKING CAPITAL, EQUITY CAPITAL OR ANY OTHER FINANCIAL STATEMENT CONDITION OR LIQUIDITY OF THE PRIMARY OBLIGOR SO AS TO ENABLE THE PRIMARY OBLIGOR TO PAY SUCH DEBT; PROVIDED, HOWEVER, THAT THE TERM GUARANTEE SHALL NOT INCLUDE ENDORSEMENTS FOR COLLECTION OR DEPOSIT IN THE ORDINARY COURSE OF BUSINESS.

“HAZARDOUS SUBSTANCES” MEANS ANY TOXIC, CAUSTIC OR OTHERWISE HAZARDOUS SUBSTANCE, INCLUDING PETROLEUM, ITS DERIVATIVES, BY-PRODUCTS AND OTHER HYDROCARBONS, OR ANY SUBSTANCE HAVING ANY CONSTITUENT ELEMENTS DISPLAYING ANY OF THE FOREGOING CHARACTERISTICS.

“HYBRID SECURITIES” MEANS ANY TRUST PREFERRED SECURITIES, OR DEFERRABLE INTEREST SUBORDINATED DEBT WITH A MATURITY OF AT LEAST 20 YEARS ISSUED BY THE BORROWER, OR ANY BUSINESS TRUSTS, LIMITED LIABILITY COMPANIES, LIMITED PARTNERSHIPS (OR SIMILAR ENTITIES) (i) ALL OF THE COMMON EQUITY, GENERAL PARTNER OR SIMILAR INTERESTS OF WHICH ARE OWNED (EITHER DIRECTLY OR INDIRECTLY THROUGH ONE OR MORE WHOLLY OWNED SUBSIDIARIES) AT ALL TIMES BY THE BORROWER OR ANY OF ITS SUBSIDIARIES, (ii) THAT HAVE BEEN FORMED FOR THE PURPOSE OF ISSUING HYBRID PREFERRED SECURITIES AND (iii) SUBSTANTIALLY ALL THE ASSETS OF WHICH CONSIST OF (A) SUBORDINATED DEBT OF THE BORROWER OR A SUBSIDIARY OF THE BORROWER, AS THE CASE MAY BE, AND (B) PAYMENTS MADE FROM TIME TO TIME ON THE SUBORDINATED DEBT.

“INDEMNITEE” HAS THE MEANING SET FORTH IN SECTION 9.03(B).

“INTEREST PERIOD” MEANS WITH RESPECT TO EACH EURO-DOLLAR LOAN, A PERIOD COMMENCING ON THE DATE OF BORROWING SPECIFIED IN THE APPLICABLE NOTICE OF BORROWING OR ON THE DATE SPECIFIED IN THE APPLICABLE NOTICE OF CONVERSION/CONTINUATION AND ENDING ONE, TWO, THREE OR SIX MONTHS THEREAFTER, AS THE BORROWER MAY ELECT IN THE APPLICABLE NOTICE; PROVIDED, THAT:

(i) ANY INTEREST PERIOD WHICH WOULD OTHERWISE END ON A DAY WHICH IS NOT A BUSINESS DAY SHALL, SUBJECT TO CLAUSE (iii) BELOW, BE EXTENDED TO THE NEXT SUCCEEDING BUSINESS DAY UNLESS SUCH BUSINESS DAY FALLS IN ANOTHER CALENDAR MONTH, IN WHICH CASE SUCH INTEREST PERIOD SHALL END ON THE NEXT PRECEDING BUSINESS DAY;

(ii) ANY INTEREST PERIOD WHICH BEGINS ON THE LAST BUSINESS DAY OF A CALENDAR MONTH (OR ON A DAY FOR WHICH THERE IS NO NUMERICALLY CORRESPONDING DAY IN THE CALENDAR MONTH AT THE END OF SUCH INTEREST PERIOD) SHALL, SUBJECT TO CLAUSE (iii) BELOW, END ON THE LAST

BUSINESS DAY OF A CALENDAR MONTH; AND

(iii) NO INTEREST PERIOD SHALL END AFTER THE TERMINATION DATE.

“INTEREST RATE PROTECTION AGREEMENTS” MEANS ANY AGREEMENT PROVIDING FOR AN INTEREST RATE SWAP, CAP OR COLLAR, OR ANY OTHER FINANCIAL AGREEMENT DESIGNED TO PROTECT AGAINST FLUCTUATIONS IN INTEREST RATES.

“INTERNAL REVENUE CODE” MEANS THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR ANY SUCCESSOR STATUTE.

“ISSUING LENDER” MEANS PNC BANK, IN ITS CAPACITY AS ISSUING LENDER AND ITS SUCCESSOR OR SUCCESSORS IN SUCH CAPACITY.

“LEAD ARRANGER” MEANS PNC CAPITAL MARKETS, IN ITS CAPACITY AS THE LEAD ARRANGER AND BOOKRUNNER IN RESPECT OF THIS AGREEMENT.

“LENDER” MEANS EACH BANK OR OTHER LENDING INSTITUTION LISTED IN THE COMMITMENT APPENDIX AS HAVING A COMMITMENT, EACH ELIGIBLE ASSIGNEE THAT BECOMES A LENDER PURSUANT TO SECTION 9.06(C) AND THEIR RESPECTIVE SUCCESSORS AND SHALL INCLUDE, AS THE CONTEXT MAY REQUIRE, THE ISSUING LENDER IN SUCH CAPACITY.

“LENDER DEFAULT” MEANS (i) THE FAILURE (WHICH HAS NOT BEEN CURED) OF ANY LENDER TO MAKE AVAILABLE ANY LOAN OR ANY REIMBURSEMENT FOR A DRAWING UNDER A LETTER OF CREDIT WITHIN ONE BUSINESS DAY FROM THE DATE IT IS OBLIGATED TO MAKE SUCH AMOUNT AVAILABLE UNDER THE TERMS AND CONDITIONS OF THIS AGREEMENT OR (ii) A LENDER HAVING NOTIFIED, IN WRITING, THE ADMINISTRATIVE AGENT AND THE BORROWER THAT SUCH LENDER DOES NOT INTEND TO COMPLY WITH ITS OBLIGATIONS UNDER ARTICLE II FOLLOWING THE APPOINTMENT OF A RECEIVER OR CONSERVATOR WITH RESPECT TO SUCH LENDER AT THE DIRECTION OR REQUEST OF ANY REGULATORY AGENCY OR AUTHORITY.

“LETTER OF CREDIT” MEANS EACH LETTER OF CREDIT ISSUED PURSUANT TO SECTION 3.01 BY THE ISSUING LENDER.

“LETTER OF CREDIT FEE” HAS THE MEANING SET FORTH IN SECTION 2.07(B).

“LETTER OF CREDIT LIABILITIES” MEANS, FOR ANY LENDER AT ANY TIME, THE PRODUCT DERIVED BY MULTIPLYING (i) THE SUM, WITHOUT DUPLICATION, OF (A) THE AGGREGATE AMOUNT THAT IS (OR MAY THEREAFTER BECOME) AVAILABLE FOR DRAWING UNDER ALL LETTERS OF CREDIT OUTSTANDING AT SUCH TIME PLUS (B) THE AGGREGATE UNPAID AMOUNT OF ALL REIMBURSEMENT OBLIGATIONS OUTSTANDING AT SUCH TIME BY (ii) SUCH LENDER’S COMMITMENT RATIO.

“LETTER OF CREDIT REQUEST” HAS THE MEANING SET FORTH IN SECTION 3.02.

“LIEN” MEANS, WITH RESPECT TO ANY ASSET, ANY MORTGAGE, LIEN, PLEDGE, CHARGE, SECURITY INTEREST OR ENCUMBRANCE INTENDED TO CONFER OR HAVING THE EFFECT OF CONFERRING UPON A CREDITOR A PREFERENTIAL INTEREST.

“LOAN” MEANS A BASE RATE LOAN OR A EURO-DOLLAR LOAN AND “LOANS” MEANS ANY COMBINATION OF THE FOREGOING.

“LOAN DOCUMENTS” MEANS THIS AGREEMENT AND THE NOTES.

“LONDON INTERBANK OFFERED RATE” MEANS FOR ANY EURO-DOLLAR LOAN FOR ANY INTEREST PERIOD, THE RATE WHICH APPEARS ON THE BLOOMBERG PAGE BBAM1 (OR ON SUCH OTHER SUBSTITUTE BLOOMBERG PAGE THAT DISPLAYS RATES AT WHICH US DOLLAR DEPOSITS ARE OFFERED BY LEADING BANKS IN THE LONDON INTERBANK DEPOSIT MARKET), OR THE RATE WHICH IS QUOTED BY ANOTHER SOURCE SELECTED BY THE ADMINISTRATIVE AGENT WHICH HAS BEEN APPROVED BY THE BRITISH BANKERS’ ASSOCIATION AS AN AUTHORIZED INFORMATION VENDOR FOR THE PURPOSE OF DISPLAYING RATES AT WHICH US DOLLAR DEPOSITS ARE OFFERED BY LEADING BANKS IN THE LONDON INTERBANK DEPOSIT MARKET (FOR PURPOSES OF THIS DEFINITION, AN “ALTERNATE SOURCE”), AT APPROXIMATELY 11:00 A.M., LONDON TIME, TWO (2) BUSINESS DAYS PRIOR TO THE COMMENCEMENT OF SUCH INTEREST PERIOD AS THE LONDON INTERBANK OFFERED RATE FOR DOLLARS FOR AN AMOUNT COMPARABLE TO SUCH EURO-DOLLAR LOAN AND HAVING A BORROWING DATE AND A MATURITY COMPARABLE TO SUCH INTEREST PERIOD (OR IF THERE SHALL AT ANY TIME, FOR ANY REASON, NO LONGER EXIST A BLOOMBERG PAGE BBAM1 (OR ANY SUBSTITUTE PAGE) OR ANY ALTERNATE SOURCE, A COMPARABLE REPLACEMENT RATE DETERMINED BY THE ADMINISTRATIVE AGENT AT SUCH TIME (WHICH DETERMINATION SHALL BE CONCLUSIVE ABSENT MANIFEST ERROR)).

“MANDATORY LETTER OF CREDIT BORROWING” HAS THE MEANING SET FORTH IN SECTION 3.08.

“MARGIN STOCK” MEANS “MARGIN STOCK” AS SUCH TERM IS DEFINED IN REGULATION U.

“MATERIAL ADVERSE EFFECT” MEANS (i) ANY MATERIAL ADVERSE EFFECT UPON THE BUSINESS, ASSETS, FINANCIAL CONDITION OR OPERATIONS OF THE BORROWER OR THE BORROWER AND ITS SUBSIDIARIES, TAKEN AS A WHOLE; (ii) A MATERIAL ADVERSE EFFECT ON THE ABILITY OF THE BORROWER TO PERFORM ITS OBLIGATIONS UNDER THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS OR (iii) A MATERIAL ADVERSE EFFECT ON THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT, THE NOTES OR ANY OF THE OTHER LOAN DOCUMENTS.

“MATERIAL DEBT” MEANS DEBT (OTHER THAN THE NOTES) OF THE BORROWER IN A PRINCIPAL OR FACE AMOUNT EXCEEDING \$50,000,000.

“MATERIAL PLAN” MEANS AT ANY TIME A PLAN OR PLANS HAVING AGGREGATE UNFUNDED LIABILITIES IN EXCESS OF \$50,000,000. FOR THE AVOIDANCE OF DOUBT, WHERE ANY TWO OR MORE PLANS, WHICH INDIVIDUALLY DO NOT HAVE UNFUNDED LIABILITIES IN EXCESS OF \$50,000,000, BUT COLLECTIVELY HAVE AGGREGATE UNFUNDED LIABILITIES IN EXCESS OF \$50,000,000, ALL REFERENCES TO MATERIAL PLAN SHALL BE DEEMED TO APPLY TO SUCH PLANS AS A GROUP.

“MOODY’S” MEANS MOODY’S INVESTORS SERVICE, INC., A DELAWARE CORPORATION, AND ITS SUCCESSORS OR, ABSENT ANY SUCH SUCCESSOR, SUCH NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION AS THE BORROWER AND THE ADMINISTRATIVE AGENT MAY SELECT.

“MULTIEMPLOYER PLAN” MEANS AT ANY TIME AN EMPLOYEE PENSION BENEFIT PLAN WITHIN THE MEANING OF SECTION 4001(A)(3) OF ERISA TO WHICH ANY MEMBER OF THE ERISA GROUP IS THEN MAKING OR ACCRUING AN OBLIGATION TO MAKE CONTRIBUTIONS OR HAS WITHIN THE PRECEDING FIVE PLAN YEARS MADE CONTRIBUTIONS.

“NEW LENDER” MEANS WITH RESPECT TO ANY EVENT DESCRIBED IN SECTION 2.08(B), AN ELIGIBLE ASSIGNEE WHICH BECOMES A LENDER HEREUNDER AS A RESULT OF SUCH EVENT, AND “NEW LENDERS” MEANS ANY TWO OR MORE OF SUCH NEW LENDERS.

“NON-CONSENTING LENDER” HAS THE MEANING SET FORTH IN SECTION 9.05.

“NON-DEFAULTING LENDER” MEANS EACH LENDER OTHER THAN A DEFAULTING LENDER, AND “NON-DEFAULTING LENDERS” MEANS ANY TWO OR MORE OF SUCH LENDERS.

“NON-RECOURSE DEBT” MEANS DEBT THAT IS NONRECOURSE TO THE BORROWER OR ANY ASSET OF THE BORROWER.

“NON-U.S. LENDER” HAS THE MEANING SET FORTH IN SECTION 2.17(E).

“NOTE” MEANS A PROMISSORY NOTE, SUBSTANTIALLY IN THE FORM OF EXHIBIT B HERETO, ISSUED AT THE REQUEST OF A LENDER EVIDENCING THE OBLIGATION OF THE BORROWER TO REPAY OUTSTANDING REVOLVING LOANS.

“NOTICE OF BORROWING” HAS THE MEANING SET FORTH IN SECTION 2.03.

“NOTICE OF CONVERSION/CONTINUATION” HAS THE MEANING SET FORTH IN SECTION 2.06(D)(II).

“OBLIGATIONS” MEANS:

(i) ALL PRINCIPAL OF AND INTEREST (INCLUDING, WITHOUT LIMITATION, ANY INTEREST WHICH ACCRUES AFTER THE COMMENCEMENT OF ANY CASE, PROCEEDING OR OTHER ACTION RELATING TO THE BANKRUPTCY, INSOLVENCY OR REORGANIZATION OF THE BORROWER, WHETHER OR NOT ALLOWED OR ALLOWABLE AS A CLAIM IN ANY SUCH PROCEEDING) ON ANY LOAN, FEES PAYABLE OR REIMBURSEMENT OBLIGATION UNDER, OR ANY NOTE ISSUED PURSUANT TO, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT;

(ii) ALL OTHER AMOUNTS NOW OR HEREAFTER PAYABLE BY THE BORROWER AND ALL OTHER OBLIGATIONS OR LIABILITIES NOW EXISTING OR HEREAFTER ARISING OR INCURRED (INCLUDING, WITHOUT LIMITATION, ANY AMOUNTS WHICH ACCRUE AFTER THE COMMENCEMENT OF ANY CASE, PROCEEDING OR OTHER ACTION RELATING TO THE BANKRUPTCY, INSOLVENCY OR REORGANIZATION OF THE BORROWER, WHETHER OR NOT ALLOWED OR ALLOWABLE AS A CLAIM IN ANY SUCH PROCEEDING) ON THE PART OF THE BORROWER PURSUANT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT;

(iii) ALL EXPENSES OF THE ADMINISTRATIVE AGENT AND THE LEAD ARRANGER AS TO WHICH THE ADMINISTRATIVE AGENT AND THE LEAD ARRANGER HAVE A RIGHT TO REIMBURSEMENT UNDER SECTION 9.03(A) HEREOF OR UNDER ANY OTHER SIMILAR PROVISION OF ANY OTHER LOAN DOCUMENT;

(iv) ALL AMOUNTS PAID BY ANY INDEMNITEE AS TO WHICH SUCH INDEMNITEE HAS THE RIGHT TO REIMBURSEMENT UNDER SECTION 9.03 HEREOF OR UNDER ANY OTHER SIMILAR PROVISION OF ANY OTHER LOAN DOCUMENT; AND

(v) IN THE CASE OF EACH OF CLAUSES (i) THROUGH (iv) ABOVE, TOGETHER WITH ALL RENEWALS, MODIFICATIONS, CONSOLIDATIONS OR EXTENSIONS THEREOF.

“OFAC” MEANS THE U.S. DEPARTMENT OF THE TREASURY’S OFFICE OF FOREIGN ASSETS CONTROL.

“OPTIONAL INCREASE” HAS THE MEANING SET FORTH IN SECTION 2.19(A).

“OTHER TAXES” HAS THE MEANING SET FORTH IN SECTION 2.17(B).

“PARTICIPANT” HAS THE MEANING SET FORTH IN SECTION 9.06(B).

“PARTICIPANT REGISTER” HAS THE MEANING SET FORTH IN SECTION 9.06(B).

“PBGC” MEANS THE PENSION BENEFIT GUARANTY CORPORATION OR ANY ENTITY SUCCEEDING TO ANY OR ALL OF ITS FUNCTIONS UNDER ERISA.

“PERMITTED BUSINESS” WITH RESPECT TO ANY PERSON MEANS A BUSINESS THAT IS THE SAME OR SIMILAR TO THE BUSINESS OF THE BORROWER OR ANY SUBSIDIARY AS OF THE EFFECTIVE DATE, OR ANY BUSINESS REASONABLY RELATED THERETO.

“PERMITTED LIENS” MEANS:

(i) ANY LIENS EXISTING ON THE EFFECTIVE DATE AND DESCRIBED ON SCHEDULE 6.10 HERETO;

(ii) ANY LIENS SECURING DEBT WHICH MATURES LESS THAN ONE YEAR FROM THE DATE OF ISSUANCE OR INCURRENCE THEREOF AND IS NOT EXTENDIBLE AT THE OPTION OF THE ISSUER, AND ANY REFUNDINGS, REFINANCINGS AND/OR REPLACEMENTS OF ANY SUCH DEBT BY OR WITH SIMILAR SECURED DEBT;

(iii) OTHER LIENS SECURING DEBT THE PRINCIPAL AMOUNT OF WHICH DOES NOT EXCEED 10% OF THE TOTAL ASSETS OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES AS SHOWN ON THE BORROWER’S MOST RECENT AUDITED CONSOLIDATED BALANCE SHEET; AND

(iv) ANY LIENS GRANTED IN CONNECTION WITH EXTENDING, RENEWING, REPLACING OR REFINANCING, IN WHOLE OR IN PART, THE DEBT SECURED BY LIENS DESCRIBED IN THE FOREGOING CLAUSES (i) THROUGH (iii), TO THE EXTENT OF SUCH DEBT SO EXTENDED, RENEWED, REPLACED OR REFINANCED.

“PERSON” MEANS AN INDIVIDUAL, A CORPORATION, A PARTNERSHIP, AN ASSOCIATION, A LIMITED LIABILITY COMPANY, A TRUST OR AN UNINCORPORATED ASSOCIATION OR ANY OTHER ENTITY OR ORGANIZATION, INCLUDING A GOVERNMENT OR POLITICAL SUBDIVISION OR AN AGENCY OR INSTRUMENTALITY THEREOF.

“PLAN” MEANS AT ANY TIME AN EMPLOYEE PENSION BENEFIT PLAN (INCLUDING A MULTIEMPLOYER PLAN) WHICH IS COVERED BY TITLE IV OF ERISA OR SUBJECT TO THE MINIMUM FUNDING STANDARDS UNDER SECTION 412 OF THE INTERNAL REVENUE CODE AND EITHER (i) IS MAINTAINED, OR CONTRIBUTED TO, BY ANY MEMBER OF THE ERISA GROUP FOR EMPLOYEES OF ANY MEMBER OF THE ERISA GROUP OR (ii) HAS AT ANY TIME WITHIN THE PRECEDING FIVE YEARS BEEN MAINTAINED, OR CONTRIBUTED TO, BY ANY PERSON WHICH WAS AT SUCH TIME A MEMBER OF THE ERISA GROUP FOR EMPLOYEES OF ANY PERSON WHICH WAS AT SUCH TIME A MEMBER OF THE ERISA GROUP.

“PNC BANK” MEANS PNC BANK, NATIONAL ASSOCIATION AND ITS SUCCESSORS AND ASSIGNS.

“PNC CAPITAL MARKETS” MEANS PNC CAPITAL MARKETS LLC AND ITS SUCCESSORS AND ASSIGNS.

“PRIME RATE” MEANS THE INTEREST RATE PER ANNUM ANNOUNCED FROM TIME TO TIME BY THE ADMINISTRATIVE AGENT AT THE MAIN BANKING OFFICE OF THE ADMINISTRATIVE AGENT IN PITTSBURGH, PENNSYLVANIA AS ITS THEN PRIME RATE, WHICH RATE MAY NOT BE THE LOWEST OR MOST FAVORABLE RATE THEN BEING CHARGED COMMERCIAL BORROWERS OR OTHERS BY THE ADMINISTRATIVE AGENT. ANY CHANGE IN THE PRIME RATE SHALL TAKE EFFECT AT THE OPENING OF BUSINESS ON THE DAY SUCH CHANGE IS ANNOUNCED.

“PUBLIC REPORTING COMPANY” MEANS A COMPANY SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES AND EXCHANGE ACT OF 1934.

“QUARTERLY DATE” MEANS THE LAST BUSINESS DAY OF EACH OF MARCH, JUNE, SEPTEMBER AND DECEMBER.

“RATING AGENCY” MEANS S&P OR MOODY’S, AND “RATING AGENCIES” MEANS BOTH OF THEM.

“RELATED PARTIES” MEANS, WITH RESPECT TO ANY PERSON, SUCH PERSON’S AFFILIATES AND THE PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, AGENTS AND ADVISORS OF SUCH PERSON AND OF SUCH PERSON’S AFFILIATES.

“REGISTER” HAS THE MEANING SET FORTH IN SECTION 9.06(E).

“REGULATION U” MEANS REGULATION U OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AS AMENDED, OR ANY SUCCESSOR REGULATION.

“REGULATION X” MEANS REGULATION X OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AS AMENDED, OR ANY SUCCESSOR REGULATION.

“REIMBURSEMENT OBLIGATIONS” MEANS AT ANY TIME ALL OBLIGATIONS OF THE BORROWER TO REIMBURSE THE ISSUING LENDER PURSUANT TO SECTION 3.06 FOR AMOUNTS PAID BY THE ISSUING LENDER IN RESPECT OF DRAWINGS UNDER LETTERS OF CREDIT, INCLUDING ANY PORTION OF ANY SUCH OBLIGATION TO WHICH A LENDER HAS BECOME SUBROGATED PURSUANT TO SECTION 3.08.

“REPLACEMENT DATE” HAS THE MEANING SET FORTH IN SECTION 2.08(B).

“REPLACEMENT LENDER” HAS THE MEANING SET FORTH IN SECTION 2.08(B).

“REQUIRED LENDERS” MEANS AT ANY TIME NON-DEFAULTING LENDERS HAVING GREATER THAN 50% OF THE AGGREGATE AMOUNT OF THE COMMITMENTS OF ALL NON-DEFAULTING LENDERS OR, IF THE COMMITMENTS SHALL HAVE BEEN TERMINATED, HAVING GREATER THAN 50% OF THE AGGREGATE AMOUNT OF THE REVOLVING OUTSTANDINGS OF THE NON-DEFAULTING LENDERS AT SUCH TIME.

“RETIRED LENDER” MEANS A LENDER THAT CEASES TO BE A LENDER HEREUNDER PURSUANT TO THE OPERATION OF SECTION 2.08(B).

“REVOLVING” MEANS, WHEN USED WITH RESPECT TO (i) A BORROWING, A BORROWING MADE BY THE BORROWER UNDER SECTION 2.01, AS IDENTIFIED IN THE NOTICE OF BORROWING WITH RESPECT THERETO OR A MANDATORY LETTER OF CREDIT BORROWING AND (ii) A LOAN, A LOAN MADE UNDER SECTION 2.01; PROVIDED, THAT, IF ANY SUCH LOAN OR LOANS (OR PORTIONS THEREOF) ARE COMBINED OR SUBDIVIDED PURSUANT TO A NOTICE OF CONVERSION/CONTINUATION, THE TERM “REVOLVING LOAN” SHALL REFER TO THE COMBINED PRINCIPAL AMOUNT RESULTING FROM SUCH COMBINATION OR TO EACH OF THE SEPARATE PRINCIPAL AMOUNTS RESULTING FROM SUCH SUBDIVISION, AS THE CASE MAY BE.

“REVOLVING OUTSTANDINGS” MEANS AT ANY TIME, WITH RESPECT TO ANY LENDER, THE SUM OF (i) THE AGGREGATE PRINCIPAL AMOUNT OF SUCH LENDER’S OUTSTANDING REVOLVING LOANS PLUS (ii) THE AGGREGATE AMOUNT OF SUCH LENDER’S LETTER OF CREDIT LIABILITIES.

“REVOLVING OUTSTANDINGS EXCESS” HAS THE MEANING SET FORTH IN SECTION 2.09.

“S&P” MEANS STANDARD & POOR’S RATINGS GROUP, A DIVISION OF MCGRAW HILL, INC., A NEW YORK CORPORATION, AND ITS SUCCESSORS OR, ABSENT ANY SUCH SUCCESSOR, SUCH NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION AS THE BORROWER AND THE ADMINISTRATIVE AGENT MAY SELECT.

“SANCTIONED ENTITY” MEANS (i) AN AGENCY OF THE GOVERNMENT OF, (ii) AN ORGANIZATION DIRECTLY OR INDIRECTLY CONTROLLED BY, OR (iii) A PERSON RESIDENT IN, A COUNTRY THAT IS SUBJECT TO A SANCTIONS PROGRAM IDENTIFIED ON THE LIST MAINTAINED BY OFAC AND AVAILABLE AT [HTTP://WWW.TREAS.GOV/OFFICES/ENFORCEMENT/OFAC/SANCTIONS/INDEX.HTML](http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html), OR AS OTHERWISE PUBLISHED FROM TIME TO TIME AS SUCH PROGRAM MAY BE APPLICABLE TO SUCH AGENCY, ORGANIZATION OR PERSON.

“**SANCTIONED PERSON**” MEANS A PERSON NAMED ON THE LIST OF SPECIALLY DESIGNATED NATIONALS OR BLOCKED PERSONS MAINTAINED BY OFAC AVAILABLE AT [HTTP://WWW.TREAS.GOV/OFFICES/ENFORCEMENT/OFAC/SDN/INDEX.HTML](http://www.treas.gov/offices/enforcement/ofac/sdn/index.html), OR AS OTHERWISE PUBLISHED FROM TIME TO TIME.

“**SEC**” MEANS THE SECURITIES AND EXCHANGE COMMISSION.

“**SUBSIDIARY**” MEANS ANY CORPORATION, A MAJORITY OF THE OUTSTANDING VOTING STOCK OF WHICH IS OWNED, DIRECTLY OR INDIRECTLY, BY THE BORROWER OR ONE OR MORE OTHER SUBSIDIARIES OF THE BORROWER.

“**SYNTHETIC LEASE**” MEANS ANY SYNTHETIC LEASE, TAX RETENTION OPERATING LEASE, OFF-BALANCE SHEET LOAN OR SIMILAR OFF-BALANCE SHEET FINANCING PRODUCT WHERE SUCH TRANSACTION IS CONSIDERED BORROWED MONEY INDEBTEDNESS FOR TAX PURPOSES BUT IS CLASSIFIED AS AN OPERATING LEASE IN ACCORDANCE WITH GAAP.

“**TAXES**” HAS THE MEANING SET FORTH IN SECTION 2.17(A).

“**TERMINATION DATE**” MEANS THE EARLIEST TO OCCUR OF (i) OCTOBER 30, 2018 AND (ii) SUCH EARLIER DATE UPON WHICH ALL COMMITMENTS SHALL HAVE BEEN TERMINATED IN THEIR ENTIRETY IN ACCORDANCE WITH THIS AGREEMENT.

“**TYPE**”, WHEN USED IN RESPECT OF ANY LOAN OR BORROWING, SHALL REFER TO THE RATE BY REFERENCE TO WHICH INTEREST ON SUCH LOAN OR ON THE LOANS COMPRISING SUCH BORROWING IS DETERMINED.

“**UNFUNDED LIABILITIES**” MEANS, WITH RESPECT TO ANY PLAN AT ANY TIME, THE AMOUNT (IF ANY) BY WHICH (i) THE VALUE OF ALL BENEFIT LIABILITIES UNDER SUCH PLAN, DETERMINED ON A PLAN TERMINATION BASIS USING THE ASSUMPTIONS PRESCRIBED BY THE PBGC FOR PURPOSES OF SECTION 4044 OF ERISA, EXCEEDS (ii) THE FAIR MARKET VALUE OF ALL PLAN ASSETS ALLOCABLE TO SUCH LIABILITIES UNDER TITLE IV OF ERISA (EXCLUDING ANY ACCRUED BUT UNPAID CONTRIBUTIONS), ALL DETERMINED AS OF THE THEN MOST RECENT VALUATION DATE FOR SUCH PLAN, BUT ONLY TO THE EXTENT THAT SUCH EXCESS REPRESENTS A POTENTIAL LIABILITY OF A MEMBER OF THE ERISA GROUP TO THE PBGC OR ANY OTHER PERSON UNDER TITLE IV OF ERISA.

“**UNITED STATES**” MEANS THE UNITED STATES OF AMERICA, INCLUDING THE STATES AND THE DISTRICT OF COLUMBIA, BUT EXCLUDING ITS TERRITORIES AND POSSESSIONS.

“**UTILITY SUBSIDIARIES**” MEANS EACH OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY.

“**VOTING STOCK**” MEANS STOCK (OR OTHER INTERESTS) OF A CORPORATION HAVING ORDINARY VOTING POWER FOR THE ELECTION OF DIRECTORS, MANAGERS OR TRUSTEES THEREOF, WHETHER AT ALL TIMES OR ONLY SO LONG AS NO SENIOR CLASS OF STOCK HAS SUCH VOTING POWER BY REASON OF ANY CONTINGENCY.

“**WHOLLY OWNED SUBSIDIARY**” MEANS, WITH RESPECT TO ANY PERSON AT ANY DATE, ANY SUBSIDIARY OF SUCH PERSON ALL OF THE VOTING STOCK OF WHICH (EXCEPT DIRECTORS’ QUALIFYING SHARES) IS AT THE TIME DIRECTLY OR INDIRECTLY OWNED BY SUCH PERSON.

ARTICLE II THE CREDITS

SECTION 2.01 COMMITMENTS TO LEND. EACH LENDER SEVERALLY AGREES, ON THE TERMS AND CONDITIONS SET FORTH IN THIS AGREEMENT, TO MAKE REVOLVING LOANS TO THE BORROWER PURSUANT TO THIS SECTION 2.01 FROM TIME TO TIME DURING THE AVAILABILITY PERIOD IN AMOUNTS SUCH THAT ITS REVOLVING OUTSTANDINGS SHALL NOT EXCEED ITS COMMITMENT; PROVIDED, THAT, IMMEDIATELY AFTER GIVING EFFECT TO EACH SUCH REVOLVING LOAN, THE AGGREGATE PRINCIPAL AMOUNT OF ALL OUTSTANDING REVOLVING LOANS (AFTER GIVING EFFECT TO ANY AMOUNT REQUESTED) SHALL NOT EXCEED THE AGGREGATE COMMITMENTS LESS THE SUM OF ALL OUTSTANDING LETTER OF CREDIT LIABILITIES. EACH REVOLVING BORROWING (OTHER THAN MANDATORY LETTER OF CREDIT BORROWINGS) SHALL BE IN AN AGGREGATE PRINCIPAL AMOUNT OF \$5,000,000 OR ANY LARGER INTEGRAL MULTIPLE OF \$1,000,000 (EXCEPT THAT ANY SUCH BORROWING MAY BE IN THE AGGREGATE AMOUNT OF THE UNUSED COMMITMENTS) AND SHALL BE MADE FROM THE SEVERAL LENDERS RATABLY IN PROPORTION TO THEIR RESPECTIVE COMMITMENTS. WITHIN THE FOREGOING LIMITS, THE BORROWER MAY BORROW UNDER THIS SECTION 2.01, REPAY, OR, TO THE EXTENT PERMITTED BY SECTION 2.10, PREPAY, REVOLVING LOANS AND REBORROW UNDER THIS SECTION 2.01.

SECTION 2.02 RESERVED.

SECTION 2.03 NOTICE OF BORROWINGS. THE BORROWER SHALL GIVE THE ADMINISTRATIVE AGENT NOTICE WHICH NOTICE MAY BE IN WRITING OR BY TELEPHONE IMMEDIATELY CONFIRMED IN WRITING SUBSTANTIALLY IN THE FORM OF EXHIBIT A-1 HERETO (A “NOTICE OF BORROWING”, IT BEING UNDERSTOOD THAT THE ADMINISTRATIVE AGENT MAY RELY ON THE AUTHORITY OF ANY INDIVIDUAL MAKING ANY SUCH A TELEPHONIC REQUEST WITHOUT THE NECESSITY OF RECEIPT OF SUCH WRITTEN CONFIRMATION) NOT LATER THAN (A) 11:30 A.M. (PITTSBURGH, PENNSYLVANIA TIME) ON THE DATE OF EACH BASE RATE BORROWING AND (B) 12:00 NOON (PITTSBURGH, PENNSYLVANIA TIME) ON THE THIRD BUSINESS DAY (OR, SOLELY WITH RESPECT TO ANY EURO-DOLLAR BORROWING TO BE MADE ON THE FIRST BUSINESS DAY AFTER THE EFFECTIVE DATE, ONE BUSINESS DAY) BEFORE EACH EURO-DOLLAR BORROWING, SPECIFYING:

- (i) THE DATE OF SUCH BORROWING, WHICH SHALL BE A BUSINESS DAY;
- (ii) THE AGGREGATE AMOUNT OF SUCH BORROWING;
- (iii) THE INITIAL TYPE OF THE LOANS COMPRISING SUCH BORROWING; AND
- (iv) IN THE CASE OF A EURO-DOLLAR BORROWING, THE DURATION OF THE INITIAL INTEREST PERIOD APPLICABLE THERETO, SUBJECT TO THE PROVISIONS OF THE DEFINITION OF INTEREST PERIOD.

NOTWITHSTANDING THE FOREGOING, NO MORE THAN SIX (6) GROUPS OF EURO-DOLLAR LOANS SHALL BE OUTSTANDING AT ANY ONE TIME, AND ANY LOANS WHICH WOULD

EXCEED SUCH LIMITATION SHALL BE MADE AS BASE RATE LOANS.

SECTION 2.04 NOTICE TO LENDERS; FUNDING OF REVOLVING LOANS.

(A) NOTICE TO LENDERS. UPON RECEIPT OF A NOTICE OF BORROWING, THE ADMINISTRATIVE AGENT SHALL PROMPTLY NOTIFY EACH LENDER OF SUCH LENDER'S RATABLE SHARE OF THE BORROWING REFERRED TO IN THE NOTICE OF BORROWING, AND SUCH NOTICE OF BORROWING SHALL NOT THEREAFTER BE REVOCABLE BY THE BORROWER.

(B) FUNDING OF LOANS. NOT LATER THAN (A) 1:00 P.M. (PITTSBURGH, PENNSYLVANIA TIME) ON THE DATE OF EACH BASE RATE BORROWING AND (B) 12:00 NOON (PITTSBURGH, PENNSYLVANIA TIME) ON THE DATE OF EACH EURO-DOLLAR BORROWING, EACH LENDER SHALL MAKE AVAILABLE ITS RATABLE SHARE OF SUCH BORROWING, IN FEDERAL OR OTHER FUNDS IMMEDIATELY AVAILABLE IN PITTSBURGH, PENNSYLVANIA, TO THE ADMINISTRATIVE AGENT AT ITS ADDRESS REFERRED TO IN SECTION 9.01. UNLESS THE ADMINISTRATIVE AGENT DETERMINES THAT ANY APPLICABLE CONDITION SPECIFIED IN ARTICLE IV HAS NOT BEEN SATISFIED, THE ADMINISTRATIVE AGENT SHALL APPLY ANY FUNDS SO RECEIVED IN RESPECT OF A BORROWING AVAILABLE TO THE BORROWER AT THE ADMINISTRATIVE AGENT'S ADDRESS NOT LATER THAN (A) 3:00 P.M. (PITTSBURGH, PENNSYLVANIA TIME) ON THE DATE OF EACH BASE RATE BORROWING AND (B) 2:00 P.M. (PITTSBURGH, PENNSYLVANIA TIME) ON THE DATE OF EACH EURO-DOLLAR BORROWING.

(C) FUNDING BY THE ADMINISTRATIVE AGENT IN ANTICIPATION OF AMOUNTS DUE FROM THE LENDERS. UNLESS THE ADMINISTRATIVE AGENT SHALL HAVE RECEIVED NOTICE FROM A LENDER PRIOR TO THE DATE OF ANY BORROWING (EXCEPT IN THE CASE OF A BASE RATE BORROWING, IN WHICH CASE PRIOR TO THE TIME OF SUCH BORROWING) THAT SUCH LENDER WILL NOT MAKE AVAILABLE TO THE ADMINISTRATIVE AGENT SUCH LENDER'S SHARE OF SUCH BORROWING, THE ADMINISTRATIVE AGENT MAY ASSUME THAT SUCH LENDER HAS MADE SUCH SHARE AVAILABLE TO THE ADMINISTRATIVE AGENT ON THE DATE OF SUCH BORROWING IN ACCORDANCE WITH SUBSECTION (B) OF THIS SECTION, AND THE ADMINISTRATIVE AGENT MAY, IN RELIANCE UPON SUCH ASSUMPTION, MAKE AVAILABLE TO THE BORROWER ON SUCH DATE A CORRESPONDING AMOUNT. IF AND TO THE EXTENT THAT SUCH LENDER SHALL NOT HAVE SO MADE SUCH SHARE AVAILABLE TO THE ADMINISTRATIVE AGENT, SUCH LENDER AND THE BORROWER SEVERALLY AGREE TO REPAY TO THE ADMINISTRATIVE AGENT FORTHWITH ON DEMAND SUCH CORRESPONDING AMOUNT, TOGETHER WITH INTEREST THEREON FOR EACH DAY FROM THE DATE SUCH AMOUNT IS MADE AVAILABLE TO THE BORROWER UNTIL THE DATE SUCH AMOUNT IS REPAYED TO THE ADMINISTRATIVE AGENT AT (i) A RATE PER ANNUM EQUAL TO THE HIGHER OF THE FEDERAL FUNDS RATE AND THE INTEREST RATE APPLICABLE THERETO PURSUANT TO SECTION 2.06, IN THE CASE OF THE BORROWER, AND (ii) THE FEDERAL FUNDS RATE, IN THE CASE OF SUCH LENDER. ANY PAYMENT BY THE BORROWER HEREUNDER SHALL BE WITHOUT PREJUDICE TO ANY CLAIM THE BORROWER MAY HAVE AGAINST A LENDER THAT SHALL HAVE FAILED TO MAKE ITS SHARE OF A BORROWING AVAILABLE TO THE ADMINISTRATIVE AGENT. IF SUCH LENDER SHALL REPAY TO THE ADMINISTRATIVE AGENT SUCH CORRESPONDING AMOUNT, SUCH AMOUNT SO REPAYED SHALL CONSTITUTE SUCH LENDER'S LOAN INCLUDED IN SUCH BORROWING FOR PURPOSES OF THIS AGREEMENT.

(D) OBLIGATIONS OF LENDERS SEVERAL. THE FAILURE OF ANY LENDER TO MAKE A LOAN REQUIRED TO BE MADE BY IT AS PART OF ANY BORROWING HEREUNDER SHALL NOT RELIEVE ANY OTHER LENDER OF ITS OBLIGATION, IF ANY, HEREUNDER TO MAKE ANY LOAN ON THE DATE OF SUCH BORROWING, BUT NO LENDER SHALL BE RESPONSIBLE FOR THE FAILURE OF ANY OTHER LENDER TO MAKE THE LOAN TO BE MADE BY SUCH OTHER LENDER ON SUCH DATE OF BORROWING.

SECTION 2.05 NOTELESS AGREEMENT; EVIDENCE OF INDEBTEDNESS.

(A) EACH LENDER SHALL MAINTAIN IN ACCORDANCE WITH ITS USUAL PRACTICE AN ACCOUNT OR ACCOUNTS EVIDENCING THE INDEBTEDNESS OF THE BORROWER TO SUCH LENDER RESULTING FROM EACH LOAN MADE BY SUCH LENDER FROM TIME TO TIME, INCLUDING THE AMOUNTS OF PRINCIPAL AND INTEREST PAYABLE AND PAID TO SUCH LENDER FROM TIME TO TIME HEREUNDER.

(B) THE ADMINISTRATIVE AGENT SHALL ALSO MAINTAIN ACCOUNTS IN WHICH IT WILL RECORD (i) THE AMOUNT OF EACH LOAN MADE HEREUNDER, THE TYPE THEREOF AND THE INTEREST PERIOD WITH RESPECT THERETO, (ii) THE AMOUNT OF ANY PRINCIPAL OR INTEREST DUE AND PAYABLE OR TO BECOME DUE AND PAYABLE FROM THE BORROWER TO EACH LENDER HEREUNDER AND (iii) THE AMOUNT OF ANY SUM RECEIVED BY THE ADMINISTRATIVE AGENT HEREUNDER FROM THE BORROWER AND EACH LENDER'S SHARE THEREOF.

(C) THE ENTRIES MAINTAINED IN THE ACCOUNTS MAINTAINED PURSUANT TO SUBSECTIONS (A) AND (B) ABOVE SHALL BE PRIMA FACIE EVIDENCE OF THE EXISTENCE AND AMOUNTS OF THE OBLIGATIONS THEREIN RECORDED; PROVIDED, HOWEVER, THAT THE FAILURE OF THE ADMINISTRATIVE AGENT OR ANY LENDER TO MAINTAIN SUCH ACCOUNTS OR ANY ERROR THEREIN SHALL NOT IN ANY MANNER AFFECT THE OBLIGATION OF THE BORROWER TO REPAY THE OBLIGATIONS IN ACCORDANCE WITH THEIR TERMS.

(D) ANY LENDER MAY REQUEST THAT ITS LOANS BE EVIDENCED BY A NOTE. IN SUCH EVENT, THE BORROWER SHALL PREPARE, EXECUTE AND DELIVER TO SUCH LENDER A NOTE PAYABLE TO THE ORDER OF SUCH LENDER. THEREAFTER, THE LOANS EVIDENCED BY SUCH NOTE AND INTEREST THEREON SHALL AT ALL TIMES (INCLUDING AFTER ANY ASSIGNMENT PURSUANT TO SECTION 9.06(C)) BE REPRESENTED BY ONE OR MORE NOTES PAYABLE TO THE ORDER OF THE PAYEE NAMED THEREIN OR ANY ASSIGNEE PURSUANT TO SECTION 9.06(C), EXCEPT TO THE EXTENT THAT ANY SUCH LENDER OR ASSIGNEE SUBSEQUENTLY RETURNS ANY SUCH NOTE FOR CANCELLATION AND REQUESTS THAT SUCH LOANS ONCE AGAIN BE EVIDENCED AS DESCRIBED IN SUBSECTIONS (A) AND (B) ABOVE.

SECTION 2.06 INTEREST RATES.

(A) INTEREST RATE OPTIONS. THE LOANS SHALL, AT THE OPTION OF THE BORROWER AND EXCEPT AS OTHERWISE PROVIDED HEREIN, BE INCURRED AND MAINTAINED AS, OR CONVERTED INTO, ONE OR MORE BASE RATE LOANS OR EURO-DOLLAR LOANS.

(B) BASE RATE LOANS. EACH LOAN WHICH IS MADE AS, OR CONVERTED INTO, A BASE RATE LOAN SHALL BEAR INTEREST ON THE OUTSTANDING PRINCIPAL AMOUNT THEREOF, FOR EACH DAY FROM THE DATE SUCH LOAN IS MADE AS, OR CONVERTED INTO, A BASE RATE LOAN UNTIL IT BECOMES DUE OR IS CONVERTED INTO A LOAN OF ANY OTHER TYPE, AT A RATE PER ANNUM EQUAL TO THE SUM OF THE BASE RATE FOR SUCH DAY PLUS THE APPLICABLE PERCENTAGE FOR BASE RATE LOANS FOR SUCH DAY. SUCH INTEREST SHALL, IN EACH CASE, BE PAYABLE QUARTERLY IN ARREARS ON EACH QUARTERLY DATE AND, WITH RESPECT TO THE PRINCIPAL AMOUNT OF ANY BASE RATE LOAN CONVERTED TO A EURO-DOLLAR LOAN, ON THE DATE SUCH BASE RATE LOAN IS SO CONVERTED. ANY OVERDUE PRINCIPAL OR INTEREST BEYOND ANY PERIOD OF GRACE CONTEMPLATED IN SECTION 7.01(B) ON ANY BASE RATE LOAN SHALL BEAR INTEREST, PAYABLE ON DEMAND, FOR EACH DAY UNTIL PAID AT A RATE PER ANNUM EQUAL TO THE SUM OF 2% PLUS THE RATE OTHERWISE APPLICABLE TO BASE RATE LOANS FOR SUCH DAY.

(C) EURO-DOLLAR LOANS. EACH EURO-DOLLAR LOAN SHALL BEAR INTEREST ON THE OUTSTANDING PRINCIPAL AMOUNT THEREOF, FOR EACH DAY DURING THE

INTEREST PERIOD APPLICABLE THERETO, AT A RATE PER ANNUM EQUAL TO THE SUM OF THE ADJUSTED LONDON INTERBANK OFFERED RATE FOR SUCH INTEREST PERIOD PLUS THE APPLICABLE PERCENTAGE FOR EURO-DOLLAR LOANS FOR SUCH DAY. SUCH INTEREST SHALL BE PAYABLE FOR EACH INTEREST PERIOD ON THE LAST DAY THEREOF AND, IF SUCH INTEREST PERIOD IS LONGER THAN THREE MONTHS, AT INTERVALS OF THREE MONTHS AFTER THE FIRST DAY THEREOF. ANY OVERDUE PRINCIPAL OF OR INTEREST BEYOND ANY PERIOD OF GRACE CONTEMPLATED IN SECTION 7.01(B) ON ANY EURO-DOLLAR LOAN SHALL BEAR INTEREST, PAYABLE ON DEMAND, FOR EACH DAY UNTIL PAID AT A RATE PER ANNUM EQUAL TO THE SUM OF 2% PLUS THE SUM OF (A) THE ADJUSTED LONDON INTERBANK OFFERED RATE APPLICABLE TO SUCH LOAN AT THE DATE SUCH PAYMENT WAS DUE PLUS (B) THE APPLICABLE PERCENTAGE FOR EURO-DOLLAR LOANS FOR SUCH DAY (OR, IF THE CIRCUMSTANCE DESCRIBED IN SECTION 2.14 SHALL EXIST, AT A RATE PER ANNUM EQUAL TO THE SUM OF 2% PLUS THE RATE APPLICABLE TO BASE RATE LOANS FOR SUCH DAY).

(D) METHOD OF ELECTING INTEREST RATES.

(i) SUBJECT TO SECTION 2.06(A), THE LOANS INCLUDED IN EACH REVOLVING BORROWING SHALL BEAR INTEREST INITIALLY AT THE TYPE OF RATE SPECIFIED BY THE BORROWER IN THE APPLICABLE NOTICE OF BORROWING. THEREAFTER, WITH RESPECT TO EACH GROUP OF LOANS, THE BORROWER SHALL HAVE THE OPTION (A) TO CONVERT ALL OR ANY PART OF (Y) SO LONG AS NO DEFAULT IS IN EXISTENCE ON THE DATE OF CONVERSION, OUTSTANDING BASE RATE LOANS TO EURO-DOLLAR LOANS AND (Z) OUTSTANDING EURO-DOLLAR LOANS TO BASE RATE LOANS; PROVIDED, IN EACH CASE, THAT THE AMOUNT SO CONVERTED SHALL BE EQUAL TO \$5,000,000 OR ANY LARGER INTEGRAL MULTIPLE OF \$1,000,000, OR (B) UPON THE EXPIRATION OF ANY INTEREST PERIOD APPLICABLE TO OUTSTANDING EURO-DOLLAR LOANS, SO LONG AS NO DEFAULT IS IN EXISTENCE ON THE DATE OF CONTINUATION, TO CONTINUE ALL OR ANY PORTION OF SUCH LOANS, EQUAL TO \$5,000,000 AND ANY LARGER INTEGRAL MULTIPLE OF \$1,000,000 IN EXCESS OF THAT AMOUNT AS EURO-DOLLAR LOANS. THE INTEREST PERIOD OF ANY BASE RATE LOAN CONVERTED TO A EURO-DOLLAR LOAN PURSUANT TO CLAUSE (A) ABOVE SHALL COMMENCE ON THE DATE OF SUCH CONVERSION. THE SUCCEEDING INTEREST PERIOD OF ANY EURO-DOLLAR LOAN CONTINUED PURSUANT TO CLAUSE (B) ABOVE SHALL COMMENCE ON THE LAST DAY OF THE INTEREST PERIOD OF THE LOAN SO CONTINUED. EURO-DOLLAR LOANS MAY ONLY BE CONVERTED ON THE LAST DAY OF THE THEN CURRENT INTEREST PERIOD APPLICABLE THERETO OR ON THE DATE REQUIRED PURSUANT TO SECTION 2.18.

(ii) THE BORROWER SHALL DELIVER A WRITTEN NOTICE OF EACH SUCH CONVERSION OR CONTINUATION (A "NOTICE OF CONVERSION/CONTINUATION") TO THE ADMINISTRATIVE AGENT NO LATER THAN (A) 12:00 NOON (PITTSBURGH, PENNSYLVANIA TIME) AT LEAST THREE (3) BUSINESS DAYS BEFORE THE EFFECTIVE DATE OF THE PROPOSED CONVERSION TO, OR CONTINUATION OF, A EURO DOLLAR LOAN AND (B) 11:30 A.M. (PITTSBURGH, PENNSYLVANIA TIME) ON THE DAY OF A CONVERSION TO A BASE RATE LOAN. A WRITTEN NOTICE OF CONVERSION/CONTINUATION SHALL BE SUBSTANTIALLY IN THE FORM OF EXHIBIT A-2 ATTACHED HERETO AND SHALL SPECIFY: (A) THE GROUP OF LOANS (OR PORTION THEREOF) TO WHICH SUCH NOTICE APPLIES, (B) THE PROPOSED CONVERSION/CONTINUATION DATE (WHICH SHALL BE A BUSINESS DAY), (C) THE AGGREGATE AMOUNT OF THE LOANS BEING CONVERTED/CONTINUED, (D) AN ELECTION BETWEEN THE BASE RATE AND THE ADJUSTED LONDON INTERBANK OFFERED RATE AND (E) IN THE CASE OF A CONVERSION TO, OR A CONTINUATION OF, EURO-DOLLAR LOANS, THE REQUESTED INTEREST PERIOD. UPON RECEIPT OF A NOTICE OF CONVERSION/CONTINUATION, THE ADMINISTRATIVE AGENT SHALL GIVE EACH LENDER PROMPT NOTICE OF THE CONTENTS THEREOF AND SUCH LENDER'S PRO RATA SHARE OF ALL CONVERSIONS AND CONTINUATIONS REQUESTED THEREIN. IF NO TIMELY NOTICE OF CONVERSION/CONTINUATION IS DELIVERED BY THE BORROWER AS TO ANY EURO-DOLLAR LOAN, AND SUCH LOAN IS NOT REPAYED BY THE BORROWER AT THE END OF THE APPLICABLE INTEREST PERIOD, SUCH LOAN SHALL BE CONVERTED AUTOMATICALLY TO A BASE RATE LOAN ON THE LAST DAY OF THE THEN APPLICABLE INTEREST PERIOD.

(E) DETERMINATION AND NOTICE OF INTEREST RATES. THE ADMINISTRATIVE AGENT SHALL DETERMINE EACH INTEREST RATE APPLICABLE TO THE LOANS HEREUNDER. THE ADMINISTRATIVE AGENT SHALL GIVE PROMPT NOTICE TO THE BORROWER AND THE PARTICIPATING LENDERS OF EACH RATE OF INTEREST SO DETERMINED, AND ITS DETERMINATION THEREOF SHALL BE CONCLUSIVE IN THE ABSENCE OF MANIFEST ERROR. ANY NOTICE WITH RESPECT TO EURO-DOLLAR LOANS SHALL, WITHOUT THE NECESSITY OF THE ADMINISTRATIVE AGENT SO STATING IN SUCH NOTICE, BE SUBJECT TO ADJUSTMENTS IN THE APPLICABLE PERCENTAGE APPLICABLE TO SUCH LOANS AFTER THE BEGINNING OF THE INTEREST PERIOD APPLICABLE THERETO. WHEN DURING AN INTEREST PERIOD ANY EVENT OCCURS THAT CAUSES AN ADJUSTMENT IN THE APPLICABLE PERCENTAGE APPLICABLE TO LOANS TO WHICH SUCH INTEREST PERIOD IS APPLICABLE, THE ADMINISTRATIVE AGENT SHALL GIVE PROMPT NOTICE TO THE BORROWER AND THE LENDERS OF SUCH EVENT AND THE ADJUSTED RATE OF INTEREST SO DETERMINED FOR SUCH LOANS, AND ITS DETERMINATION THEREOF SHALL BE CONCLUSIVE IN THE ABSENCE OF MANIFEST ERROR.

SECTION 2.07 FEES.

(A) COMMITMENT FEES. THE BORROWER SHALL PAY TO THE ADMINISTRATIVE AGENT FOR THE ACCOUNT OF EACH LENDER A FEE (THE "COMMITMENT FEE") FOR EACH DAY AT A RATE PER ANNUM EQUAL TO THE APPLICABLE PERCENTAGE FOR THE COMMITMENT FEE FOR SUCH DAY. THE COMMITMENT FEE SHALL ACCRUE FROM AND INCLUDING THE EFFECTIVE DATE TO BUT EXCLUDING THE LAST DAY OF THE AVAILABILITY PERIOD ON THE AMOUNT BY WHICH SUCH LENDER'S COMMITMENT EXCEEDS THE SUM OF ITS REVOLVING OUTSTANDINGS ON SUCH DAY. THE COMMITMENT FEE SHALL BE PAYABLE ON THE LAST DAY OF EACH OF MARCH, JUNE, SEPTEMBER AND DECEMBER AND ON THE TERMINATION DATE. ANY OVERDUE COMMITMENT FEE BEYOND ANY PERIOD OF GRACE CONTEMPLATED IN SECTION 7.01(B) SHALL BEAR INTEREST, PAYABLE ON DEMAND, FOR EACH DAY UNTIL PAID AT A RATE PER ANNUM EQUAL TO THE SUM OF 2% PLUS THE RATE OTHERWISE APPLICABLE TO THE COMMITMENT FEE FOR SUCH DAY.

(B) LETTER OF CREDIT FEES. THE BORROWER SHALL PAY TO THE ADMINISTRATIVE AGENT A FEE (THE "LETTER OF CREDIT FEE") FOR EACH DAY AT A RATE PER ANNUM EQUAL TO THE APPLICABLE PERCENTAGE FOR THE LETTER OF CREDIT FEE FOR SUCH DAY. THE LETTER OF CREDIT FEE SHALL ACCRUE FROM AND INCLUDING THE EFFECTIVE DATE TO BUT EXCLUDING THE LAST DAY OF THE AVAILABILITY PERIOD ON THE AGGREGATE AMOUNT AVAILABLE FOR DRAWING UNDER ANY LETTERS OF CREDIT OUTSTANDING ON SUCH DAY AND SHALL BE PAYABLE FOR THE ACCOUNT OF THE LENDERS RATABLY IN PROPORTION TO THEIR PARTICIPATIONS IN SUCH LETTER(S) OF CREDIT. ANY OVERDUE LETTER OF CREDIT FEES BEYOND ANY PERIOD OF GRACE CONTEMPLATED IN SECTION 7.01(B) SHALL BEAR INTEREST, PAYABLE ON DEMAND, FOR EACH DAY UNTIL PAID AT A RATE PER ANNUM EQUAL TO THE SUM OF 2% PLUS THE RATE OTHERWISE APPLICABLE TO THE LETTER OF CREDIT FEES FOR SUCH DAY. IN ADDITION, THE BORROWER SHALL PAY TO THE ISSUING LENDER A FEE (THE "FRONTING FEE") IN RESPECT OF EACH LETTER OF CREDIT ISSUED BY THE ISSUING LENDER COMPUTED AT THE RATE SET FORTH IN THE FEE LETTER ON THE DAILY MAXIMUM AMOUNT AVAILABLE TO BE DRAWN UNDER EACH SUCH LETTER OF CREDIT. LETTER OF CREDIT FEES AND FRONTING FEES SHALL BE DUE AND PAYABLE QUARTERLY IN ARREARS ON EACH QUARTERLY DATE AND ON THE TERMINATION DATE (OR SUCH EARLIER DATE AS ALL LETTERS OF CREDIT SHALL BE CANCELED OR EXPIRE). IN ADDITION, THE BORROWER AGREES TO PAY TO THE ISSUING LENDER, UPON EACH ISSUANCE OF, PAYMENT UNDER, AND/OR AMENDMENT OF, A LETTER OF CREDIT, SUCH AMOUNT AS SHALL AT THE TIME OF SUCH ISSUANCE, PAYMENT OR AMENDMENT BE THE ADMINISTRATIVE CHARGES AND EXPENSES WHICH THE ISSUING LENDER IS CUSTOMARILY CHARGING FOR ISSUANCES OF, PAYMENTS UNDER, OR AMENDMENTS TO LETTERS OF CREDIT ISSUED BY IT.

(C) PAYMENTS. EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION 2.07, ACCRUED FEES UNDER THIS SECTION 2.07 IN RESPECT OF LOANS AND LETTER OF CREDIT LIABILITIES SHALL BE PAYABLE QUARTERLY IN ARREARS ON EACH QUARTERLY DATE, ON THE LAST DAY OF THE AVAILABILITY PERIOD AND, IF LATER, ON THE DATE THE LOANS

AND LETTER OF CREDIT LIABILITIES SHALL BE REPAYED IN THEIR ENTIRETY. FEES PAID HEREUNDER SHALL NOT BE REFUNDABLE UNDER ANY CIRCUMSTANCES.

SECTION 2.08 ADJUSTMENTS OF COMMITMENTS.

(A) **OPTIONAL TERMINATION OR REDUCTIONS OF COMMITMENTS (PRO-RATA).** THE BORROWER MAY, UPON AT LEAST THREE BUSINESS DAYS' PRIOR WRITTEN NOTICE TO THE ADMINISTRATIVE AGENT, PERMANENTLY (i) TERMINATE THE COMMITMENTS, IF THERE ARE NO REVOLVING OUTSTANDINGS AT SUCH TIME OR (ii) RATABLY REDUCE FROM TIME TO TIME BY A MINIMUM AMOUNT OF \$5,000,000 OR ANY LARGER INTEGRAL MULTIPLE OF \$1,000,000, THE AGGREGATE AMOUNT OF THE COMMITMENTS IN EXCESS OF THE AGGREGATE REVOLVING OUTSTANDINGS. UPON RECEIPT OF ANY SUCH NOTICE, THE ADMINISTRATIVE AGENT SHALL PROMPTLY NOTIFY THE LENDERS. IF THE COMMITMENTS ARE TERMINATED IN THEIR ENTIRETY, ALL ACCRUED FEES SHALL BE PAYABLE ON THE EFFECTIVE DATE OF SUCH TERMINATION.

(B) **REPLACEMENT OF LENDERS; OPTIONAL TERMINATION OF COMMITMENTS (NON-PRO-RATA).** IF (i) ANY LENDER HAS DEMANDED COMPENSATION OR INDEMNIFICATION PURSUANT TO SECTIONS 2.14, 2.15, 2.16 OR 2.17, (ii) THE OBLIGATION OF ANY LENDER TO MAKE EURO-DOLLAR LOANS HAS BEEN SUSPENDED PURSUANT TO SECTION 2.15, (iii) ANY LENDER IS A DEFAULTING LENDER OR (iv) ANY LENDER IS A NON-CONSENTING LENDER REFERRED TO IN SECTION 9.05 (EACH SUCH LENDER DESCRIBED IN CLAUSES (i), (ii), (iii) OR (iv) BEING A "RETIRING LENDER"), THE BORROWER SHALL HAVE THE RIGHT, IF NO DEFAULT THEN EXISTS, TO REPLACE SUCH LENDER WITH ONE OR MORE ELIGIBLE ASSIGNEES (WHICH MAY BE ONE OR MORE OF THE CONTINUING LENDERS) (EACH A "REPLACEMENT LENDER" AND, COLLECTIVELY, THE "REPLACEMENT LENDERS") REASONABLY ACCEPTABLE TO THE ADMINISTRATIVE AGENT. THE REPLACEMENT OF A RETIRING LENDER PURSUANT TO THIS SECTION 2.08(B) SHALL BE EFFECTIVE ON THE TENTH BUSINESS DAY (THE "REPLACEMENT DATE") FOLLOWING THE DATE OF NOTICE GIVEN BY THE BORROWER OF SUCH REPLACEMENT TO THE RETIRING LENDER AND EACH CONTINUING LENDER THROUGH THE ADMINISTRATIVE AGENT, SUBJECT TO THE SATISFACTION OF THE FOLLOWING CONDITIONS:

(i) THE REPLACEMENT LENDER SHALL HAVE SATISFIED THE CONDITIONS TO ASSIGNMENT AND ASSUMPTION SET FORTH IN SECTION 9.06(C) (WITH ALL FEES PAYABLE PURSUANT TO SECTION 9.06(C) TO BE PAID BY THE BORROWER) AND, IN CONNECTION THEREWITH, THE REPLACEMENT LENDER(S) SHALL PAY:

(A) TO THE RETIRING LENDER AN AMOUNT EQUAL IN THE AGGREGATE TO THE SUM OF (X) THE PRINCIPAL OF, AND ALL ACCRUED BUT UNPAID INTEREST ON, ALL OUTSTANDING LOANS OF THE RETIRING LENDER, (Y) ALL UNPAID DRAWINGS THAT HAVE BEEN FUNDED BY (AND NOT REIMBURSED TO) THE RETIRING LENDER UNDER SECTION 3.09, TOGETHER WITH ALL ACCRUED BUT UNPAID INTEREST WITH RESPECT THERETO AND (Z) ALL ACCRUED BUT UNPAID FEES OWING TO THE RETIRING LENDER PURSUANT TO SECTION 2.07; AND

(B) TO THE ISSUING LENDER AN AMOUNT EQUAL TO THE AGGREGATE AMOUNT OWING BY THE RETIRING LENDER TO THE ISSUING LENDER AS REIMBURSEMENT PURSUANT TO SECTION 3.08, TO THE EXTENT SUCH AMOUNT WAS NOT THERETOFORE FUNDED BY SUCH RETIRING LENDER; AND

(ii) THE BORROWER SHALL HAVE PAID TO THE ADMINISTRATIVE AGENT FOR THE ACCOUNT OF THE RETIRING LENDER AN AMOUNT EQUAL TO ALL OBLIGATIONS OWING TO THE RETIRING LENDER BY THE BORROWER PURSUANT TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (OTHER THAN THOSE OBLIGATIONS OF THE BORROWER REFERRED TO IN CLAUSE (i)(A) ABOVE).

ON THE REPLACEMENT DATE, EACH REPLACEMENT LENDER THAT IS A NEW LENDER SHALL BECOME A LENDER HEREUNDER AND SHALL SUCCEED TO THE OBLIGATIONS OF THE RETIRING LENDER WITH RESPECT TO OUTSTANDING LETTERS OF CREDIT TO THE EXTENT OF THE COMMITMENT OF THE RETIRING LENDER ASSUMED BY SUCH REPLACEMENT LENDER, AND THE RETIRING LENDER SHALL CEASE TO CONSTITUTE A LENDER HEREUNDER; PROVIDED, THAT THE PROVISIONS OF SECTIONS 2.12, 2.16, 2.17 AND 9.03 OF THIS AGREEMENT SHALL CONTINUE TO INURE TO THE BENEFIT OF A RETIRING LENDER WITH RESPECT TO ANY LOANS MADE, ANY LETTERS OF CREDIT ISSUED OR ANY OTHER ACTIONS TAKEN BY SUCH RETIRING LENDER WHILE IT WAS A LENDER.

IN LIEU OF THE FOREGOING, SUBJECT TO SECTION 2.08(E), UPON EXPRESS WRITTEN CONSENT OF CONTINUING LENDERS HOLDING MORE THAN 50% OF THE AGGREGATE AMOUNT OF THE COMMITMENTS OF THE CONTINUING LENDERS, THE BORROWER SHALL HAVE THE RIGHT TO PERMANENTLY TERMINATE THE COMMITMENT OF A RETIRING LENDER IN FULL. UPON PAYMENT BY THE BORROWER TO THE ADMINISTRATIVE AGENT FOR THE ACCOUNT OF THE RETIRING LENDER OF AN AMOUNT EQUAL TO THE SUM OF (i) THE AGGREGATE PRINCIPAL AMOUNT OF ALL LOANS AND REIMBURSEMENT OBLIGATIONS OWED TO THE RETIRING LENDER AND (ii) ALL ACCRUED INTEREST, FEES AND OTHER AMOUNTS OWING TO THE RETIRING LENDER HEREUNDER, INCLUDING, WITHOUT LIMITATION, ALL AMOUNTS PAYABLE BY THE BORROWER TO THE RETIRING LENDER UNDER SECTIONS 2.12, 2.16, 2.17 OR 9.03, SUCH RETIRING LENDER SHALL CEASE TO CONSTITUTE A LENDER HEREUNDER; PROVIDED, THAT THE PROVISIONS OF SECTIONS 2.12, 2.16, 2.17 AND 9.03 OF THIS AGREEMENT SHALL INURE TO THE BENEFIT OF A RETIRING LENDER WITH RESPECT TO ANY LOANS MADE, ANY LETTERS OF CREDIT ISSUED OR ANY OTHER ACTIONS TAKEN BY SUCH RETIRING LENDER WHILE IT WAS A LENDER.

(C) **OPTIONAL TERMINATION OF DEFAULTING LENDER COMMITMENT (NON-PRO-RATA).** AT ANY TIME A LENDER IS A DEFAULTING LENDER, SUBJECT TO SECTION 2.08(E), BUT WITHOUT REQUIRING THE VOTE OF CONTINUING LENDERS SET FORTH IN THE LAST PARAGRAPH OF SECTION 2.08(B), THE BORROWER MAY TERMINATE IN FULL THE COMMITMENT OF SUCH DEFAULTING LENDER BY GIVING NOTICE TO SUCH DEFAULTING LENDER AND THE ADMINISTRATIVE AGENT, PROVIDED, THAT, (i) AT THE TIME OF SUCH TERMINATION, (A) NO DEFAULT HAS OCCURRED AND IS CONTINUING (OR ALTERNATIVELY, THE REQUIRED LENDERS SHALL CONSENT TO SUCH TERMINATION) AND (B) EITHER (X) NO REVOLVING LOANS ARE OUTSTANDING OR (Y) THE AGGREGATE REVOLVING OUTSTANDINGS OF SUCH DEFAULTING LENDER IN RESPECT OF REVOLVING LOANS IS ZERO; (ii) CONCURRENTLY WITH SUCH TERMINATION, THE AGGREGATE COMMITMENTS SHALL BE REDUCED BY THE COMMITMENT OF THE DEFAULTING LENDER; AND (iii) CONCURRENTLY WITH ANY SUBSEQUENT PAYMENT OF INTEREST OR FEES TO THE LENDERS WITH RESPECT TO ANY PERIOD BEFORE THE TERMINATION OF A DEFAULTING LENDER'S COMMITMENT, THE BORROWER SHALL PAY TO SUCH DEFAULTING LENDER ITS RATABLY SHARE (BASED ON ITS COMMITMENT RATIO BEFORE GIVING EFFECT TO SUCH TERMINATION) OF SUCH INTEREST OR FEES, AS APPLICABLE. THE TERMINATION OF A DEFAULTING LENDER'S COMMITMENT PURSUANT TO THIS SECTION 2.08(C) SHALL NOT BE DEEMED TO BE A WAIVER OF ANY RIGHT THAT THE BORROWER, ADMINISTRATIVE AGENT, THE ISSUING LENDER OR ANY OTHER LENDER MAY HAVE AGAINST SUCH DEFAULTING LENDER.

(D) **TERMINATION DATE.** THE COMMITMENTS SHALL TERMINATE ON THE TERMINATION DATE.

(E) **REDETERMINATION OF COMMITMENT RATIOS.** ON THE DATE OF TERMINATION OF THE COMMITMENT OF A RETIRING LENDER OR DEFAULTING LENDER PURSUANT TO SECTION 2.08(B) OR (C), THE COMMITMENT RATIOS OF THE CONTINUING LENDERS SHALL BE REDETERMINED AFTER GIVING EFFECT THERETO, AND THE PARTICIPATIONS OF THE CONTINUING LENDERS IN AND OBLIGATIONS OF THE CONTINUING LENDERS IN RESPECT OF ANY THEN OUTSTANDING LETTERS OF CREDIT SHALL THEREAFTER BE BASED UPON SUCH REDETERMINED COMMITMENT RATIOS (TO THE EXTENT NOT PREVIOUSLY ADJUSTED PURSUANT TO SECTION 2.20). THE RIGHT OF THE BORROWER TO EFFECT SUCH

A TERMINATION IS CONDITIONED ON THERE BEING SUFFICIENT UNUSED AVAILABILITY IN THE COMMITMENTS OF THE CONTINUING LENDERS SUCH THAT THE AGGREGATE REVOLVING OUTSTANDINGS WILL NOT EXCEED THE AGGREGATE COMMITMENTS AFTER GIVING EFFECT TO SUCH TERMINATION AND REDETERMINATION.

SECTION 2.09 MATURITY OF LOANS; MANDATORY PREPAYMENTS.

(A) SCHEDULED REPAYMENTS AND PREPAYMENTS OF LOANS; OVERLINE REPAYMENTS.

(i) THE REVOLVING LOANS SHALL MATURE ON THE TERMINATION DATE, AND ANY REVOLVING LOANS AND LETTER OF CREDIT LIABILITIES THEN OUTSTANDING (TOGETHER WITH ACCRUED INTEREST THEREON AND FEES IN RESPECT THEREOF) SHALL BE DUE AND PAYABLE OR, IN THE CASE OF LETTERS OF CREDIT, CASH COLLATERALIZED PURSUANT TO SECTION 2.09(A)(ii), ON SUCH DATE.

(ii) IF ON ANY DATE THE AGGREGATE REVOLVING OUTSTANDINGS EXCEED THE AGGREGATE AMOUNT OF THE COMMITMENTS (SUCH EXCESS, A "REVOLVING OUTSTANDINGS EXCESS"), THE BORROWER SHALL PREPAY, AND THERE SHALL BECOME DUE AND PAYABLE (TOGETHER WITH ACCRUED INTEREST THEREON) ON SUCH DATE, AN AGGREGATE PRINCIPAL AMOUNT OF REVOLVING LOANS EQUAL TO SUCH REVOLVING OUTSTANDINGS EXCESS. IF, AT A TIME WHEN A REVOLVING OUTSTANDINGS EXCESS EXISTS AND (X) NO REVOLVING LOANS ARE OUTSTANDING OR (Y) THE COMMITMENT HAS BEEN TERMINATED PURSUANT TO THIS AGREEMENT AND, IN EITHER CASE, ANY LETTER OF CREDIT LIABILITIES REMAIN OUTSTANDING, THEN, IN EITHER CASE, THE BORROWER SHALL CASH COLLATERALIZE ANY LETTER OF CREDIT LIABILITIES BY DEPOSITING INTO A CASH COLLATERAL ACCOUNT ESTABLISHED AND MAINTAINED (INCLUDING THE INVESTMENTS MADE PURSUANT THERETO) BY THE ADMINISTRATIVE AGENT PURSUANT TO A CASH COLLATERAL AGREEMENT IN FORM AND SUBSTANCE SATISFACTORY TO THE ADMINISTRATIVE AGENT AN AMOUNT IN CASH EQUAL TO THE THEN OUTSTANDING LETTER OF CREDIT LIABILITIES. IN DETERMINING REVOLVING OUTSTANDINGS FOR PURPOSES OF THIS CLAUSE (ii), LETTER OF CREDIT LIABILITIES SHALL BE REDUCED TO THE EXTENT THAT THEY ARE CASH COLLATERALIZED AS CONTEMPLATED BY THIS SECTION 2.09(A)(ii).

(B) APPLICATIONS OF PREPAYMENTS AND REDUCTIONS.

(i) EACH PAYMENT OR PREPAYMENT OF LOANS PURSUANT TO THIS SECTION 2.09 SHALL BE APPLIED RATABLY TO THE RESPECTIVE LOANS OF ALL OF THE LENDERS.

(ii) EACH PAYMENT OF PRINCIPAL OF THE LOANS SHALL BE MADE TOGETHER WITH INTEREST ACCRUED ON THE AMOUNT REPAYED TO THE DATE OF PAYMENT.

(iii) EACH PAYMENT OF THE LOANS SHALL BE APPLIED TO SUCH GROUPS OF LOANS AS THE BORROWER MAY DESIGNATE (OR, FAILING SUCH DESIGNATION, AS DETERMINED BY THE ADMINISTRATIVE AGENT).

SECTION 2.10 OPTIONAL PREPAYMENTS AND REPAYMENTS.

(A) PREPAYMENTS OF LOANS. SUBJECT TO SECTION 2.12, THE BORROWER MAY (i) UPON AT LEAST ONE (1) BUSINESS DAY'S NOTICE TO THE ADMINISTRATIVE AGENT, PREPAY ANY BASE RATE BORROWING OR (ii) UPON AT LEAST THREE (3) BUSINESS DAYS' NOTICE TO THE ADMINISTRATIVE AGENT, PREPAY ANY EURO-DOLLAR BORROWING, IN EACH CASE IN WHOLE AT ANY TIME, OR FROM TIME TO TIME IN PART IN AMOUNTS AGGREGATING \$5,000,000 OR ANY LARGER INTEGRAL MULTIPLE OF \$1,000,000, BY PAYING THE PRINCIPAL AMOUNT TO BE PREPAID TOGETHER WITH ACCRUED INTEREST THEREON TO THE DATE OF PREPAYMENT. EACH SUCH OPTIONAL PREPAYMENT SHALL BE APPLIED TO PREPAY RATABLY THE LOANS OF THE SEVERAL LENDERS INCLUDED IN SUCH BORROWING.

(B) NOTICE TO LENDERS. UPON RECEIPT OF A NOTICE OF PREPAYMENT PURSUANT TO SECTION 2.10(A), THE ADMINISTRATIVE AGENT SHALL PROMPTLY NOTIFY EACH LENDER OF THE CONTENTS THEREOF AND OF SUCH LENDER'S RATABLE SHARE OF SUCH PREPAYMENT, AND SUCH NOTICE SHALL NOT THEREAFTER BE REVOCABLE BY THE BORROWER.

SECTION 2.11 GENERAL PROVISIONS AS TO PAYMENTS.

(A) PAYMENTS BY THE BORROWER. THE BORROWER SHALL MAKE EACH PAYMENT OF PRINCIPAL OF AND INTEREST ON THE LOANS AND LETTER OF CREDIT LIABILITIES AND FEES HEREUNDER (OTHER THAN FEES PAYABLE DIRECTLY TO THE ISSUING LENDER) NOT LATER THAN 12:00 NOON (PITTSBURGH, PENNSYLVANIA TIME) ON THE DATE WHEN DUE, WITHOUT SET-OFF, COUNTERCLAIM OR OTHER DEDUCTION, IN FEDERAL OR OTHER FUNDS IMMEDIATELY AVAILABLE IN PITTSBURGH, PENNSYLVANIA, TO THE ADMINISTRATIVE AGENT AT ITS ADDRESS REFERRED TO IN SECTION 9.01. THE ADMINISTRATIVE AGENT WILL PROMPTLY DISTRIBUTE TO EACH LENDER ITS RATABLE SHARE OF EACH SUCH PAYMENT RECEIVED BY THE ADMINISTRATIVE AGENT FOR THE ACCOUNT OF THE LENDERS. WHENEVER ANY PAYMENT OF PRINCIPAL OF OR INTEREST ON THE BASE RATE LOANS OR LETTER OF CREDIT LIABILITIES OR OF FEES SHALL BE DUE ON A DAY WHICH IS NOT A BUSINESS DAY, THE DATE FOR PAYMENT THEREOF SHALL BE EXTENDED TO THE NEXT SUCCEEDING BUSINESS DAY. WHENEVER ANY PAYMENT OF PRINCIPAL OF OR INTEREST ON THE EURO-DOLLAR LOANS SHALL BE DUE ON A DAY WHICH IS NOT A BUSINESS DAY, THE DATE FOR PAYMENT THEREOF SHALL BE EXTENDED TO THE NEXT SUCCEEDING BUSINESS DAY UNLESS SUCH BUSINESS DAY FALLS IN ANOTHER CALENDAR MONTH, IN WHICH CASE THE DATE FOR PAYMENT THEREOF SHALL BE THE NEXT PRECEDING BUSINESS DAY. IF THE DATE FOR ANY PAYMENT OF PRINCIPAL IS EXTENDED BY OPERATION OF LAW OR OTHERWISE, INTEREST THEREON SHALL BE PAYABLE FOR SUCH EXTENDED TIME.

(B) DISTRIBUTIONS BY THE ADMINISTRATIVE AGENT. UNLESS THE ADMINISTRATIVE AGENT SHALL HAVE RECEIVED NOTICE FROM THE BORROWER PRIOR TO THE DATE ON WHICH ANY PAYMENT IS DUE TO THE LENDERS HEREUNDER THAT THE BORROWER WILL NOT MAKE SUCH PAYMENT IN FULL, THE ADMINISTRATIVE AGENT MAY ASSUME THAT THE BORROWER HAS MADE SUCH PAYMENT IN FULL TO THE ADMINISTRATIVE AGENT ON SUCH DATE, AND THE ADMINISTRATIVE AGENT MAY, IN RELIANCE UPON SUCH ASSUMPTION, CAUSE TO BE DISTRIBUTED TO EACH LENDER ON SUCH DUE DATE AN AMOUNT EQUAL TO THE AMOUNT THEN DUE SUCH LENDER. IF AND TO THE EXTENT THAT THE BORROWER SHALL NOT HAVE SO MADE SUCH PAYMENT, EACH LENDER SHALL REPAY TO THE ADMINISTRATIVE AGENT FORTHWITH ON DEMAND SUCH AMOUNT DISTRIBUTED TO SUCH LENDER TOGETHER WITH INTEREST THEREON, FOR EACH DAY FROM THE DATE SUCH AMOUNT IS DISTRIBUTED TO SUCH LENDER UNTIL THE DATE SUCH LENDER REPAYS SUCH AMOUNT TO THE ADMINISTRATIVE AGENT, AT THE FEDERAL FUNDS RATE.

SECTION 2.12 FUNDING LOSSES. IF THE BORROWER MAKES ANY PAYMENT OF PRINCIPAL WITH RESPECT TO ANY EURO-DOLLAR LOAN PURSUANT TO THE TERMS AND PROVISIONS OF THIS AGREEMENT (ANY CONVERSION OF A EURO-DOLLAR LOAN TO A BASE RATE LOAN PURSUANT TO SECTION 2.18 BEING TREATED AS A PAYMENT OF SUCH

EURO-DOLLAR LOAN ON THE DATE OF CONVERSION FOR PURPOSES OF THIS SECTION 2.12) ON ANY DAY OTHER THAN THE LAST DAY OF THE INTEREST PERIOD APPLICABLE THERETO, OR THE LAST DAY OF AN APPLICABLE PERIOD FIXED PURSUANT TO SECTION 2.06(c), OR IF THE BORROWER FAILS TO BORROW, CONVERT OR PREPAY ANY EURO-DOLLAR LOAN AFTER NOTICE HAS BEEN GIVEN IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT, OR IN THE EVENT OF PAYMENT IN RESPECT OF ANY EURO-DOLLAR LOAN OTHER THAN ON THE LAST DAY OF THE INTEREST PERIOD APPLICABLE THERETO AS A RESULT OF A REQUEST BY THE BORROWER PURSUANT TO SECTION 2.08(b), THE BORROWER SHALL REIMBURSE EACH LENDER WITHIN FIFTEEN (15) DAYS AFTER DEMAND FOR ANY RESULTING LOSS OR EXPENSE INCURRED BY IT (AND BY AN EXISTING PARTICIPANT IN THE RELATED LOAN), INCLUDING, WITHOUT LIMITATION, ANY LOSS INCURRED IN OBTAINING, LIQUIDATING OR EMPLOYING DEPOSITS FROM THIRD PARTIES, BUT EXCLUDING LOSS OF MARGIN FOR THE PERIOD AFTER ANY SUCH PAYMENT OR FAILURE TO BORROW OR PREPAY; PROVIDED, THAT SUCH LENDER SHALL HAVE DELIVERED TO THE BORROWER A CERTIFICATE AS TO THE AMOUNT OF SUCH LOSS OR EXPENSE, WHICH CERTIFICATE SHALL BE CONCLUSIVE IN THE ABSENCE OF MANIFEST ERROR.

SECTION 2.13 COMPUTATION OF INTEREST AND FEES. INTEREST ON LOANS BASED ON THE BASE RATE HEREUNDER AND LETTER OF CREDIT FEES SHALL BE COMPUTED ON THE BASIS OF A YEAR OF 365 DAYS (OR 366 DAYS IN A LEAP YEAR) AND PAID FOR THE ACTUAL NUMBER OF DAYS ELAPSED. ALL OTHER INTEREST AND FEES SHALL BE COMPUTED ON THE BASIS OF A YEAR OF 360 DAYS AND PAID FOR THE ACTUAL NUMBER OF DAYS ELAPSED (INCLUDING THE FIRST DAY BUT EXCLUDING THE LAST DAY).

SECTION 2.14 BASIS FOR DETERMINING INTEREST RATE INADEQUATE, UNFAIR OR UNAVAILABLE. IF ON OR PRIOR TO THE FIRST DAY OF ANY INTEREST PERIOD FOR ANY EURO-DOLLAR LOAN: (A) LENDERS HAVING 50% OR MORE OF THE AGGREGATE AMOUNT OF THE COMMITMENTS ADVISE THE ADMINISTRATIVE AGENT THAT THE ADJUSTED LONDON INTERBANK OFFERED RATE AS DETERMINED BY THE ADMINISTRATIVE AGENT, WILL NOT ADEQUATELY AND FAIRLY REFLECT THE COST TO SUCH LENDERS OF FUNDING THEIR EURO-DOLLAR LOANS FOR SUCH INTEREST PERIOD; OR (B) THE ADMINISTRATIVE AGENT SHALL DETERMINE THAT NO REASONABLE MEANS EXISTS FOR DETERMINING THE ADJUSTED LONDON INTERBANK OFFERED RATE, THE ADMINISTRATIVE AGENT SHALL FORTHWITH GIVE NOTICE THEREOF TO THE BORROWER AND THE LENDERS, WHEREUPON, UNTIL THE ADMINISTRATIVE AGENT NOTIFIES THE BORROWER AND THE LENDERS THAT THE CIRCUMSTANCES GIVING RISE TO SUCH SUSPENSION NO LONGER EXIST, (i) THE OBLIGATIONS OF THE LENDERS TO MAKE EURO-DOLLAR LOANS, OR TO CONVERT OUTSTANDING LOANS INTO EURO-DOLLAR LOANS SHALL BE SUSPENDED; AND (ii) EACH OUTSTANDING EURO-DOLLAR LOAN SHALL BE CONVERTED INTO A BASE RATE LOAN ON THE LAST DAY OF THE CURRENT INTEREST PERIOD APPLICABLE THERETO. UNLESS THE BORROWER NOTIFIES THE ADMINISTRATIVE AGENT AT LEAST TWO (2) BUSINESS DAYS BEFORE THE DATE OF (OR, IF AT THE TIME THE BORROWER RECEIVES SUCH NOTICE THE DAY IS THE DATE OF, OR THE DATE IMMEDIATELY PRECEDING, THE DATE OF SUCH EURO-DOLLAR BORROWING, BY 10:00 A.M. (PITTSBURGH, PENNSYLVANIA TIME) ON THE DATE OF) ANY EURO-DOLLAR BORROWING FOR WHICH A NOTICE OF BORROWING HAS PREVIOUSLY BEEN GIVEN THAT IT ELECTS NOT TO BORROW ON SUCH DATE, SUCH BORROWING SHALL INSTEAD BE MADE AS A BASE RATE BORROWING.

SECTION 2.15 ILLEGALITY. IF, ON OR AFTER THE EFFECTIVE DATE, THE ADOPTION OF ANY APPLICABLE LAW, RULE OR REGULATION, OR ANY CHANGE IN ANY APPLICABLE LAW, RULE OR REGULATION, OR ANY CHANGE IN THE INTERPRETATION OR ADMINISTRATION THEREOF BY ANY GOVERNMENTAL AUTHORITY, CENTRAL BANK OR COMPARABLE AGENCY CHARGED WITH THE INTERPRETATION OR ADMINISTRATION THEREOF, OR COMPLIANCE BY ANY LENDER (OR ITS APPLICABLE LENDING OFFICE) WITH ANY REQUEST OR DIRECTIVE (WHETHER OR NOT HAVING THE FORCE OF LAW) OF ANY SUCH AUTHORITY, CENTRAL BANK OR COMPARABLE AGENCY SHALL MAKE IT UNLAWFUL OR IMPOSSIBLE FOR ANY LENDER (OR ITS APPLICABLE LENDING OFFICE) TO MAKE, MAINTAIN OR FUND ITS EURO-DOLLAR LOANS AND SUCH LENDER SHALL SO NOTIFY THE ADMINISTRATIVE AGENT, THE ADMINISTRATIVE AGENT SHALL FORTHWITH GIVE NOTICE THEREOF TO THE OTHER LENDERS AND THE BORROWER, WHEREUPON UNTIL SUCH LENDER NOTIFIES THE BORROWER AND THE ADMINISTRATIVE AGENT THAT THE CIRCUMSTANCES GIVING RISE TO SUCH SUSPENSION NO LONGER EXIST, THE OBLIGATION OF SUCH LENDER TO MAKE EURO-DOLLAR LOANS, OR TO CONVERT OUTSTANDING LOANS INTO EURO-DOLLAR LOANS, SHALL BE SUSPENDED. BEFORE GIVING ANY NOTICE TO THE ADMINISTRATIVE AGENT PURSUANT TO THIS SECTION, SUCH LENDER SHALL DESIGNATE A DIFFERENT APPLICABLE LENDING OFFICE IF SUCH DESIGNATION WILL AVOID THE NEED FOR GIVING SUCH NOTICE AND WILL NOT, IN THE JUDGMENT OF SUCH LENDER, BE OTHERWISE DISADVANTAGEOUS TO SUCH LENDER. IF SUCH NOTICE IS GIVEN, EACH EURO-DOLLAR LOAN OF SUCH LENDER THEN OUTSTANDING SHALL BE CONVERTED TO A BASE RATE LOAN EITHER (A) ON THE LAST DAY OF THE THEN CURRENT INTEREST PERIOD APPLICABLE TO SUCH EURO-DOLLAR LOAN IF SUCH LENDER MAY LAWFULLY CONTINUE TO MAINTAIN AND FUND SUCH LOAN TO SUCH DAY OR (B) IMMEDIATELY IF SUCH LENDER SHALL DETERMINE THAT IT MAY NOT LAWFULLY CONTINUE TO MAINTAIN AND FUND SUCH LOAN TO SUCH DAY.

SECTION 2.16 INCREASED COST AND REDUCED RETURN.

(A) INCREASED COSTS. IF AFTER THE EFFECTIVE DATE, THE ADOPTION OF ANY APPLICABLE LAW, RULE OR REGULATION, OR ANY CHANGE IN ANY APPLICABLE LAW, RULE OR REGULATION, OR ANY CHANGE IN THE INTERPRETATION OR ADMINISTRATION THEREOF BY ANY GOVERNMENTAL AUTHORITY, CENTRAL BANK OR COMPARABLE AGENCY CHARGED WITH THE INTERPRETATION OR ADMINISTRATION THEREOF, OR COMPLIANCE BY ANY LENDER (OR ITS APPLICABLE LENDING OFFICE) WITH ANY REQUEST OR DIRECTIVE (WHETHER OR NOT HAVING THE FORCE OF LAW) OF ANY SUCH AUTHORITY, CENTRAL BANK OR COMPARABLE AGENCY SHALL (i) IMPOSE, MODIFY OR DEEM APPLICABLE ANY RESERVE (INCLUDING, WITHOUT LIMITATION, ANY SUCH REQUIREMENT IMPOSED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM), SPECIAL DEPOSIT, INSURANCE ASSESSMENT OR SIMILAR REQUIREMENT AGAINST LETTERS OF CREDIT ISSUED OR PARTICIPATED IN BY, ASSETS OF, DEPOSITS WITH OR FOR THE ACCOUNT OF OR CREDIT EXTENDED BY, ANY LENDER (OR ITS APPLICABLE LENDING OFFICE), (ii) SUBJECT ANY LENDER OR THE ISSUING LENDER TO ANY TAX OF ANY KIND WHATSOEVER WITH RESPECT TO THIS AGREEMENT, ANY LETTER OF CREDIT, ANY PARTICIPATION IN A LETTER OF CREDIT OR ANY EURO-DOLLAR LOAN MADE BY IT, OR CHANGE THE BASIS OF TAXATION OF PAYMENTS TO SUCH LENDER OR THE ISSUING LENDER IN RESPECT THEREOF (OTHER THAN (A) TAXES, (B) OTHER TAXES, (C) THE IMPOSITION OF, OR ANY CHANGE IN THE RATE OF, ANY TAXES DESCRIBED IN CLAUSES (i) THROUGH (iv) OF THE DEFINITION OF TAXES IN SECTION 2.17(A) AND (D) TAXES ATTRIBUTABLE TO A LENDER'S OR THE ISSUING LENDER'S FAILURE TO COMPLY WITH SECTION 2.17(E)) OR (iii) IMPOSE ON ANY LENDER (OR ITS APPLICABLE LENDING OFFICE) OR ON THE UNITED STATES MARKET FOR CERTIFICATES OF DEPOSIT OR THE LONDON INTERBANK MARKET ANY OTHER CONDITION AFFECTING ITS EURO-DOLLAR LOANS, NOTES, OBLIGATION TO MAKE EURO-DOLLAR LOANS OR OBLIGATIONS HEREUNDER IN RESPECT OF LETTERS OF CREDIT, AND THE RESULT OF ANY OF THE FOREGOING IS TO INCREASE THE COST TO SUCH LENDER (OR ITS APPLICABLE LENDING OFFICE) OF MAKING OR MAINTAINING ANY EURO-DOLLAR LOAN, OR OF ISSUING OR PARTICIPATING IN ANY LETTER OF CREDIT, OR TO REDUCE THE AMOUNT OF ANY SUM RECEIVED OR RECEIVABLE BY SUCH LENDER (OR ITS APPLICABLE LENDING OFFICE) UNDER THIS AGREEMENT OR UNDER ITS NOTES WITH RESPECT THERETO, THEN, WITHIN FIFTEEN (15) DAYS AFTER DEMAND BY SUCH LENDER (WITH A COPY TO THE ADMINISTRATIVE AGENT), THE BORROWER SHALL PAY TO SUCH LENDER SUCH ADDITIONAL AMOUNT OR AMOUNTS, AS DETERMINED BY SUCH LENDER IN GOOD FAITH, AS WILL COMPENSATE SUCH LENDER FOR SUCH INCREASED COST OR REDUCTION, SOLELY TO THE EXTENT THAT ANY SUCH ADDITIONAL AMOUNTS WERE INCURRED BY THE LENDER WITHIN NINETY (90) DAYS OF SUCH DEMAND.

(B) CAPITAL ADEQUACY. IF ANY LENDER SHALL HAVE DETERMINED THAT, AFTER THE EFFECTIVE DATE, THE ADOPTION OF ANY APPLICABLE LAW, RULE OR REGULATION REGARDING CAPITAL ADEQUACY OR LIQUIDITY, OR ANY CHANGE IN ANY SUCH LAW, RULE OR REGULATION, OR ANY CHANGE IN THE INTERPRETATION OR ADMINISTRATION THEREOF BY ANY GOVERNMENTAL AUTHORITY, CENTRAL BANK OR COMPARABLE AGENCY CHARGED WITH THE INTERPRETATION OR ADMINISTRATION THEREOF, OR ANY REQUEST OR DIRECTIVE REGARDING CAPITAL ADEQUACY (WHETHER OR NOT HAVING THE FORCE OF LAW) OF ANY SUCH AUTHORITY, CENTRAL BANK OR COMPARABLE AGENCY, HAS OR WOULD HAVE THE EFFECT OF REDUCING THE RATE OF RETURN ON CAPITAL OF SUCH LENDER (OR ANY PERSON CONTROLLING SUCH LENDER) AS A CONSEQUENCE OF SUCH LENDER'S OBLIGATIONS HEREUNDER TO A LEVEL BELOW THAT WHICH SUCH LENDER (OR ANY PERSON CONTROLLING SUCH LENDER) COULD HAVE ACHIEVED BUT FOR SUCH ADOPTION, CHANGE, REQUEST OR DIRECTIVE (TAKING INTO CONSIDERATION ITS POLICIES WITH RESPECT TO CAPITAL ADEQUACY), THEN FROM TIME TO TIME, WITHIN FIFTEEN (15)

DAYS AFTER DEMAND BY SUCH LENDER (WITH A COPY TO THE ADMINISTRATIVE AGENT), THE BORROWER SHALL PAY TO SUCH LENDER SUCH ADDITIONAL AMOUNT OR AMOUNTS AS WILL COMPENSATE SUCH LENDER (OR ANY PERSON CONTROLLING SUCH LENDER) FOR SUCH REDUCTION, SOLELY TO THE EXTENT THAT ANY SUCH ADDITIONAL AMOUNTS WERE INCURRED BY THE LENDER WITHIN NINETY (90) DAYS OF SUCH DEMAND.

(c) NOTICES. EACH LENDER WILL PROMPTLY NOTIFY THE BORROWER AND THE ADMINISTRATIVE AGENT OF ANY EVENT OF WHICH IT HAS KNOWLEDGE, OCCURRING AFTER THE EFFECTIVE DATE, THAT WILL ENTITLE SUCH LENDER TO COMPENSATION PURSUANT TO THIS SECTION AND WILL DESIGNATE A DIFFERENT APPLICABLE LENDING OFFICE IF SUCH DESIGNATION WILL AVOID THE NEED FOR, OR REDUCE THE AMOUNT OF, SUCH COMPENSATION AND WILL NOT, IN THE JUDGMENT OF SUCH LENDER, BE OTHERWISE DISADVANTAGEOUS TO SUCH LENDER. A CERTIFICATE OF ANY LENDER CLAIMING COMPENSATION UNDER THIS SECTION AND SETTING FORTH IN REASONABLE DETAIL THE ADDITIONAL AMOUNT OR AMOUNTS TO BE PAID TO IT HEREUNDER SHALL BE CONCLUSIVE IN THE ABSENCE OF MANIFEST ERROR. IN DETERMINING SUCH AMOUNT, SUCH LENDER MAY USE ANY REASONABLE AVERAGING AND ATTRIBUTION METHODS.

(d) NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, (x) THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT AND ALL REQUESTS, RULES, GUIDELINES OR DIRECTIVES THEREUNDER OR ISSUED IN CONNECTION THEREWITH, (y) ALL REQUESTS, RULES, GUIDELINES OR DIRECTIVES PROMULGATED BY THE BANK FOR INTERNATIONAL SETTLEMENTS, THE BASEL COMMITTEE ON BANKING SUPERVISION (OR ANY SUCCESSOR OR SIMILAR AUTHORITY) OR THE UNITED STATES OR FOREIGN REGULATORY AUTHORITIES, IN EACH CASE PURSUANT TO BASEL III, SHALL IN EACH CASE BE DEEMED TO BE A "CHANGE IN LAW" UNDER THIS ARTICLE II REGARDLESS OF THE DATE ENACTED, ADOPTED OR ISSUED, AND (z) EXCEPT AS MAY BE PROVIDED IN SECTION 2.16(A), THE LENDERS SHALL NOT BE ENTITLED TO ASSERT ANY CLAIM UNDER THIS SECTION 2.16 IN RESPECT OF OR ATTRIBUTABLE TO TAXES.

SECTION 2.17 TAXES.

(A) PAYMENTS NET OF CERTAIN TAXES. ANY AND ALL PAYMENTS BY THE BORROWER TO OR FOR THE ACCOUNT OF ANY LENDER OR THE ADMINISTRATIVE AGENT HEREUNDER OR UNDER ANY OTHER LOAN DOCUMENT SHALL BE MADE FREE AND CLEAR OF AND WITHOUT DEDUCTION FOR ANY AND ALL PRESENT OR FUTURE TAXES, DUTIES, LEVIES, IMPOSTS, DEDUCTIONS, CHARGES AND WITHHOLDINGS AND ALL LIABILITIES WITH RESPECT THERETO, EXCLUDING: (i) TAXES IMPOSED ON OR MEASURED BY THE NET INCOME (INCLUDING BRANCH PROFITS OR SIMILAR TAXES) OF, AND GROSS RECEIPTS, FRANCHISE OR SIMILAR TAXES IMPOSED ON, THE ADMINISTRATIVE AGENT OR ANY LENDER BY THE JURISDICTION (OR SUBDIVISION THEREOF) UNDER THE LAWS OF WHICH SUCH LENDER OR THE ADMINISTRATIVE AGENT IS ORGANIZED OR IN WHICH ITS PRINCIPAL EXECUTIVE OFFICE IS LOCATED OR, IN THE CASE OF EACH LENDER, IN WHICH ITS APPLICABLE LENDING OFFICE IS LOCATED, (ii) IN THE CASE OF EACH LENDER, ANY UNITED STATES WITHHOLDING TAX IMPOSED ON SUCH PAYMENTS, BUT ONLY TO THE EXTENT THAT SUCH LENDER IS SUBJECT TO UNITED STATES WITHHOLDING TAX AT THE TIME SUCH LENDER FIRST BECOMES A PARTY TO THIS AGREEMENT OR CHANGES ITS APPLICABLE LENDING OFFICE, (iii) ANY BACKUP WITHHOLDING TAX IMPOSED BY THE UNITED STATES (OR ANY STATE OR LOCALITY THEREOF) ON A LENDER OR ADMINISTRATIVE AGENT, AND (iv) ANY TAXES IMPOSED BY FATCA (ALL SUCH NONEXCLUDED TAXES, DUTIES, LEVIES, IMPOSTS, DEDUCTIONS, CHARGES, WITHHOLDINGS AND LIABILITIES BEING HEREINAFTER REFERRED TO AS "TAXES"). IF THE BORROWER SHALL BE REQUIRED BY LAW TO DEDUCT ANY TAXES FROM OR IN RESPECT OF ANY SUM PAYABLE HEREUNDER OR UNDER ANY OTHER LOAN DOCUMENT TO ANY LENDER OR THE ADMINISTRATIVE AGENT, (i) THE SUM PAYABLE SHALL BE INCREASED AS NECESSARY SO THAT AFTER MAKING ALL SUCH REQUIRED DEDUCTIONS (INCLUDING DEDUCTIONS APPLICABLE TO ADDITIONAL SUMS PAYABLE UNDER THIS SECTION 2.17(A)) SUCH LENDER OR THE ADMINISTRATIVE AGENT (AS THE CASE MAY BE) RECEIVES AN AMOUNT EQUAL TO THE SUM IT WOULD HAVE RECEIVED HAD NO SUCH DEDUCTIONS BEEN MADE, (ii) THE BORROWER SHALL MAKE SUCH DEDUCTIONS, (iii) THE BORROWER SHALL PAY THE FULL AMOUNT DEDUCTED TO THE RELEVANT TAXATION AUTHORITY OR OTHER AUTHORITY IN ACCORDANCE WITH APPLICABLE LAW AND (iv) THE BORROWER SHALL FURNISH TO THE ADMINISTRATIVE AGENT, FOR DELIVERY TO SUCH LENDER, THE ORIGINAL OR A CERTIFIED COPY OF A RECEIPT EVIDENCING PAYMENT THEREOF.

(B) OTHER TAXES. IN ADDITION, THE BORROWER AGREES TO PAY ANY AND ALL PRESENT OR FUTURE STAMP OR COURT OR DOCUMENTARY TAXES AND ANY OTHER EXCISE OR PROPERTY TAXES, OR SIMILAR CHARGES OR LEVIES, WHICH ARISE FROM ANY PAYMENT MADE PURSUANT TO THIS AGREEMENT, ANY NOTE OR ANY OTHER LOAN DOCUMENT OR FROM THE EXECUTION, DELIVERY, PERFORMANCE, REGISTRATION OR ENFORCEMENT OF, OR OTHERWISE WITH RESPECT TO, THIS AGREEMENT, ANY NOTE OR ANY OTHER LOAN DOCUMENT (COLLECTIVELY, "OTHER TAXES").

(C) INDEMNIFICATION. THE BORROWER AGREES TO INDEMNIFY EACH LENDER AND THE ADMINISTRATIVE AGENT FOR THE FULL AMOUNT OF TAXES AND OTHER TAXES (INCLUDING, WITHOUT LIMITATION, ANY TAXES OR OTHER TAXES IMPOSED OR ASSERTED BY ANY JURISDICTION ON AMOUNTS PAYABLE UNDER THIS SECTION 2.17(C)), WHETHER OR NOT CORRECTLY OR LEGALLY ASSERTED, PAID BY SUCH LENDER OR THE ADMINISTRATIVE AGENT (AS THE CASE MAY BE) AND ANY LIABILITY (INCLUDING PENALTIES, INTEREST AND EXPENSES) ARISING THEREFROM OR WITH RESPECT THERETO AS CERTIFIED IN GOOD FAITH TO THE BORROWER BY EACH LENDER OR THE ADMINISTRATIVE AGENT SEEKING INDEMNIFICATION PURSUANT TO THIS SECTION 2.17(C). THIS INDEMNIFICATION SHALL BE PAID WITHIN 15 DAYS AFTER SUCH LENDER OR THE ADMINISTRATIVE AGENT (AS THE CASE MAY BE) MAKES DEMAND THEREFOR.

(D) REFUNDS OR CREDITS. IF A LENDER OR THE ADMINISTRATIVE AGENT RECEIVES A REFUND, CREDIT OR OTHER REDUCTION FROM A TAXATION AUTHORITY FOR ANY TAXES OR OTHER TAXES FOR WHICH IT HAS BEEN INDEMNIFIED BY THE BORROWER OR WITH RESPECT TO WHICH THE BORROWER HAS PAID ADDITIONAL AMOUNTS PURSUANT TO THIS SECTION 2.17, IT SHALL WITHIN FIFTEEN (15) DAYS FROM THE DATE OF SUCH RECEIPT PAY OVER THE AMOUNT OF SUCH REFUND, CREDIT OR OTHER REDUCTION TO THE BORROWER (BUT ONLY TO THE EXTENT OF INDEMNITY PAYMENTS MADE OR ADDITIONAL AMOUNTS PAID BY THE BORROWER UNDER THIS SECTION 2.17 WITH RESPECT TO THE TAXES OR OTHER TAXES GIVING RISE TO SUCH REFUND, CREDIT OR OTHER REDUCTION), NET OF ALL REASONABLE OUT-OF-POCKET EXPENSES OF SUCH LENDER OR THE ADMINISTRATIVE AGENT (AS THE CASE MAY BE) AND WITHOUT INTEREST (OTHER THAN INTEREST PAID BY THE RELEVANT TAXATION AUTHORITY WITH RESPECT TO SUCH REFUND, CREDIT OR OTHER REDUCTION); PROVIDED, HOWEVER, THAT THE BORROWER AGREES TO REPAY, UPON THE REQUEST OF SUCH LENDER OR THE ADMINISTRATIVE AGENT (AS THE CASE MAY BE), THE AMOUNT PAID OVER TO THE BORROWER (PLUS PENALTIES, INTEREST OR OTHER CHARGES) TO SUCH LENDER OR THE ADMINISTRATIVE AGENT IN THE EVENT SUCH LENDER OR THE ADMINISTRATIVE AGENT IS REQUIRED TO REPAY SUCH REFUND OR CREDIT TO SUCH TAXATION AUTHORITY.

(E) TAX FORMS AND CERTIFICATES. ON OR BEFORE THE DATE IT BECOMES A PARTY TO THIS AGREEMENT, FROM TIME TO TIME THEREAFTER IF REASONABLY REQUESTED BY THE BORROWER OR THE ADMINISTRATIVE AGENT, AND AT ANY TIME IT CHANGES ITS APPLICABLE LENDING OFFICE: (i) EACH LENDER THAT IS A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE INTERNAL REVENUE CODE SHALL DELIVER TO THE BORROWER AND THE ADMINISTRATIVE AGENT TWO (2) PROPERLY COMPLETED AND DULY EXECUTED COPIES OF INTERNAL REVENUE SERVICE FORM W-9, OR ANY SUCCESSOR FORM PRESCRIBED BY THE INTERNAL REVENUE SERVICE, OR SUCH OTHER DOCUMENTATION OR INFORMATION PRESCRIBED BY APPLICABLE LAW OR REASONABLY REQUESTED BY THE BORROWER OR THE ADMINISTRATIVE AGENT, AS THE CASE MAY BE, CERTIFYING THAT SUCH LENDER IS A UNITED STATES PERSON AND IS ENTITLED TO AN EXEMPTION FROM UNITED STATES BACKUP WITHHOLDING TAX OR INFORMATION REPORTING REQUIREMENTS; AND (ii) EACH LENDER THAT IS NOT A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE INTERNAL REVENUE CODE (A "NON-U.S. LENDER") SHALL DELIVER TO THE BORROWER AND THE ADMINISTRATIVE AGENT: (A) TWO (2) PROPERLY COMPLETED AND DULY EXECUTED COPIES OF INTERNAL REVENUE SERVICE FORM W-8BEN, OR ANY SUCCESSOR FORM PRESCRIBED BY THE INTERNAL REVENUE SERVICE, CERTIFYING THAT SUCH NON-U.S.

LENDER IS ENTITLED TO THE BENEFITS UNDER AN INCOME TAX TREATY TO WHICH THE UNITED STATES IS A PARTY WHICH EXEMPTS THE NON-U.S. LENDER FROM UNITED STATES WITHHOLDING TAX OR REDUCES THE RATE OF WITHHOLDING TAX ON PAYMENTS OF INTEREST FOR THE ACCOUNT OF SUCH NON-U.S. LENDER; (B) TWO (2) PROPERLY COMPLETED AND DULY EXECUTED COPIES OF INTERNAL REVENUE SERVICE FORM W-8ECI, OR ANY SUCCESSOR FORM PRESCRIBED BY THE INTERNAL REVENUE SERVICE, CERTIFYING THAT THE INCOME RECEIVABLE PURSUANT TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS IS EFFECTIVELY CONNECTED WITH THE CONDUCT OF A TRADE OR BUSINESS IN THE UNITED STATES; OR (C) IN THE CASE OF A NON-U.S. LENDER CLAIMING THE BENEFITS OF THE EXEMPTION FOR PORTFOLIO INTEREST UNDER SECTION 881(C) OF THE INTERNAL REVENUE CODE, TWO (2) PROPERLY COMPLETED AND DULY EXECUTED COPIES OF INTERNAL REVENUE SERVICE FORM W-8BEN, OR ANY SUCCESSOR FORM PRESCRIBED BY THE INTERNAL REVENUE SERVICE, TOGETHER WITH A CERTIFICATE TO THE EFFECT THAT (X) SUCH NON-U.S. LENDER IS NOT (1) A "BANK" WITHIN THE MEANING OF SECTION 881(C)(3)(A) OF THE INTERNAL REVENUE CODE, (2) A "10-PERCENT SHAREHOLDER" OF THE BORROWER WITHIN THE MEANING OF SECTION 871(H)(3)(B) OF THE INTERNAL REVENUE CODE, OR (3) A "CONTROLLED FOREIGN CORPORATION" THAT IS DESCRIBED IN SECTION 881(C)(3)(C) OF THE INTERNAL REVENUE CODE AND IS RELATED TO THE BORROWER WITHIN THE MEANING OF SECTION 864(D)(4) OF THE INTERNAL REVENUE CODE AND (Y) THE INTEREST PAYMENTS IN QUESTION ARE NOT EFFECTIVELY CONNECTED WITH A U.S. TRADE OR BUSINESS CONDUCTED BY SUCH NON-U.S. LENDER; OR (D) TO THE EXTENT THE NON-U.S. LENDER IS NOT THE BENEFICIAL OWNER, TWO (2) PROPERLY COMPLETED AND DULY EXECUTED COPIES OF INTERNAL REVENUE SERVICE FORM W-8IMY, OR ANY SUCCESSOR FORM PRESCRIBED BY THE INTERNAL REVENUE SERVICE, ACCOMPANIED BY AN INTERNAL REVENUE SERVICE FORM W-8ECI, W-8BEN, W-9, AND/OR OTHER CERTIFICATION DOCUMENTS FROM EACH BENEFICIAL OWNER, AS APPLICABLE. IF A PAYMENT MADE TO A LENDER UNDER ANY LOAN DOCUMENT WOULD BE SUBJECT TO U.S. FEDERAL WITHHOLDING TAX IMPOSED BY FATCA IF SUCH LENDER FAILS TO COMPLY WITH THE APPLICABLE REPORTING REQUIREMENTS OF FATCA (INCLUDING THOSE CONTAINED IN SECTION 1471(B) OR 1472(B) OF THE INTERNAL REVENUE CODE, AS APPLICABLE), SUCH LENDER SHALL DELIVER TO THE BORROWER AND THE ADMINISTRATIVE AGENT AT THE TIME OR TIMES PRESCRIBED BY LAW AND AT SUCH TIME OR TIMES REASONABLY REQUESTED BY THE BORROWER OR THE ADMINISTRATIVE AGENT SUCH DOCUMENTATION PRESCRIBED BY APPLICABLE LAW (INCLUDING AS PRESCRIBED BY SECTION 1471(B)(3)(C)(i) OF THE INTERNAL REVENUE CODE) AND SUCH ADDITIONAL DOCUMENTATION REASONABLY REQUESTED BY THE BORROWER OR THE ADMINISTRATIVE AGENT AS MAY BE NECESSARY FOR THE BORROWER AND THE ADMINISTRATIVE AGENT TO COMPLY WITH THEIR OBLIGATIONS UNDER FATCA AND TO DETERMINE THAT SUCH LENDER HAS COMPLIED WITH SUCH LENDER'S OBLIGATIONS UNDER FATCA OR TO DETERMINE THE AMOUNT TO DEDUCT AND WITHHOLD FROM SUCH PAYMENT. SOLELY FOR PURPOSES OF THIS CLAUSE (E), "FATCA" SHALL INCLUDE ANY AMENDMENTS MADE TO FATCA AFTER THE EFFECTIVE DATE. IN ADDITION, EACH LENDER AGREES THAT FROM TIME TO TIME AFTER THE EFFECTIVE DATE, WHEN A LAPSE IN TIME OR CHANGE IN CIRCUMSTANCES RENDERS THE PREVIOUS CERTIFICATION OBSOLETE OR INACCURATE IN ANY MATERIAL RESPECT, IT WILL DELIVER TO THE BORROWER AND THE ADMINISTRATIVE AGENT TWO NEW ACCURATE AND COMPLETE SIGNED ORIGINALS OF INTERNAL REVENUE SERVICE FORM W-9, W-8BEN, W-8ECI OR W-8IMY OR FATCA-RELATED DOCUMENTATION DESCRIBED ABOVE, OR SUCCESSOR FORMS, AS THE CASE MAY BE, AND SUCH OTHER FORMS AS MAY BE REQUIRED IN ORDER TO CONFIRM OR ESTABLISH THE ENTITLEMENT OF SUCH LENDER TO A CONTINUED EXEMPTION FROM OR REDUCTION IN UNITED STATES WITHHOLDING TAX WITH RESPECT TO PAYMENTS UNDER THIS AGREEMENT AND ANY OTHER LOAN DOCUMENT, OR IT SHALL IMMEDIATELY NOTIFY THE BORROWER AND THE ADMINISTRATIVE AGENT OF ITS INABILITY TO DELIVER ANY SUCH FORM OR CERTIFICATE.

(F) EXCLUSIONS. THE BORROWER SHALL NOT BE REQUIRED TO INDEMNIFY ANY NON-U.S. LENDER, OR TO PAY ANY ADDITIONAL AMOUNT TO ANY NON-U.S. LENDER, PURSUANT TO SECTION 2.17(A), (B) OR (C) IN RESPECT OF TAXES OR OTHER TAXES TO THE EXTENT THAT THE OBLIGATION TO INDEMNIFY OR PAY SUCH ADDITIONAL AMOUNTS WOULD NOT HAVE ARISEN BUT FOR THE FAILURE OF SUCH NON-U.S. LENDER TO COMPLY WITH THE PROVISIONS OF SUBSECTION (E) ABOVE.

(G) MITIGATION. IF THE BORROWER IS REQUIRED TO PAY ADDITIONAL AMOUNTS TO OR FOR THE ACCOUNT OF ANY LENDER PURSUANT TO THIS SECTION 2.17, THEN SUCH LENDER WILL USE REASONABLE EFFORTS (WHICH SHALL INCLUDE EFFORTS TO REBOOK THE REVOLVING LOANS HELD BY SUCH LENDER TO A NEW APPLICABLE LENDING OFFICE, OR THROUGH ANOTHER BRANCH OR AFFILIATE OF SUCH LENDER) TO CHANGE THE JURISDICTION OF ITS APPLICABLE LENDING OFFICE IF, IN THE GOOD FAITH JUDGMENT OF SUCH LENDER, SUCH EFFORTS (i) WILL ELIMINATE OR, IF IT IS NOT POSSIBLE TO ELIMINATE, REDUCE TO THE GREATEST EXTENT POSSIBLE ANY SUCH ADDITIONAL PAYMENT WHICH MAY THEREAFTER ACCRUE AND (ii) IS NOT OTHERWISE DISADVANTAGEOUS, IN THE SOLE DETERMINATION OF SUCH LENDER, TO SUCH LENDER. ANY LENDER CLAIMING ANY INDEMNITY PAYMENT OR ADDITIONAL AMOUNTS PAYABLE PURSUANT TO THIS SECTION SHALL USE REASONABLE EFFORTS (CONSISTENT WITH LEGAL AND REGULATORY RESTRICTIONS) TO DELIVER TO BORROWER ANY CERTIFICATE OR DOCUMENT REASONABLY REQUESTED IN WRITING BY THE BORROWER OR TO CHANGE THE JURISDICTION OF ITS APPLICABLE LENDING OFFICE IF THE MAKING OF SUCH A FILING OR CHANGE WOULD AVOID THE NEED FOR OR REDUCE THE AMOUNT OF ANY SUCH INDEMNITY PAYMENT OR ADDITIONAL AMOUNTS THAT MAY THEREAFTER ACCRUE AND WOULD NOT, IN THE SOLE DETERMINATION OF SUCH LENDER, BE OTHERWISE DISADVANTAGEOUS TO SUCH LENDER.

(H) CONFIDENTIALITY. NOTHING CONTAINED IN THIS SECTION SHALL REQUIRE ANY LENDER OR THE ADMINISTRATIVE AGENT TO MAKE AVAILABLE ANY OF ITS TAX RETURNS (OR ANY OTHER INFORMATION THAT IT DEEMS TO BE CONFIDENTIAL OR PROPRIETARY).

SECTION 2.18 BASE RATE LOANS SUBSTITUTED FOR AFFECTED EURO-DOLLAR LOANS. IF (A) THE OBLIGATION OF ANY LENDER TO MAKE OR MAINTAIN, OR TO CONVERT OUTSTANDING LOANS TO, EURO-DOLLAR LOANS HAS BEEN SUSPENDED PURSUANT TO SECTION 2.15 OR (B) ANY LENDER HAS DEMANDED COMPENSATION UNDER SECTION 2.16(A) WITH RESPECT TO ITS EURO-DOLLAR LOANS AND, IN ANY SUCH CASE, THE BORROWER SHALL, BY AT LEAST FOUR BUSINESS DAYS' PRIOR NOTICE TO SUCH LENDER THROUGH THE ADMINISTRATIVE AGENT, HAVE ELECTED THAT THE PROVISIONS OF THIS SECTION SHALL APPLY TO SUCH LENDER, THEN, UNLESS AND UNTIL SUCH LENDER NOTIFIES THE BORROWER THAT THE CIRCUMSTANCES GIVING RISE TO SUCH SUSPENSION OR DEMAND FOR COMPENSATION NO LONGER APPLY:

(i) ALL LOANS WHICH WOULD OTHERWISE BE MADE BY SUCH LENDER AS (OR CONTINUED AS OR CONVERTED INTO) EURO-DOLLAR LOANS SHALL INSTEAD BE BASE RATE LOANS (ON WHICH INTEREST AND PRINCIPAL SHALL BE PAYABLE CONTEMPORANEOUSLY WITH THE RELATED EURO-DOLLAR LOANS OF THE OTHER LENDERS); AND

(ii) AFTER EACH OF ITS EURO-DOLLAR LOANS HAS BEEN REPAID, ALL PAYMENTS OF PRINCIPAL THAT WOULD OTHERWISE BE APPLIED TO REPAY SUCH LOANS SHALL INSTEAD BE APPLIED TO REPAY ITS BASE RATE LOANS.

IF SUCH LENDER NOTIFIES THE BORROWER THAT THE CIRCUMSTANCES GIVING RISE TO SUCH NOTICE NO LONGER APPLY, THE PRINCIPAL AMOUNT OF EACH SUCH BASE RATE LOAN SHALL BE CONVERTED INTO A EURO-DOLLAR LOAN ON THE FIRST DAY OF THE NEXT SUCCEEDING INTEREST PERIOD APPLICABLE TO THE RELATED EURO-DOLLAR LOANS OF THE OTHER LENDERS.

SECTION 2.19 INCREASES IN COMMITMENTS.

(A) SUBJECT TO THE TERMS AND CONDITIONS OF THIS AGREEMENT, THE BORROWER MAY, DURING THE AVAILABILITY PERIOD BY DELIVERING TO THE ADMINISTRATIVE AGENT AND THE LENDERS A NOTICE OF REVOLVING INCREASE IN THE FORM OF EXHIBIT E, REQUEST UP TO TWO (2) INCREASES TO THE LENDERS' COMMITMENTS (EACH SUCH REQUEST, AN "OPTIONAL INCREASE"); PROVIDED THAT: (i) THE BORROWER MAY NOT REQUEST ANY INCREASE TO THE COMMITMENTS AFTER THE OCCURRENCE AND DURING THE CONTINUANCE OF A DEFAULT; (ii) EACH OPTIONAL INCREASE SHALL BE IN A MINIMUM AMOUNT OF \$2,500,00 AND (iii) THE AGGREGATE AMOUNT OF ALL OPTIONAL INCREASES

SHALL BE NO MORE THAN \$25,000,000.

(B) EACH LENDER MAY, BUT SHALL NOT BE OBLIGATED TO, PARTICIPATE IN ANY OPTIONAL INCREASE, SUBJECT TO THE APPROVAL OF THE ISSUING LENDER (SUCH APPROVAL NOT TO BE UNREASONABLY WITHHELD), AND THE DECISION OF ANY LENDER TO COMMIT TO AN OPTIONAL INCREASE SHALL BE AT SUCH LENDER'S SOLE DISCRETION AND SHALL BE MADE IN WRITING. THE BORROWER MAY, AT ITS OWN EXPENSE, SOLICIT ADDITIONAL COMMITMENTS FROM THIRD PARTY FINANCIAL INSTITUTIONS REASONABLY ACCEPTABLE TO THE ADMINISTRATIVE AGENT AND THE ISSUING LENDER. ANY SUCH FINANCIAL INSTITUTION (IF NOT ALREADY A LENDER HEREUNDER) SHALL BECOME A PARTY TO THIS AGREEMENT AS A LENDER, PURSUANT TO A JOINDER AGREEMENT IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE ADMINISTRATIVE AGENT AND THE BORROWER.

(C) AS A CONDITION PRECEDENT TO THE OPTIONAL INCREASE, THE BORROWER SHALL DELIVER TO THE ADMINISTRATIVE AGENT A CERTIFICATE OF THE BORROWER DATED THE EFFECTIVE DATE OF THE OPTIONAL INCREASE, SIGNED BY AN AUTHORIZED OFFICER OF THE BORROWER, CERTIFYING THAT: (i) THE RESOLUTIONS ADOPTED BY THE BORROWER APPROVING OR CONSENTING TO SUCH OPTIONAL INCREASE ARE ATTACHED THERETO AND SUCH RESOLUTIONS ARE TRUE AND CORRECT AND HAVE NOT BEEN ALTERED, AMENDED OR REPEALED AND ARE IN FULL FORCE AND EFFECT, (ii) BEFORE AND AFTER GIVING EFFECT TO THE OPTIONAL INCREASE, (A) THE REPRESENTATIONS AND WARRANTIES CONTAINED IN ARTICLE V AND THE OTHER LOAN DOCUMENTS ARE TRUE AND CORRECT IN ALL MATERIAL RESPECTS (EXCEPT TO THE EXTENT ANY SUCH REPRESENTATION AND WARRANTY IS QUALIFIED BY MATERIALITY OR REFERENCE TO MATERIAL ADVERSE EFFECT, IN WHICH CASE, SUCH REPRESENTATION AND WARRANTY SHALL BE TRUE AND CORRECT IN ALL RESPECTS) ON AND AS OF THE EFFECTIVE DATE OF THE OPTIONAL INCREASE, EXCEPT TO THE EXTENT THAT SUCH REPRESENTATIONS AND WARRANTIES SPECIFICALLY REFER TO AN EARLIER DATE, IN WHICH CASE THEY WERE TRUE AND CORRECT IN ALL MATERIAL RESPECTS (EXCEPT TO THE EXTENT ANY SUCH REPRESENTATION AND WARRANTY WAS QUALIFIED BY MATERIALITY OR REFERENCE TO MATERIAL ADVERSE EFFECT, IN WHICH CASE, SUCH REPRESENTATION AND WARRANTY WAS TRUE AND CORRECT IN ALL RESPECTS) AS OF SUCH EARLIER DATE, AND (B) THAT NO DEFAULT EXISTS, IS CONTINUING, OR WOULD RESULT FROM THE OPTIONAL INCREASE AND (iii) ANY NECESSARY GOVERNMENTAL, REGULATORY AND THIRD PARTY APPROVALS REQUIRED TO APPROVE THE OPTIONAL INCREASE, ARE ATTACHED THERETO AND REMAIN IN FULL FORCE AND EFFECT, IN EACH CASE WITHOUT ANY ACTION BEING TAKEN BY ANY COMPETENT AUTHORITY WHICH COULD RESTRAIN OR PREVENT SUCH TRANSACTION OR IMPOSE, IN THE REASONABLE JUDGMENT OF THE ADMINISTRATIVE AGENT, MATERIALLY ADVERSE CONDITIONS UPON THE CONSUMMATION OF THE OPTIONAL INCREASE. UPON THE REQUEST OF ANY LENDER, THE BORROWER SHALL PREPARE, EXECUTE AND DELIVER TO SUCH LENDER A NOTE PAYABLE TO THE ORDER OF SUCH LENDER IN ACCORDANCE WITH SECTION 2.05(D).

(D) THE REVOLVING OUTSTANDINGS WILL BE REALLOCATED BY THE ADMINISTRATIVE AGENT ON THE EFFECTIVE DATE OF ANY OPTIONAL INCREASE AMONG THE LENDERS IN ACCORDANCE WITH THEIR REVISED COMMITMENT RATIOS, AND THE BORROWER HEREBY AGREES TO PAY ANY AND ALL COSTS (IF ANY) REQUIRED PURSUANT TO SECTION 2.12 INCURRED BY ANY LENDER IN CONNECTION WITH THE EXERCISE OF THE OPTIONAL INCREASE. EACH OF THE LENDERS SHALL PARTICIPATE IN ANY NEW LOANS MADE ON OR AFTER SUCH DATE IN ACCORDANCE WITH THEIR RESPECTIVE COMMITMENT RATIOS AFTER GIVING EFFECT TO THE INCREASE IN COMMITMENTS CONTEMPLATED BY THIS SECTION 2.19.

SECTION 2.20 DEFAULTING LENDERS.

(A) NOTWITHSTANDING ANY PROVISION OF THIS AGREEMENT TO THE CONTRARY, IF ANY LENDER BECOMES A DEFAULTING LENDER, THEN THE FOLLOWING PROVISIONS SHALL APPLY FOR SO LONG AS SUCH LENDER IS A DEFAULTING LENDER:

(i) FEES SHALL CEASE TO ACCRUE ON THE UNFUNDED PORTION OF THE COMMITMENT OF SUCH DEFAULTING LENDER PURSUANT TO SECTION 2.07(A);

(ii) WITH RESPECT TO ANY LETTER OF CREDIT LIABILITIES OF SUCH DEFAULTING LENDER THAT EXISTS AT THE TIME A LENDER BECOMES A DEFAULTING LENDER OR THEREAFTER:

(A) ALL OR ANY PART OF SUCH DEFAULTING LENDER'S LETTER OF CREDIT LIABILITIES SHALL BE REALLOCATED AMONG THE NON-DEFAULTING LENDERS IN ACCORDANCE WITH THEIR RESPECTIVE COMMITMENT RATIOS (CALCULATED WITHOUT REGARD TO SUCH DEFAULTING LENDER'S COMMITMENT) BUT ONLY TO THE EXTENT THAT (X) THE CONDITIONS SET FORTH IN SECTION 4.02 ARE SATISFIED AT SUCH TIME AND (Y) SUCH REALLOCATION DOES NOT CAUSE THE REVOLVING OUTSTANDINGS OF ANY NON-DEFAULTING LENDER TO EXCEED SUCH NON-DEFAULTING LENDER'S COMMITMENT;

(B) IF THE REALLOCATION DESCRIBED IN CLAUSE (ii)(A) ABOVE CANNOT, OR CAN ONLY PARTIALLY, BE EFFECTED, THE ISSUING LENDER, IN ITS DISCRETION MAY REQUIRE THE BORROWER TO (i) REIMBURSE ALL AMOUNTS PAID BY THE ISSUING LENDER UPON ANY DRAWING UNDER A LETTER OF CREDIT AND/OR (ii) CASH COLLATERALIZE (IN ACCORDANCE WITH SECTION 2.09(A)(ii)) ALL OBLIGATIONS OF SUCH DEFAULTING LENDER IN RESPECT OF OUTSTANDING LETTERS OF CREDIT IN AN AMOUNT AT LEAST EQUAL TO THE AGGREGATE AMOUNT OF THE OBLIGATIONS (CONTINGENT OR OTHERWISE) OF SUCH DEFAULTING LENDER IN RESPECT OF SUCH LETTERS OF CREDIT (AFTER GIVING EFFECT TO ANY PARTIAL REALLOCATION PURSUANT TO SECTION 2.20(A)(ii)(A) ABOVE);

(iii) IF THE BORROWER CASH COLLATERALIZES ANY PORTION OF SUCH DEFAULTING LENDER'S PURSUANT TO SECTION 2.20(A)(ii)(B) THEN THE BORROWER SHALL NOT BE REQUIRED TO PAY ANY FEES TO SUCH DEFAULTING LENDER PURSUANT TO SECTION 2.07(B) WITH RESPECT TO SUCH DEFAULTING LENDER'S LETTER OF CREDIT LIABILITIES DURING THE PERIOD SUCH DEFAULTING LENDER'S LETTER OF CREDIT LIABILITIES ARE CASH COLLATERALIZED;

(iv) IF THE LETTER OF CREDIT LIABILITIES OF THE NON-DEFAULTING LENDERS IS REALLOCATED PURSUANT TO SECTION 2.20(A)(ii)(A) ABOVE, THEN THE FEES PAYABLE TO THE LENDERS PURSUANT TO SECTION 2.07(A) AND SECTION 2.07(B) SHALL BE ADJUSTED IN ACCORDANCE WITH SUCH NON-DEFAULTING LENDERS' COMMITMENT RATIOS (CALCULATED WITHOUT REGARD TO SUCH DEFAULTING LENDER'S COMMITMENT); AND

(v) IF ANY DEFAULTING LENDER'S LETTER OF CREDIT LIABILITIES IS NEITHER REIMBURSED, REPAID, CASH COLLATERALIZED NOR REALLOCATED PURSUANT TO THIS SECTION 2.20(A)(ii), THEN, WITHOUT PREJUDICE TO ANY RIGHTS OR REMEDIES OF THE ISSUING LENDER OR ANY OTHER LENDER HEREUNDER, ALL FEES THAT OTHERWISE WOULD HAVE BEEN PAYABLE TO SUCH DEFAULTING LENDER (SOLELY WITH RESPECT TO THE PORTION OF SUCH DEFAULTING LENDER'S COMMITMENT THAT WAS UTILIZED BY SUCH LETTER OF CREDIT LIABILITIES) AND LETTER OF CREDIT FEES PAYABLE UNDER SECTION 2.07(B) WITH RESPECT TO SUCH DEFAULTING LENDER'S LETTER OF CREDIT LIABILITIES SHALL BE PAYABLE TO THE ISSUING LENDER UNTIL SUCH LETTER OF CREDIT LIABILITIES ARE CASH

COLLATERALIZED, REALLOCATED AND/OR REPAID IN FULL.

(B) SO LONG AS ANY LENDER IS A DEFAULTING LENDER, THE ISSUING LENDER SHALL NOT BE REQUIRED TO ISSUE, AMEND OR INCREASE ANY LETTER OF CREDIT, UNLESS IT IS SATISFIED THAT THE RELATED EXPOSURE WILL BE 100% COVERED BY THE COMMITMENTS OF THE NON-DEFAULTING LENDERS AND/OR CASH COLLATERAL WILL BE PROVIDED BY THE BORROWER IN ACCORDANCE WITH SECTION 2.20(A), AND PARTICIPATING INTERESTS IN ANY SUCH NEWLY ISSUED OR INCREASED LETTER OF CREDIT SHALL BE ALLOCATED AMONG NON-DEFAULTING LENDERS IN A MANNER CONSISTENT WITH SECTION 3.04 (AND DEFAULTING LENDERS SHALL NOT PARTICIPATE THEREIN).

ARTICLE III LETTERS OF CREDIT

SECTION 3.01 LETTERS OF CREDIT. THE ISSUING LENDER AGREES, ON THE TERMS AND CONDITIONS SET FORTH IN THIS AGREEMENT, TO ISSUE LETTERS OF CREDIT FROM TIME TO TIME BEFORE THE FIFTH DAY PRIOR TO THE TERMINATION DATE, FOR THE ACCOUNT, AND UPON THE REQUEST, OF THE BORROWER AND IN SUPPORT OF SUCH OBLIGATIONS OF THE BORROWER OR ANY OF ITS SUBSIDIARIES THAT ARE REASONABLY ACCEPTABLE TO THE ISSUING LENDER; PROVIDED, THAT IMMEDIATELY AFTER EACH LETTER OF CREDIT IS ISSUED, (A) THE AGGREGATE OUTSTANDING AMOUNT OF LETTER OF CREDIT LIABILITIES SHALL NOT EXCEED \$10,000,000, AND (B) THE AGGREGATE REVOLVING OUTSTANDINGS SHALL NOT EXCEED THE AGGREGATE AMOUNT OF THE COMMITMENTS.

SECTION 3.02 METHOD OF ISSUANCE OF LETTERS OF CREDIT. THE BORROWER SHALL GIVE THE ISSUING LENDER NOTICE SUBSTANTIALLY IN THE FORM OF EXHIBIT A-3 TO THIS AGREEMENT (A "LETTER OF CREDIT REQUEST") OF THE REQUESTED ISSUANCE OR EXTENSION OF A LETTER OF CREDIT PRIOR TO 1:00 P.M. (PITTSBURGH, PENNSYLVANIA TIME) THREE BUSINESS DAYS PRIOR TO THE PROPOSED DATE OF THE ISSUANCE OR EXTENSION OF LETTERS OF CREDIT (WHICH SHALL BE A BUSINESS DAY) (OR SUCH SHORTER PERIOD AS MAY BE AGREED BY THE ISSUING LENDER IN ANY PARTICULAR INSTANCE), SPECIFYING THE DATE SUCH LETTER OF CREDIT IS TO BE ISSUED OR EXTENDED AND DESCRIBING THE TERMS OF SUCH LETTER OF CREDIT AND THE NATURE OF THE TRANSACTIONS TO BE SUPPORTED THEREBY. THE EXTENSION OR RENEWAL OF ANY LETTER OF CREDIT SHALL BE DEEMED TO BE AN ISSUANCE OF SUCH LETTER OF CREDIT, AND IF ANY LETTER OF CREDIT CONTAINS A PROVISION PURSUANT TO WHICH IT IS DEEMED TO BE EXTENDED UNLESS NOTICE OF TERMINATION IS GIVEN BY THE ISSUING LENDER, THE ISSUING LENDER SHALL TIMELY GIVE SUCH NOTICE OF TERMINATION UNLESS IT HAS THERETOFORE TIMELY RECEIVED A LETTER OF CREDIT REQUEST AND THE OTHER CONDITIONS TO ISSUANCE OF A LETTER OF CREDIT HAVE THERETOFORE BEEN MET WITH RESPECT TO SUCH EXTENSION. NO LETTER OF CREDIT SHALL HAVE A TERM OF MORE THAN ONE YEAR, PROVIDED, THAT NO LETTER OF CREDIT SHALL HAVE A TERM EXTENDING OR BE SO EXTENDIBLE BEYOND THE FIFTH BUSINESS DAY BEFORE THE TERMINATION DATE.

SECTION 3.03 CONDITIONS TO ISSUANCE OF LETTERS OF CREDIT. THE ISSUANCE BY THE ISSUING LENDER OF EACH LETTER OF CREDIT SHALL, IN ADDITION TO THE CONDITIONS PRECEDENT SET FORTH IN ARTICLE IV, BE SUBJECT TO THE CONDITIONS PRECEDENT THAT (A) SUCH LETTER OF CREDIT SHALL BE SATISFACTORY IN FORM AND SUBSTANCE TO THE ISSUING LENDER, (B) THE BORROWER AND, IF APPLICABLE, ANY SUCH SUBSIDIARY OF THE BORROWER, SHALL HAVE EXECUTED AND DELIVERED SUCH OTHER INSTRUMENTS AND AGREEMENTS RELATING TO SUCH LETTER OF CREDIT AS THE ISSUING LENDER SHALL HAVE REASONABLY REQUESTED AND (C) THE ISSUING LENDER SHALL HAVE CONFIRMED ON THE DATE OF (AND AFTER GIVING EFFECT TO) SUCH ISSUANCE THAT (i) THE AGGREGATE OUTSTANDING AMOUNT OF LETTER OF CREDIT LIABILITIES SHALL NOT EXCEED \$10,000,000 AND (ii) THE AGGREGATE REVOLVING OUTSTANDINGS WILL NOT EXCEED THE AGGREGATE AMOUNT OF THE COMMITMENTS. NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION 3.03, THE ISSUING LENDER SHALL BE UNDER NO OBLIGATION TO ISSUE ANY LETTER OF CREDIT IF: ANY ORDER, JUDGMENT OR DECREE OF ANY GOVERNMENTAL AUTHORITY SHALL BY ITS TERMS PURPORT TO ENJOIN OR RESTRAIN THE ISSUING LENDER FROM ISSUING SUCH LETTER OF CREDIT, OR ANY REQUIREMENT OF LAW APPLICABLE TO THE ISSUING LENDER OR ANY REQUEST OR DIRECTIVE (WHETHER OR NOT HAVING THE FORCE OF LAW) FROM ANY GOVERNMENTAL AUTHORITY WITH JURISDICTION OVER THE ISSUING LENDER SHALL PROHIBIT, OR REQUEST THAT THE ISSUING LENDER REFRAIN FROM, THE ISSUANCE OF LETTERS OF CREDIT GENERALLY OR SUCH LETTER OF CREDIT IN PARTICULAR OR SHALL IMPOSE UPON THE ISSUING LENDER WITH RESPECT TO SUCH LETTER OF CREDIT ANY RESTRICTION, RESERVE OR CAPITAL REQUIREMENT (FOR WHICH THE ISSUING LENDER IS NOT OTHERWISE COMPENSATED HEREUNDER) NOT IN EFFECT ON THE EFFECTIVE DATE, OR SHALL IMPOSE UPON THE ISSUING LENDER ANY UNREIMBURSED LOSS, COST OR EXPENSE WHICH WAS NOT APPLICABLE ON THE EFFECTIVE DATE AND WHICH THE ISSUING LENDER IN GOOD FAITH DEEMS MATERIAL TO IT.

SECTION 3.04 PURCHASE AND SALE OF LETTER OF CREDIT PARTICIPATIONS. UPON THE ISSUANCE BY THE ISSUING LENDER OF A LETTER OF CREDIT, THE ISSUING LENDER SHALL BE DEEMED, WITHOUT FURTHER ACTION BY ANY PARTY HERETO, TO HAVE SOLD TO EACH LENDER, AND EACH LENDER SHALL BE DEEMED, WITHOUT FURTHER ACTION BY ANY PARTY HERETO, TO HAVE PURCHASED FROM THE ISSUING LENDER, WITHOUT RECOURSE OR WARRANTY, AN UNDIVIDED PARTICIPATION INTEREST IN SUCH LETTER OF CREDIT AND THE RELATED LETTER OF CREDIT LIABILITIES IN ACCORDANCE WITH ITS RESPECTIVE COMMITMENT RATIO (ALTHOUGH THE FRONTING FEE PAYABLE UNDER SECTION 2.07(B) SHALL BE PAYABLE DIRECTLY TO THE ADMINISTRATIVE AGENT FOR THE ACCOUNT OF THE ISSUING LENDER, AND THE LENDERS (OTHER THAN THE ISSUING LENDER) SHALL HAVE NO RIGHT TO RECEIVE ANY PORTION OF ANY SUCH FRONTING FEE) AND ANY SECURITY THEREFOR OR GUARANTY PERTAINING THERETO.

SECTION 3.05 DRAWINGS UNDER LETTERS OF CREDIT. UPON RECEIPT FROM THE BENEFICIARY OF ANY LETTER OF CREDIT OF ANY NOTICE OF A DRAWING UNDER SUCH LETTER OF CREDIT, THE ISSUING LENDER SHALL DETERMINE IN ACCORDANCE WITH THE TERMS OF SUCH LETTER OF CREDIT WHETHER SUCH DRAWING SHOULD BE HONORED. IF THE ISSUING LENDER DETERMINES THAT ANY SUCH DRAWING SHALL BE HONORED, THE ISSUING LENDER SHALL MAKE AVAILABLE TO SUCH BENEFICIARY IN ACCORDANCE WITH THE TERMS OF SUCH LETTER OF CREDIT THE AMOUNT OF THE DRAWING AND SHALL NOTIFY THE BORROWER AS TO THE AMOUNT TO BE PAID AS A RESULT OF SUCH DRAWING AND THE PAYMENT DATE.

SECTION 3.06 REIMBURSEMENT OBLIGATIONS. THE BORROWER SHALL BE IRREVOCABLY AND UNCONDITIONALLY OBLIGATED FORTHWITH TO REIMBURSE THE ISSUING LENDER FOR ANY AMOUNTS PAID BY THE ISSUING LENDER UPON ANY DRAWING UNDER ANY LETTER OF CREDIT, TOGETHER WITH ANY AND ALL REASONABLE CHARGES AND EXPENSES WHICH THE ISSUING LENDER MAY PAY OR INCUR RELATIVE TO SUCH DRAWING AND INTEREST ON THE AMOUNT DRAWN AT THE RATE APPLICABLE TO BASE RATE LOANS FOR EACH DAY FROM AND INCLUDING THE DATE SUCH AMOUNT IS DRAWN TO BUT EXCLUDING THE DATE SUCH REIMBURSEMENT PAYMENT IS DUE AND PAYABLE. SUCH REIMBURSEMENT PAYMENT SHALL BE DUE AND PAYABLE (A) AT OR BEFORE 1:00 P.M. (PITTSBURGH, PENNSYLVANIA TIME) ON THE DATE THE ISSUING LENDER NOTIFIES THE BORROWER OF SUCH DRAWING, IF SUCH NOTICE IS GIVEN AT OR BEFORE 10:00 A.M. (PITTSBURGH, PENNSYLVANIA TIME) ON SUCH DATE OR (B) AT OR BEFORE 10:00 A.M. (PITTSBURGH, PENNSYLVANIA TIME) ON THE NEXT SUCCEEDING BUSINESS DAY; PROVIDED, THAT NO PAYMENT OTHERWISE REQUIRED BY THIS SENTENCE TO BE MADE BY THE BORROWER AT OR BEFORE 1:00 P.M. (PITTSBURGH, PENNSYLVANIA TIME) ON ANY DAY SHALL BE OVERDUE HEREUNDER IF ARRANGEMENTS FOR SUCH PAYMENT SATISFACTORY TO THE ISSUING LENDER, IN ITS REASONABLE DISCRETION, SHALL HAVE BEEN MADE BY THE BORROWER AT OR BEFORE 1:00 P.M. (PITTSBURGH, PENNSYLVANIA TIME) ON SUCH DAY AND SUCH PAYMENT IS ACTUALLY MADE AT OR BEFORE 3:00 P.M. (PITTSBURGH, PENNSYLVANIA TIME) ON SUCH DAY. IN ADDITION, THE BORROWER AGREES TO PAY TO THE ISSUING LENDER INTEREST, PAYABLE ON DEMAND, ON ANY AND ALL AMOUNTS NOT PAID BY THE BORROWER TO THE ISSUING LENDER WHEN DUE UNDER THIS SECTION 3.06, FOR EACH DAY FROM AND INCLUDING THE DATE WHEN SUCH AMOUNT BECOMES DUE TO BUT EXCLUDING THE DATE SUCH AMOUNT IS PAID IN FULL, WHETHER BEFORE OR AFTER JUDGMENT, AT A RATE PER ANNUM EQUAL TO THE SUM OF 2% PLUS THE RATE APPLICABLE TO BASE RATE LOANS FOR SUCH DAY. EACH PAYMENT TO BE

MADE BY THE BORROWER PURSUANT TO THIS SECTION 3.06 SHALL BE MADE TO THE ISSUING LENDER IN FEDERAL OR OTHER FUNDS IMMEDIATELY AVAILABLE TO IT AT ITS ADDRESS REFERRED TO SECTION 9.01.

SECTION 3.07 DUTIES OF ISSUING LENDER TO LENDERS; RELIANCE. IN DETERMINING WHETHER TO PAY UNDER ANY LETTER OF CREDIT, THE ISSUING LENDER SHALL NOT HAVE ANY OBLIGATION RELATIVE TO THE LENDERS PARTICIPATING IN SUCH LETTER OF CREDIT OR THE RELATED LETTER OF CREDIT LIABILITIES OTHER THAN TO DETERMINE THAT ANY DOCUMENT OR DOCUMENTS REQUIRED TO BE DELIVERED UNDER SUCH LETTER OF CREDIT HAVE BEEN DELIVERED AND THAT THEY SUBSTANTIALLY COMPLY ON THEIR FACE WITH THE REQUIREMENTS OF SUCH LETTER OF CREDIT. ANY ACTION TAKEN OR OMITTED TO BE TAKEN BY THE ISSUING LENDER UNDER OR IN CONNECTION WITH ANY LETTER OF CREDIT SHALL NOT CREATE FOR THE ISSUING LENDER ANY RESULTING LIABILITY IF TAKEN OR OMITTED IN THE ABSENCE OF GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. THE ISSUING LENDER SHALL BE ENTITLED (BUT NOT OBLIGATED) TO RELY, AND SHALL BE FULLY PROTECTED IN RELYING, ON THE REPRESENTATION AND WARRANTY BY THE BORROWER SET FORTH IN THE LAST SENTENCE OF SECTION 4.02 TO ESTABLISH WHETHER THE CONDITIONS SPECIFIED IN CLAUSES (b) AND (c) OF SECTION 4.02 ARE MET IN CONNECTION WITH ANY ISSUANCE OR EXTENSION OF A LETTER OF CREDIT. THE ISSUING LENDER SHALL BE ENTITLED TO RELY, AND SHALL BE FULLY PROTECTED IN RELYING, UPON ADVICE AND STATEMENTS OF LEGAL COUNSEL, INDEPENDENT ACCOUNTANTS AND OTHER EXPERTS SELECTED BY THE ISSUING LENDER AND UPON ANY LETTER OF CREDIT, DRAFT, WRITING, RESOLUTION, NOTICE, CONSENT, CERTIFICATE, AFFIDAVIT, LETTER, CABLEGRAM, TELEGRAM, TELECOPIER, TELEX OR TELETYPE MESSAGE, STATEMENT, ORDER OR OTHER DOCUMENT BELIEVED BY IT IN GOOD FAITH TO BE GENUINE AND CORRECT AND TO HAVE BEEN SIGNED, SENT OR MADE BY THE PROPER PERSON OR PERSONS, AND MAY ACCEPT DOCUMENTS THAT APPEAR ON THEIR FACE TO BE IN ORDER, WITHOUT RESPONSIBILITY FOR FURTHER INVESTIGATION, REGARDLESS OF ANY NOTICE OR INFORMATION TO THE CONTRARY UNLESS THE BENEFICIARY AND THE BORROWER SHALL HAVE NOTIFIED THE ISSUING LENDER THAT SUCH DOCUMENTS DO NOT COMPLY WITH THE TERMS AND CONDITIONS OF THE LETTER OF CREDIT. THE ISSUING LENDER SHALL BE FULLY JUSTIFIED IN REFUSING TO TAKE ANY ACTION REQUESTED OF IT UNDER THIS SECTION IN RESPECT OF ANY LETTER OF CREDIT UNLESS IT SHALL FIRST HAVE RECEIVED SUCH ADVICE OR CONCURRENCE OF THE REQUIRED LENDERS AS IT REASONABLY DEEMS APPROPRIATE OR IT SHALL FIRST BE INDEMNIFIED TO ITS REASONABLE SATISFACTION BY THE LENDERS AGAINST ANY AND ALL LIABILITY AND EXPENSE WHICH MAY BE INCURRED BY IT BY REASON OF TAKING OR CONTINUING TO TAKE, OR OMITTING OR CONTINUING TO OMIT, ANY SUCH ACTION. NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, THE ISSUING LENDER SHALL IN ALL CASES BE FULLY PROTECTED IN ACTING, OR IN REFRAINING FROM ACTING, UNDER THIS SECTION IN RESPECT OF ANY LETTER OF CREDIT IN ACCORDANCE WITH A REQUEST OF THE REQUIRED LENDERS, AND SUCH REQUEST AND ANY ACTION TAKEN OR FAILURE TO ACT PURSUANT HERETO SHALL BE BINDING UPON ALL LENDERS AND ALL FUTURE HOLDERS OF PARTICIPATIONS IN SUCH LETTER OF CREDIT; PROVIDED, THAT THIS SENTENCE SHALL NOT AFFECT ANY RIGHTS THE BORROWER MAY HAVE AGAINST THE ISSUING LENDER OR THE LENDERS THAT MAKE SUCH REQUEST.

SECTION 3.08 OBLIGATIONS OF LENDERS TO REIMBURSE ISSUING LENDER FOR UNPAID DRAWINGS. IF THE ISSUING LENDER MAKES ANY PAYMENT UNDER ANY LETTER OF CREDIT AND THE BORROWER SHALL NOT HAVE REIMBURSED SUCH AMOUNT IN FULL TO THE ISSUING LENDER PURSUANT TO SECTION 3.06, THE ISSUING LENDER SHALL PROMPTLY NOTIFY THE ADMINISTRATIVE AGENT, AND THE ADMINISTRATIVE AGENT SHALL PROMPTLY NOTIFY EACH LENDER (OTHER THAN THE ISSUING LENDER), AND EACH SUCH LENDER SHALL PROMPTLY AND UNCONDITIONALLY PAY TO THE ADMINISTRATIVE AGENT, FOR THE ACCOUNT OF THE ISSUING LENDER, SUCH LENDER'S SHARE OF SUCH PAYMENT (DETERMINED IN ACCORDANCE WITH ITS RESPECTIVE COMMITMENT RATIO) IN DOLLARS IN FEDERAL OR OTHER IMMEDIATELY AVAILABLE FUNDS, THE AGGREGATE OF SUCH PAYMENTS RELATING TO EACH UNREIMBURSED AMOUNT BEING REFERRED TO HEREIN AS A "MANDATORY LETTER OF CREDIT BORROWING"; PROVIDED, HOWEVER, THAT NO LENDER SHALL BE OBLIGATED TO PAY TO THE ADMINISTRATIVE AGENT ITS PRO RATA SHARE OF SUCH UNREIMBURSED AMOUNT FOR ANY WRONGFUL PAYMENT MADE BY THE ISSUING LENDER UNDER A LETTER OF CREDIT AS A RESULT OF ACTS OR OMISSIONS CONSTITUTING WILLFUL MISCONDUCT OR GROSS NEGLIGENCE BY THE ISSUING LENDER. IF THE ADMINISTRATIVE AGENT SO NOTIFIES A LENDER PRIOR TO 11:00 A.M. (PITTSBURGH, PENNSYLVANIA TIME) ON ANY BUSINESS DAY, SUCH LENDER SHALL MAKE AVAILABLE TO THE ADMINISTRATIVE AGENT AT ITS ADDRESS REFERRED TO IN SECTION 9.01 AND FOR THE ACCOUNT OF THE ISSUING LENDER SUCH LENDER'S PRO RATA SHARE OF THE AMOUNT OF SUCH PAYMENT BY 3:00 P.M. (PITTSBURGH, PENNSYLVANIA TIME) ON THE BUSINESS DAY FOLLOWING SUCH LENDER'S RECEIPT OF NOTICE FROM THE ADMINISTRATIVE AGENT, TOGETHER WITH INTEREST ON SUCH AMOUNT FOR EACH DAY FROM AND INCLUDING THE DATE OF SUCH DRAWING TO BUT EXCLUDING THE DAY SUCH PAYMENT IS DUE FROM SUCH LENDER AT THE FEDERAL FUNDS RATE FOR SUCH DAY (WHICH FUNDS THE ADMINISTRATIVE AGENT SHALL PROMPTLY REMIT TO THE ISSUING LENDER). THE FAILURE OF ANY LENDER TO MAKE AVAILABLE TO THE ADMINISTRATIVE AGENT FOR THE ACCOUNT OF THE ISSUING LENDER ITS PRO RATA SHARE OF ANY UNREIMBURSED DRAWING UNDER ANY LETTER OF CREDIT SHALL NOT RELIEVE ANY OTHER LENDER OF ITS OBLIGATION HEREUNDER TO MAKE AVAILABLE TO THE ADMINISTRATIVE AGENT FOR THE ACCOUNT OF THE ISSUING LENDER ITS PRO RATA SHARE OF ANY PAYMENT MADE UNDER ANY LETTER OF CREDIT ON THE DATE REQUIRED, AS SPECIFIED ABOVE, BUT NO SUCH LENDER SHALL BE RESPONSIBLE FOR THE FAILURE OF ANY OTHER LENDER TO MAKE AVAILABLE TO THE ADMINISTRATIVE AGENT FOR THE ACCOUNT OF THE ISSUING LENDER SUCH OTHER LENDER'S PRO RATA SHARE OF ANY SUCH PAYMENT. UPON PAYMENT IN FULL OF ALL AMOUNTS PAYABLE BY A LENDER UNDER THIS SECTION 3.08, SUCH LENDER SHALL BE SUBROGATED TO THE RIGHTS OF THE ISSUING LENDER AGAINST THE BORROWER TO THE EXTENT OF SUCH LENDER'S PRO RATA SHARE OF THE RELATED LETTER OF CREDIT LIABILITIES (INCLUDING INTEREST ACCRUED THEREON). IF ANY LENDER FAILS TO PAY ANY AMOUNT REQUIRED TO BE PAID BY IT PURSUANT TO THIS SECTION 3.08 ON THE DATE ON WHICH SUCH PAYMENT IS DUE, INTEREST SHALL ACCRUE ON SUCH LENDER'S OBLIGATION TO MAKE SUCH PAYMENT, FOR EACH DAY FROM AND INCLUDING THE DATE SUCH PAYMENT BECAME DUE TO BUT EXCLUDING THE DATE SUCH LENDER MAKES SUCH PAYMENT, WHETHER BEFORE OR AFTER JUDGMENT, AT A RATE PER ANNUM EQUAL TO (i) FOR EACH DAY FROM THE DATE SUCH PAYMENT IS DUE TO THE THIRD SUCCEEDING BUSINESS DAY, INCLUSIVE, THE FEDERAL FUNDS RATE FOR SUCH DAY AS DETERMINED BY THE ISSUING LENDER AND (ii) FOR EACH DAY THEREAFTER, THE SUM OF 2% PLUS THE RATE APPLICABLE TO ITS BASE RATE LOANS FOR SUCH DAY. ANY PAYMENT MADE BY ANY LENDER AFTER 3:00 P.M. (PITTSBURGH, PENNSYLVANIA TIME) ON ANY BUSINESS DAY SHALL BE DEEMED FOR PURPOSES OF THE PRECEDING SENTENCE TO HAVE BEEN MADE ON THE NEXT SUCCEEDING BUSINESS DAY.

SECTION 3.09 FUNDS RECEIVED FROM THE BORROWER IN RESPECT OF DRAWN LETTERS OF CREDIT. WHENEVER THE ISSUING LENDER RECEIVES A PAYMENT OF A REIMBURSEMENT OBLIGATION AS TO WHICH THE ADMINISTRATIVE AGENT HAS RECEIVED FOR THE ACCOUNT OF THE ISSUING LENDER ANY PAYMENTS FROM THE OTHER LENDERS PURSUANT TO SECTION 3.08 ABOVE, THE ISSUING LENDER SHALL PAY THE AMOUNT OF SUCH PAYMENT TO THE ADMINISTRATIVE AGENT, AND THE ADMINISTRATIVE AGENT SHALL PROMPTLY PAY TO EACH LENDER WHICH HAS PAID ITS PRO RATA SHARE THEREOF, IN DOLLARS IN FEDERAL OR OTHER IMMEDIATELY AVAILABLE FUNDS, AN AMOUNT EQUAL TO SUCH LENDER'S PRO RATA SHARE OF THE PRINCIPAL AMOUNT THEREOF AND INTEREST THEREON FOR EACH DAY AFTER RELEVANT DATE OF PAYMENT AT THE FEDERAL FUNDS RATE.

SECTION 3.10 OBLIGATIONS IN RESPECT OF LETTERS OF CREDIT UNCONDITIONAL. THE OBLIGATIONS OF THE BORROWER UNDER SECTION 3.06 ABOVE SHALL BE ABSOLUTE, UNCONDITIONAL AND IRREVOCABLE, AND SHALL BE PERFORMED STRICTLY IN ACCORDANCE WITH THE TERMS OF THIS AGREEMENT, UNDER ALL CIRCUMSTANCES WHATSOEVER, INCLUDING, WITHOUT LIMITATION, THE FOLLOWING CIRCUMSTANCES:

- (A) ANY LACK OF VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR ANY LETTER OF CREDIT OR ANY DOCUMENT RELATED HERETO OR THERETO;
- (B) ANY AMENDMENT OR WAIVER OF OR ANY CONSENT TO DEPARTURE FROM ALL OR ANY OF THE PROVISIONS OF THIS AGREEMENT OR ANY LETTER OF CREDIT OR ANY DOCUMENT RELATED HERETO OR THERETO;

(C) THE USE WHICH MAY BE MADE OF THE LETTER OF CREDIT BY, OR ANY ACTS OR OMISSION OF, A BENEFICIARY OF A LETTER OF CREDIT (OR ANY PERSON FOR WHOM THE BENEFICIARY MAY BE ACTING);

(D) THE EXISTENCE OF ANY CLAIM, SET-OFF, DEFENSE OR OTHER RIGHTS THAT THE BORROWER MAY HAVE AT ANY TIME AGAINST A BENEFICIARY OF A LETTER OF CREDIT (OR ANY PERSON FOR WHOM THE BENEFICIARY MAY BE ACTING), THE ISSUING LENDER OR ANY OTHER PERSON, WHETHER IN CONNECTION WITH THIS AGREEMENT OR ANY LETTER OF CREDIT OR ANY DOCUMENT RELATED HERETO OR THERETO OR ANY UNRELATED TRANSACTION;

(E) ANY STATEMENT OR ANY OTHER DOCUMENT PRESENTED UNDER A LETTER OF CREDIT PROVING TO BE FORGED, FRAUDULENT OR INVALID IN ANY RESPECT OR ANY STATEMENT THEREIN BEING UNTRUE OR INACCURATE IN ANY RESPECT WHATSOEVER;

(F) PAYMENT UNDER A LETTER OF CREDIT AGAINST PRESENTATION TO THE ISSUING LENDER OF A DRAFT OR CERTIFICATE THAT DOES NOT COMPLY WITH THE TERMS OF SUCH LETTER OF CREDIT; PROVIDED, THAT THE ISSUING LENDER'S DETERMINATION THAT DOCUMENTS PRESENTED UNDER SUCH LETTER OF CREDIT COMPLY WITH THE TERMS THEREOF SHALL NOT HAVE CONSTITUTED GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE ISSUING LENDER; OR

(G) ANY OTHER ACT OR OMISSION TO ACT OR DELAY OF ANY KIND BY THE ISSUING LENDER OR ANY OTHER PERSON OR ANY OTHER EVENT OR CIRCUMSTANCE WHATSOEVER THAT MIGHT, BUT FOR THE PROVISIONS OF THIS SUBSECTION (G), CONSTITUTE A LEGAL OR EQUITABLE DISCHARGE OF THE BORROWER'S OBLIGATIONS HEREUNDER.

NOTHING IN THIS SECTION 3.10 IS INTENDED TO LIMIT THE RIGHT OF THE BORROWER TO MAKE A CLAIM AGAINST THE ISSUING LENDER FOR DAMAGES AS CONTEMPLATED BY THE PROVISO TO THE FIRST SENTENCE OF SECTION 3.11.

SECTION 3.11 INDEMNIFICATION IN RESPECT OF LETTERS OF CREDIT. THE BORROWER HEREBY INDEMNIFIES AND HOLDS HARMLESS EACH LENDER (INCLUDING THE ISSUING LENDER) AND THE ADMINISTRATIVE AGENT FROM AND AGAINST ANY AND ALL CLAIMS, DAMAGES, LOSSES, LIABILITIES, COSTS OR EXPENSES WHICH SUCH LENDER OR THE ADMINISTRATIVE AGENT MAY INCUR BY REASON OF OR IN CONNECTION WITH THE FAILURE OF ANY OTHER LENDER TO FULFILL OR COMPLY WITH ITS OBLIGATIONS TO THE ISSUING LENDER HEREUNDER (BUT NOTHING HEREIN CONTAINED SHALL AFFECT ANY RIGHTS WHICH THE BORROWER MAY HAVE AGAINST SUCH DEFAULTING LENDER), AND NONE OF THE LENDERS (INCLUDING THE ISSUING LENDER) NOR THE ADMINISTRATIVE AGENT, THEIR RESPECTIVE AFFILIATES NOR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS SHALL BE LIABLE OR RESPONSIBLE, BY REASON OF OR IN CONNECTION WITH THE EXECUTION AND DELIVERY OR TRANSFER OF OR PAYMENT OR FAILURE TO PAY UNDER ANY LETTER OF CREDIT, INCLUDING, WITHOUT LIMITATION, ANY OF THE CIRCUMSTANCES ENUMERATED IN SECTION 3.10, AS WELL AS (A) ANY ERROR, OMISSION, INTERRUPTION OR DELAY IN TRANSMISSION OR DELIVERY OF ANY MESSAGES, BY MAIL, CABLE, TELEGRAPH, TELEX OR OTHERWISE, (B) ANY ERROR IN INTERPRETATION OF TECHNICAL TERMS, (C) ANY LOSS OR DELAY IN THE TRANSMISSION OF ANY DOCUMENT REQUIRED IN ORDER TO MAKE A DRAWING UNDER A LETTER OF CREDIT, (D) ANY CONSEQUENCES ARISING FROM CAUSES BEYOND THE CONTROL OF SUCH INDEMNITEE, INCLUDING WITHOUT LIMITATION, ANY GOVERNMENT ACTS, OR (E) ANY OTHER CIRCUMSTANCES WHATSOEVER IN MAKING OR FAILING TO MAKE PAYMENT UNDER SUCH LETTER OF CREDIT; PROVIDED, THAT THE BORROWER SHALL NOT BE REQUIRED TO INDEMNIFY THE ISSUING LENDER FOR ANY CLAIMS, DAMAGES, LOSSES, LIABILITIES, COSTS OR EXPENSES, AND THE BORROWER SHALL HAVE A CLAIM AGAINST THE ISSUING LENDER FOR DIRECT (BUT NOT CONSEQUENTIAL) DAMAGES SUFFERED BY IT, TO THE EXTENT FOUND BY A COURT OF COMPETENT JURISDICTION IN A FINAL, NON-APPEALABLE JUDGMENT OR ORDER TO HAVE BEEN CAUSED BY (i) THE WILLFUL MISCONDUCT OR GROSS NEGLIGENCE OF THE ISSUING LENDER IN DETERMINING WHETHER A REQUEST PRESENTED UNDER ANY LETTER OF CREDIT ISSUED BY IT COMPLIED WITH THE TERMS OF SUCH LETTER OF CREDIT OR (ii) THE ISSUING LENDER'S FAILURE TO PAY UNDER ANY LETTER OF CREDIT ISSUED BY IT AFTER THE PRESENTATION TO IT OF A REQUEST STRICTLY COMPLYING WITH THE TERMS AND CONDITIONS OF SUCH LETTER OF CREDIT. NOTHING IN THIS SECTION 3.11 IS INTENDED TO LIMIT THE OBLIGATIONS OF THE BORROWER UNDER ANY OTHER PROVISION OF THIS AGREEMENT.

SECTION 3.12 ISP98. THE RULES OF THE "INTERNATIONAL STANDBY PRACTICES 1998" AS PUBLISHED BY THE INTERNATIONAL CHAMBER OF COMMERCE MOST RECENTLY AT THE TIME OF ISSUANCE OF ANY LETTER OF CREDIT SHALL APPLY TO SUCH LETTER OF CREDIT UNLESS OTHERWISE EXPRESSLY PROVIDED IN SUCH LETTER OF CREDIT.

ARTICLE IV CONDITIONS

SECTION 4.01 CONDITIONS TO CLOSING. THE OBLIGATION OF EACH LENDER TO MAKE A LOAN OR ISSUE A LETTER OF CREDIT ON THE OCCASION OF THE FIRST CREDIT EVENT HEREUNDER IS SUBJECT TO THE SATISFACTION OF THE FOLLOWING CONDITIONS:

(A) THIS AGREEMENT. THE ADMINISTRATIVE AGENT SHALL HAVE RECEIVED COUNTERPARTS HEREOF SIGNED BY EACH OF THE PARTIES HERETO (OR, IN THE CASE OF ANY PARTY AS TO WHICH AN EXECUTED COUNTERPART SHALL NOT HAVE BEEN RECEIVED, RECEIPT BY THE ADMINISTRATIVE AGENT IN FORM SATISFACTORY TO IT OF TELEGRAPHIC, TELEX, FACSIMILE OR OTHER WRITTEN CONFIRMATION FROM SUCH PARTY OF EXECUTION OF A COUNTERPART HEREOF BY SUCH PARTY) TO BE HELD IN ESCROW AND TO BE DELIVERED TO THE BORROWER UPON SATISFACTION OF THE OTHER CONDITIONS SET FORTH IN THIS SECTION 4.01.

(B) NOTES. ON OR PRIOR TO THE EFFECTIVE DATE, THE ADMINISTRATIVE AGENT SHALL HAVE RECEIVED A DULY EXECUTED NOTE FOR THE ACCOUNT OF EACH LENDER REQUESTING DELIVERY OF A NOTE PURSUANT TO SECTION 2.05.

(C) OFFICERS' CERTIFICATE. THE ADMINISTRATIVE AGENT SHALL HAVE RECEIVED A CERTIFICATE DATED THE EFFECTIVE DATE SIGNED ON BEHALF OF THE BORROWER BY ANY AUTHORIZED OFFICER OF THE BORROWER STATING THAT (A) ON THE EFFECTIVE DATE AND AFTER GIVING EFFECT TO THE LOANS AND LETTERS OF CREDIT BEING MADE OR ISSUED ON THE EFFECTIVE DATE, NO DEFAULT SHALL HAVE OCCURRED AND BE CONTINUING, AND (B) THE REPRESENTATIONS AND WARRANTIES OF THE BORROWER CONTAINED IN THE LOAN DOCUMENTS ARE TRUE AND CORRECT ON AND AS OF THE EFFECTIVE DATE, EXCEPT TO THE EXTENT THAT SUCH REPRESENTATIONS AND WARRANTIES SPECIFICALLY REFER TO AN EARLIER DATE, IN WHICH CASE THEY WERE TRUE AND CORRECT AS OF SUCH EARLIER DATE AND EXCEPT FOR THE REPRESENTATIONS IN SECTION 5.04(c), SECTION 5.05 AND SECTION 5.13, WHICH SHALL BE DEEMED ONLY TO RELATE TO THE MATTERS REFERRED TO THEREIN ON AND AS OF THE EFFECTIVE DATE.

(D) SECRETARY'S CERTIFICATE. ON THE EFFECTIVE DATE, THE ADMINISTRATIVE AGENT SHALL HAVE RECEIVED (i) A CERTIFICATE OF THE SECRETARY OF STATE OF THE COMMONWEALTH OF KENTUCKY, DATED AS OF A RECENT DATE, AS TO THE GOOD STANDING OF THE BORROWER AND (ii) A CERTIFICATE OF THE SECRETARY OR AN ASSISTANT SECRETARY OF THE BORROWER DATED THE EFFECTIVE DATE AND CERTIFYING (A) THAT ATTACHED THERETO IS A TRUE, CORRECT AND COMPLETE COPY OF (X) THE BORROWER'S ARTICLES OF ORGANIZATION CERTIFIED BY THE SECRETARY OF STATE OF THE COMMONWEALTH OF KENTUCKY AND (Y) THE OPERATING AGREEMENT OF THE BORROWER, (B) AS TO THE ABSENCE OF DISSOLUTION OR LIQUIDATION PROCEEDINGS BY OR AGAINST THE BORROWER, (C) THAT ATTACHED THERETO IS A TRUE, CORRECT AND

COMPLETE COPY OF RESOLUTIONS ADOPTED BY THE BOARD OF DIRECTORS OF THE BORROWER AUTHORIZING THE EXECUTION, DELIVERY AND PERFORMANCE OF THE LOAN DOCUMENTS TO WHICH THE BORROWER IS A PARTY AND EACH OTHER DOCUMENT DELIVERED IN CONNECTION HERewith OR THEREwith AND THAT SUCH RESOLUTIONS HAVE NOT BEEN AMENDED AND ARE IN FULL FORCE AND EFFECT ON THE DATE OF SUCH CERTIFICATE AND (D) AS TO THE INCUMBENCY AND SPECIMEN SIGNATURES OF EACH OFFICER OF THE BORROWER EXECUTING THE LOAN DOCUMENTS TO WHICH THE BORROWER IS A PARTY OR ANY OTHER DOCUMENT DELIVERED IN CONNECTION HERewith OR THEREwith.

(E) OPINIONS OF COUNSEL. ON THE EFFECTIVE DATE, THE ADMINISTRATIVE AGENT SHALL HAVE RECEIVED FROM COUNSEL TO THE BORROWER, OPINIONS ADDRESSED TO THE ADMINISTRATIVE AGENT AND EACH LENDER, DATED THE EFFECTIVE DATE, SUBSTANTIALLY IN THE FORM OF EXHIBIT D HERETO.

(F) CONSENTS. ALL NECESSARY GOVERNMENTAL (DOMESTIC OR FOREIGN), REGULATORY AND THIRD PARTY APPROVALS, IF ANY, AUTHORIZING BORROWINGS HEREUNDER IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL HAVE BEEN OBTAINED AND REMAIN IN FULL FORCE AND EFFECT, IN EACH CASE WITHOUT ANY ACTION BEING TAKEN BY ANY COMPETENT AUTHORITY WHICH COULD RESTRAIN OR PREVENT SUCH TRANSACTION OR IMPOSE, IN THE REASONABLE JUDGMENT OF THE ADMINISTRATIVE AGENT, MATERIALLY ADVERSE CONDITIONS UPON THE CONSUMMATION OF SUCH TRANSACTIONS; PROVIDED THAT ANY SUCH APPROVALS WITH RESPECT TO ELECTIONS BY THE BORROWER TO INCREASE THE COMMITMENT AS CONTEMPLATED BY SECTION 2.19 NEED NOT BE OBTAINED OR PROVIDED UNTIL THE BORROWER MAKES ANY SUCH ELECTION.

(G) PAYMENT OF FEES. ALL COSTS, FEES AND EXPENSES DUE TO THE ADMINISTRATIVE AGENT, THE LEAD ARRANGER AND THE LENDERS ACCRUED THROUGH THE EFFECTIVE DATE (INCLUDING COMMITMENT FEES, LETTER OF CREDIT FEES AND ALL FEES SET FORTH IN THE FEE LETTER DUE AND PAYABLE AS OF THE EFFECTIVE DATE) SHALL HAVE BEEN PAID IN FULL.

(H) COUNSEL FEES. THE ADMINISTRATIVE AGENT SHALL HAVE RECEIVED FULL PAYMENT FROM THE BORROWER OF THE FEES AND EXPENSES OF MCGUIRE WOODS LLP DESCRIBED IN SECTION 9.03 WHICH ARE BILLED THROUGH THE EFFECTIVE DATE AND WHICH HAVE BEEN INVOICED ONE BUSINESS DAY PRIOR TO THE EFFECTIVE DATE.

SECTION 4.02 CONDITIONS TO ALL CREDIT EVENTS. THE OBLIGATION OF ANY LENDER TO MAKE ANY LOAN, AND THE OBLIGATION OF THE ISSUING LENDER TO ISSUE (OR RENEW OR EXTEND THE TERM OF) ANY LETTER OF CREDIT, IS SUBJECT TO THE SATISFACTION OF THE FOLLOWING CONDITIONS:

(A) RECEIPT BY THE ADMINISTRATIVE AGENT OF A NOTICE OF BORROWING AS REQUIRED BY SECTION 2.03, OR RECEIPT BY THE ISSUING LENDER OF A LETTER OF CREDIT REQUEST AS REQUIRED BY SECTION 3.02;

(B) THE FACT THAT, IMMEDIATELY BEFORE AND AFTER GIVING EFFECT TO SUCH CREDIT EVENT, NO DEFAULT SHALL HAVE OCCURRED AND BE CONTINUING; AND

(C) THE FACT THAT THE REPRESENTATIONS AND WARRANTIES OF THE BORROWER CONTAINED IN THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE TRUE AND CORRECT ON AND AS OF THE DATE OF SUCH CREDIT EVENT, EXCEPT TO THE EXTENT THAT SUCH REPRESENTATIONS AND WARRANTIES SPECIFICALLY REFER TO AN EARLIER DATE, IN WHICH CASE THEY WERE TRUE AND CORRECT AS OF SUCH EARLIER DATE AND EXCEPT FOR THE REPRESENTATIONS IN SECTION 5.04(c), SECTION 5.05 AND SECTION 5.13, WHICH SHALL BE DEEMED ONLY TO RELATE TO THE MATTERS REFERRED TO THEREIN ON AND AS OF THE EFFECTIVE DATE.

EACH CREDIT EVENT UNDER THIS AGREEMENT SHALL BE DEEMED TO BE A REPRESENTATION AND WARRANTY BY THE BORROWER ON THE DATE OF SUCH CREDIT EVENT AS TO THE FACTS SPECIFIED IN CLAUSES (B) AND (C) OF THIS SECTION.

ARTICLE V REPRESENTATIONS AND WARRANTIES

THE BORROWER REPRESENTS AND WARRANTS THAT:

SECTION 5.01 STATUS. THE BORROWER IS A LIMITED LIABILITY COMPANY DULY ORGANIZED, VALIDLY EXISTING AND IN GOOD STANDING UNDER THE LAWS OF THE COMMONWEALTH OF KENTUCKY AND HAS THE LIMITED LIABILITY COMPANY AUTHORITY TO EXECUTE AND DELIVER THIS AGREEMENT AND EACH OTHER LOAN DOCUMENT TO WHICH IT IS A PARTY AND PERFORM ITS OBLIGATIONS HEREUNDER AND THEREUNDER.

SECTION 5.02 AUTHORITY: No CONFLICT. THE EXECUTION, DELIVERY AND PERFORMANCE BY THE BORROWER OF THIS AGREEMENT AND EACH OTHER LOAN DOCUMENT TO WHICH IT IS A PARTY HAVE BEEN DULY AUTHORIZED BY ALL NECESSARY CORPORATE ACTION AND DO NOT VIOLATE (i) ANY PROVISION OF LAW OR REGULATION, OR ANY DECREE, ORDER, WRIT OR JUDGMENT, (ii) ANY PROVISION OF ITS ARTICLES OF ORGANIZATION OR OPERATING AGREEMENT, OR (iii) RESULT IN THE BREACH OF OR CONSTITUTE A DEFAULT UNDER ANY INDENTURE OR OTHER AGREEMENT OR INSTRUMENT TO WHICH THE BORROWER IS A PARTY; PROVIDED THAT ANY EXERCISE OF THE OPTION TO INCREASE THE COMMITMENT AS CONTEMPLATED IN SECTION 2.19 SHALL REQUIRE FURTHER AUTHORIZATION OF THE BORROWER'S GOVERNING BODY AND MAY REQUIRE ADDITIONAL GOVERNMENTAL AUTHORITY APPROVALS.

SECTION 5.03 LEGALITY; ETC. THIS AGREEMENT AND EACH OTHER LOAN DOCUMENT (OTHER THAN THE NOTES) TO WHICH THE BORROWER IS A PARTY CONSTITUTE THE LEGAL, VALID AND BINDING OBLIGATIONS OF THE BORROWER, AND THE NOTES, WHEN EXECUTED AND DELIVERED IN ACCORDANCE WITH THIS AGREEMENT, WILL CONSTITUTE LEGAL, VALID AND BINDING OBLIGATIONS OF THE BORROWER, IN EACH CASE ENFORCEABLE AGAINST THE BORROWER IN ACCORDANCE WITH THEIR TERMS EXCEPT TO THE EXTENT LIMITED BY (A) BANKRUPTCY, INSOLVENCY, FRAUDULENT CONVEYANCE OR REORGANIZATION LAWS OR BY OTHER SIMILAR LAWS RELATING TO OR AFFECTING THE ENFORCEABILITY OF CREDITORS' RIGHTS GENERALLY AND BY GENERAL EQUITABLE PRINCIPLES WHICH MAY LIMIT THE RIGHT TO OBTAIN EQUITABLE REMEDIES REGARDLESS OF WHETHER ENFORCEMENT IS CONSIDERED IN A PROCEEDING OF LAW OR EQUITY OR (B) ANY APPLICABLE PUBLIC POLICY ON ENFORCEABILITY OF PROVISIONS RELATING TO CONTRIBUTION AND INDEMNIFICATION.

SECTION 5.04 FINANCIAL CONDITION.

(A) AUDITED FINANCIAL STATEMENTS. THE CONSOLIDATED BALANCE SHEET OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES AS OF DECEMBER 31, 2012 AND THE RELATED CONSOLIDATED STATEMENTS OF INCOME AND CASH FLOWS FOR THE FISCAL YEAR THEN ENDED, REPORTED ON BY ERNST & YOUNG, LLP, COPIES OF WHICH HAVE BEEN DELIVERED TO EACH OF THE ADMINISTRATIVE AGENT AND THE LENDERS, FAIRLY PRESENT, IN CONFORMITY WITH GAAP, THE CONSOLIDATED FINANCIAL POSITION OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES AS OF SUCH DATE AND THEIR CONSOLIDATED RESULTS OF OPERATIONS AND CASH FLOWS FOR SUCH FISCAL YEAR.

(b) INTERIM FINANCIAL STATEMENTS. THE UNAUDITED CONSOLIDATED BALANCE SHEET OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES AS OF JUNE 30, 2013 AND THE RELATED UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND CASH FLOWS FOR THE SIX MONTHS THEN ENDED FAIRLY PRESENT, IN CONFORMITY WITH GAAP APPLIED ON A BASIS CONSISTENT WITH THE FINANCIAL STATEMENTS REFERRED TO IN SUBSECTION (A) OF THIS SECTION, THE CONSOLIDATED FINANCIAL POSITION OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES AS OF SUCH DATE AND THEIR CONSOLIDATED RESULTS OF OPERATIONS AND CASH FLOWS FOR SUCH SIX-MONTH PERIOD (SUBJECT TO NORMAL YEAR-END AUDIT ADJUSTMENTS).

(c) MATERIAL ADVERSE CHANGE. SINCE DECEMBER 31, 2012 THERE HAS BEEN NO CHANGE IN THE BUSINESS, ASSETS, FINANCIAL CONDITION OR OPERATIONS OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES, CONSIDERED AS A WHOLE, THAT WOULD MATERIALLY AND ADVERSELY AFFECT THE BORROWER'S ABILITY TO PERFORM ANY OF ITS OBLIGATIONS UNDER THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS.

SECTION 5.05 LITIGATION. EXCEPT AS DISCLOSED IN OR CONTEMPLATED BY THE BORROWER'S ANNUAL REPORT ON FORM 10-K FILED WITH THE SEC FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012, OR IN ANY SUBSEQUENT REPORT OF THE BORROWER FILED WITH THE SEC ON FORM 10-K, 10-Q OR 8-K, OR OTHERWISE FURNISHED IN WRITING TO THE ADMINISTRATIVE AGENT AND EACH LENDER, NO LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDING AGAINST THE BORROWER OR ANY OF ITS UTILITY SUBSIDIARIES IS PENDING OR, TO THE BORROWER'S KNOWLEDGE, THREATENED, WHICH WOULD REASONABLY BE EXPECTED TO MATERIALLY AND ADVERSELY AFFECT THE ABILITY OF THE BORROWER TO PERFORM ANY OF ITS OBLIGATIONS UNDER THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS. THERE IS NO LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDING PENDING OR, TO THE KNOWLEDGE OF THE BORROWER, THREATENED WHICH QUESTIONS THE VALIDITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY.

SECTION 5.06 NO VIOLATION. NO PART OF THE PROCEEDS OF THE BORROWINGS BY HEREUNDER WILL BE USED, DIRECTLY OR INDIRECTLY BY THE BORROWER FOR THE PURPOSE OF PURCHASING OR CARRYING ANY "MARGIN STOCK" WITHIN THE MEANING OF REGULATION U OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, OR FOR ANY OTHER PURPOSE WHICH VIOLATES, OR WHICH CONFLICTS WITH, THE PROVISIONS OF REGULATIONS U OR X OF SAID BOARD OF GOVERNORS. THE BORROWER IS NOT ENGAGED PRINCIPALLY, OR AS ONE OF ITS IMPORTANT ACTIVITIES, IN THE BUSINESS OF EXTENDING CREDIT FOR THE PURPOSE OF PURCHASING OR CARRYING ANY SUCH "MARGIN STOCK".

SECTION 5.07 ERISA. EACH MEMBER OF THE ERISA GROUP HAS FULFILLED ITS OBLIGATIONS UNDER THE MINIMUM FUNDING STANDARDS OF ERISA AND THE INTERNAL REVENUE CODE WITH RESPECT TO EACH MATERIAL PLAN AND IS IN COMPLIANCE IN ALL MATERIAL RESPECTS WITH THE PRESENTLY APPLICABLE PROVISIONS OF ERISA AND THE INTERNAL REVENUE CODE WITH RESPECT TO EACH MATERIAL PLAN. NO MEMBER OF THE ERISA GROUP HAS (i) SOUGHT A WAIVER OF THE MINIMUM FUNDING STANDARD UNDER SECTION 412 OF THE INTERNAL REVENUE CODE IN RESPECT OF ANY MATERIAL PLAN, (ii) FAILED TO MAKE ANY CONTRIBUTION OR PAYMENT TO ANY MATERIAL PLAN, OR MADE ANY AMENDMENT TO ANY MATERIAL PLAN, WHICH HAS RESULTED OR COULD RESULT IN THE IMPOSITION OF A LIEN OR THE POSTING OF A BOND OR OTHER SECURITY UNDER ERISA OR THE INTERNAL REVENUE CODE OR (iii) INCURRED ANY MATERIAL LIABILITY UNDER TITLE IV OF ERISA OTHER THAN A LIABILITY TO THE PBGC FOR PREMIUMS UNDER SECTION 4007 OF ERISA.

SECTION 5.08 GOVERNMENTAL APPROVALS. NO AUTHORIZATION, CONSENT OR APPROVAL FROM ANY GOVERNMENTAL AUTHORITY IS REQUIRED FOR THE EXECUTION, DELIVERY AND PERFORMANCE BY THE BORROWER OF THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY AND EXCEPT SUCH AUTHORIZATIONS, CONSENTS AND APPROVALS AS SHALL HAVE BEEN OBTAINED PRIOR TO THE EFFECTIVE DATE AND SHALL BE IN FULL FORCE AND EFFECT; PROVIDED THAT ANY EXERCISE OF THE OPTION TO INCREASE THE COMMITMENT AS CONTEMPLATED IN SECTION 2.19 SHALL REQUIRE FURTHER AUTHORIZATION OF THE BORROWER'S GOVERNING BODY AND MAY REQUIRE GOVERNMENTAL AUTHORITY APPROVALS.

SECTION 5.09 INVESTMENT COMPANY ACT. THE BORROWER IS NOT AN "INVESTMENT COMPANY" WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

SECTION 5.10 TAX RETURNS AND PAYMENTS. THE BORROWER HAS FILED OR CAUSED TO BE FILED ALL FEDERAL, STATE, LOCAL AND FOREIGN INCOME TAX RETURNS REQUIRED TO HAVE BEEN FILED BY IT AND HAS PAID OR CAUSED TO BE PAID ALL INCOME TAXES SHOWN TO BE DUE ON SUCH RETURNS EXCEPT INCOME TAXES THAT ARE BEING CONTESTED IN GOOD FAITH BY APPROPRIATE PROCEEDINGS AND FOR WHICH THE BORROWER SHALL HAVE SET ASIDE ON ITS BOOKS APPROPRIATE RESERVES WITH RESPECT THERETO IN ACCORDANCE WITH GAAP OR THAT WOULD NOT REASONABLY BE EXPECTED TO HAVE A MATERIAL ADVERSE EFFECT.

SECTION 5.11 COMPLIANCE WITH LAWS. TO THE KNOWLEDGE OF THE BORROWER, THE BORROWER AND ITS UTILITY SUBSIDIARIES ARE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND ORDERS OF ANY GOVERNMENTAL AUTHORITY, DOMESTIC OR FOREIGN, IN RESPECT OF THE CONDUCT OF THEIR RESPECTIVE BUSINESSES AND THE OWNERSHIP OF THEIR RESPECTIVE PROPERTY (INCLUDING, WITHOUT LIMITATION, COMPLIANCE WITH ALL APPLICABLE ERISA AND ENVIRONMENTAL LAWS AND THE REQUIREMENTS OF ANY PERMITS ISSUED UNDER SUCH ENVIRONMENTAL LAWS), EXCEPT TO THE EXTENT (A) SUCH COMPLIANCE IS BEING CONTESTED IN GOOD FAITH BY APPROPRIATE PROCEEDINGS OR (B) NON-COMPLIANCE WOULD NOT REASONABLY BE EXPECTED TO MATERIALLY AND ADVERSELY AFFECT THEIR ABILITIES TO PERFORM ANY OF THEIR RESPECTIVE OBLIGATIONS UNDER THIS AGREEMENT, THE NOTES OR ANY OTHER LOAN DOCUMENT TO WHICH THEY ARE A PARTY.

SECTION 5.12 NO DEFAULT. NO DEFAULT HAS OCCURRED AND IS CONTINUING.

SECTION 5.13 ENVIRONMENTAL MATTERS.

(A) EXCEPT (X) AS DISCLOSED IN OR CONTEMPLATED BY THE BORROWER'S ANNUAL REPORT ON FORM 10-K FILED WITH THE SEC FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012, OR IN ANY SUBSEQUENT REPORT OF THE BORROWER FILED WITH THE SEC ON FORM 10-K, 10-Q OR 8-K, OR OTHERWISE FURNISHED IN WRITING TO THE ADMINISTRATIVE AGENT AND EACH LENDER, OR (Y) TO THE EXTENT THAT THE LIABILITIES OF THE BORROWER AND ITS SUBSIDIARIES, TAKEN AS A WHOLE, THAT RELATE TO OR COULD REASONABLY BE EXPECTED TO RESULT FROM THE MATTERS REFERRED TO IN CLAUSES (I) THROUGH (III) BELOW OF THIS SECTION 5.13(A), INCLUSIVE, WOULD NOT REASONABLY BE EXPECTED TO RESULT IN A MATERIAL ADVERSE EFFECT:

(i) NO NOTICE, NOTIFICATION, CITATION, SUMMONS, COMPLAINT OR ORDER HAS BEEN RECEIVED BY THE BORROWER OR ANY OF ITS SUBSIDIARIES, NO PENALTY HAS BEEN ASSESSED NOR IS ANY INVESTIGATION OR REVIEW PENDING OR, TO THE BORROWER'S OR ANY OF ITS SUBSIDIARIES' KNOWLEDGE, THREATENED BY ANY GOVERNMENTAL OR OTHER ENTITY WITH RESPECT TO ANY (A) ALLEGED VIOLATION BY OR LIABILITY OF THE BORROWER OR ANY OF ITS SUBSIDIARIES OF OR UNDER ANY ENVIRONMENTAL LAW, (B) ALLEGED FAILURE BY THE BORROWER OR ANY OF ITS SUBSIDIARIES TO HAVE ANY ENVIRONMENTAL PERMIT, CERTIFICATE, LICENSE, APPROVAL, REGISTRATION OR AUTHORIZATION REQUIRED IN CONNECTION WITH THE CONDUCT OF ITS BUSINESS OR (C) GENERATION, STORAGE, TREATMENT,

DISPOSAL, TRANSPORTATION OR RELEASE OF HAZARDOUS SUBSTANCES;

(ii) TO THE BORROWER'S OR ANY OF ITS SUBSIDIARIES' KNOWLEDGE, NO HAZARDOUS SUBSTANCE HAS BEEN RELEASED (AND NO WRITTEN NOTIFICATION OF SUCH RELEASE HAS BEEN FILED) (WHETHER OR NOT IN A REPORTABLE OR THRESHOLD PLANNING QUANTITY) AT, ON OR UNDER ANY PROPERTY NOW OR PREVIOUSLY OWNED, LEASED OR OPERATED BY THE BORROWER OR ANY OF ITS SUBSIDIARIES; AND

(iii) NO PROPERTY NOW OR PREVIOUSLY OWNED, LEASED OR OPERATED BY THE BORROWER OR ANY OF ITS SUBSIDIARIES OR, TO THE BORROWER'S OR ANY OF ITS SUBSIDIARIES' KNOWLEDGE, ANY PROPERTY TO WHICH THE BORROWER OR ANY OF ITS SUBSIDIARIES HAS, DIRECTLY OR INDIRECTLY, TRANSPORTED OR ARRANGED FOR THE TRANSPORTATION OF ANY HAZARDOUS SUBSTANCES, IS LISTED OR, TO THE BORROWER'S OR ANY OF ITS SUBSIDIARIES' KNOWLEDGE, PROPOSED FOR LISTING, ON THE NATIONAL PRIORITIES LIST PROMULGATED PURSUANT TO THE COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION AND LIABILITY ACT OF 1980, AS AMENDED ("CERCLA"), ON CERCLIS (AS DEFINED IN CERCLA) OR ON ANY SIMILAR FEDERAL, STATE OR FOREIGN LIST OF SITES REQUIRING INVESTIGATION OR CLEAN-UP.

(B) EXCEPT AS DISCLOSED IN OR CONTEMPLATED BY THE BORROWER'S ANNUAL REPORT ON FORM 10-K FILED WITH THE SEC FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012, OR IN ANY SUBSEQUENT REPORT OF THE BORROWER FILED WITH THE SEC ON FORM 10-K, 10-Q OR 8-K, OR OTHERWISE FURNISHED IN WRITING TO THE ADMINISTRATIVE AGENT AND EACH LENDER, TO THE BORROWER'S OR ANY OF ITS SUBSIDIARIES' KNOWLEDGE, THERE ARE NO ENVIRONMENTAL LIABILITIES THAT HAVE RESULTED OR COULD REASONABLY BE EXPECTED TO RESULT IN A MATERIAL ADVERSE EFFECT.

(C) FOR PURPOSES OF THIS SECTION 5.13, THE TERMS "THE BORROWER" AND "SUBSIDIARY" SHALL INCLUDE ANY BUSINESS OR BUSINESS ENTITY (INCLUDING A CORPORATION) WHICH IS A PREDECESSOR, IN WHOLE OR IN PART, OF THE BORROWER OR ANY OF ITS SUBSIDIARIES FROM THE TIME SUCH BUSINESS OR BUSINESS ENTITY BECAME A DIRECT OR INDIRECT SUBSIDIARY OF PPL CORPORATION, A PENNSYLVANIA CORPORATION.

SECTION 5.14 UTILITY SUBSIDIARIES AND OWNERSHIP. AS OF THE EFFECTIVE DATE, SCHEDULE 5.14 STATES THE NAME OF EACH OF THE BORROWER'S UTILITY SUBSIDIARIES AND ITS JURISDICTION OR JURISDICTIONS OF INCORPORATION, AND EACH SUCH SUBSIDIARY IS A WHOLLY OWNED SUBSIDIARY OF THE BORROWER. EACH OF THE BORROWER'S UTILITY SUBSIDIARIES IS DULY INCORPORATED AND VALIDLY EXISTING UNDER THE LAWS OF THE JURISDICTION OR JURISDICTIONS OF ITS INCORPORATION. AS OF THE EFFECTIVE DATE, EACH OF THE BORROWER'S UTILITY SUBSIDIARIES IS IN GOOD STANDING IN THE JURISDICTION OR JURISDICTIONS OF ITS INCORPORATION AND HAS ALL CORPORATE OR OTHER ORGANIZATIONAL POWERS TO CARRY ON ITS BUSINESSES EXCEPT WHERE FAILURE TO DO SO WOULD NOT REASONABLY BE EXPECTED TO HAVE A MATERIAL ADVERSE EFFECT.

SECTION 5.15 OFAC. NONE OF THE BORROWER, ANY SUBSIDIARY OF THE BORROWER OR ANY AFFILIATE OF THE BORROWER: (i) IS A SANCTIONED PERSON, (ii) HAS MORE THAN 10% OF ITS ASSETS IN SANCTIONED ENTITIES, OR (iii) DERIVES MORE THAN 10% OF ITS OPERATING INCOME FROM INVESTMENTS IN, OR TRANSACTIONS WITH SANCTIONED PERSONS OR SANCTIONED ENTITIES. THE PROCEEDS OF ANY LOAN WILL NOT BE USED AND HAVE NOT BEEN USED TO FUND ANY OPERATIONS IN, FINANCE ANY INVESTMENTS OR ACTIVITIES IN, OR MAKE ANY PAYMENTS TO, A SANCTIONED PERSON OR A SANCTIONED ENTITY.

ARTICLE VI COVENANTS

THE BORROWER AGREES THAT SO LONG AS ANY LENDER HAS ANY COMMITMENT HEREUNDER OR ANY AMOUNT PAYABLE HEREUNDER OR UNDER ANY NOTE OR OTHER LOAN DOCUMENT REMAINS UNPAID OR ANY LETTER OF CREDIT LIABILITY REMAINS OUTSTANDING:

SECTION 6.01 INFORMATION. THE BORROWER WILL DELIVER OR CAUSE TO BE DELIVERED TO EACH OF THE LENDERS (IT BEING UNDERSTOOD THAT THE POSTING OF THE INFORMATION REQUIRED IN CLAUSES (A), (B) AND (E) OF THIS SECTION 6.01 ON THE BORROWER'S WEBSITE OR PPL CORPORATION'S WEBSITE ([HTTP://WWW.PPLWEB.COM](http://www.pplweb.com)) OR MAKING SUCH INFORMATION AVAILABLE ON INTRALINKS, SYNDTRAK (OR SIMILAR SERVICE) SHALL BE DEEMED TO BE EFFECTIVE DELIVERY TO THE LENDERS):

(A) ANNUAL FINANCIAL STATEMENTS. PROMPTLY WHEN AVAILABLE AND IN ANY EVENT WITHIN TEN (10) DAYS AFTER THE DATE SUCH INFORMATION IS REQUIRED TO BE DELIVERED TO THE SEC (OR, IF THE BORROWER IS NOT A PUBLIC REPORTING COMPANY, WITHIN ONE HUNDRED AND FIVE (105) DAYS AFTER THE END OF EACH FISCAL YEAR OF THE BORROWER), A CONSOLIDATED BALANCE SHEET OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES AS OF THE END OF SUCH FISCAL YEAR AND THE RELATED CONSOLIDATED STATEMENTS OF INCOME AND CASH FLOWS FOR SUCH FISCAL YEAR AND ACCOMPANIED BY AN OPINION THEREON BY INDEPENDENT PUBLIC ACCOUNTANTS OF RECOGNIZED NATIONAL STANDING, WHICH OPINION SHALL STATE THAT SUCH CONSOLIDATED FINANCIAL STATEMENTS PRESENT FAIRLY THE CONSOLIDATED FINANCIAL POSITION OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES AS OF THE DATE OF SUCH FINANCIAL STATEMENTS AND THE RESULTS OF THEIR OPERATIONS FOR THE PERIOD COVERED BY SUCH FINANCIAL STATEMENTS IN CONFORMITY WITH GAAP APPLIED ON A CONSISTENT BASIS.

(B) QUARTERLY FINANCIAL STATEMENTS. PROMPTLY WHEN AVAILABLE AND IN ANY EVENT WITHIN TEN (10) DAYS AFTER THE DATE SUCH INFORMATION IS REQUIRED TO BE DELIVERED TO THE SEC (OR, IF THE BORROWER IS NOT A PUBLIC REPORTING COMPANY, WITHIN SIXTY (60) DAYS AFTER THE END OF EACH QUARTERLY FISCAL PERIOD IN EACH FISCAL YEAR OF THE BORROWER (OTHER THAN THE LAST QUARTERLY FISCAL PERIOD OF THE BORROWER)), A CONSOLIDATED BALANCE SHEET OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES AS OF THE END OF SUCH QUARTER AND THE RELATED CONSOLIDATED STATEMENTS OF INCOME AND CASH FLOWS FOR SUCH FISCAL QUARTER, ALL CERTIFIED (SUBJECT TO NORMAL YEAR-END AUDIT ADJUSTMENTS) AS TO FAIRNESS OF PRESENTATION, GAAP AND CONSISTENCY BY ANY AUTHORIZED OFFICER OF THE BORROWER.

(C) OFFICER'S CERTIFICATE. SIMULTANEOUSLY WITH THE DELIVERY OF EACH SET OF FINANCIAL STATEMENTS REFERRED TO IN SUBSECTIONS (A) AND (B) ABOVE, A CERTIFICATE OF ANY AUTHORIZED OFFICER OF THE BORROWER, (i) SETTING FORTH IN REASONABLE DETAIL THE CALCULATIONS REQUIRED TO ESTABLISH COMPLIANCE WITH THE REQUIREMENTS OF SECTION 6.09 ON THE DATE OF SUCH FINANCIAL STATEMENTS AND (ii) STATING WHETHER THERE EXISTS ON THE DATE OF SUCH CERTIFICATE ANY DEFAULT AND, IF ANY DEFAULT THEN EXISTS, SETTING FORTH THE DETAILS THEREOF AND THE ACTION WHICH THE BORROWER IS TAKING OR PROPOSES TO TAKE WITH RESPECT THERETO.

(D) DEFAULT. FORTHWITH UPON ACQUIRING KNOWLEDGE OF THE OCCURRENCE OF ANY (i) DEFAULT OR (ii) EVENT OF DEFAULT, IN EITHER CASE A CERTIFICATE OF AN AUTHORIZED OFFICER OF THE BORROWER SETTING FORTH THE DETAILS THEREOF AND THE ACTION WHICH THE BORROWER IS TAKING OR PROPOSES TO TAKE WITH RESPECT THERETO.

(E) CHANGE IN BORROWER'S RATINGS. PROMPTLY, UPON ANY AUTHORIZED OFFICER OBTAINING KNOWLEDGE OF ANY CHANGE IN A BORROWER'S RATING, A NOTICE OF SUCH BORROWER'S RATING IN EFFECT AFTER GIVING EFFECT TO SUCH CHANGE.

(F) SECURITIES LAWS FILING. TO THE EXTENT THE BORROWER IS A PUBLIC REPORTING COMPANY, PROMPTLY WHEN AVAILABLE AND IN ANY EVENT WITHIN TEN (10) DAYS AFTER THE DATE SUCH INFORMATION IS REQUIRED TO BE DELIVERED TO THE SEC, A COPY OF ANY FORM 10-K REPORT TO THE SEC AND A COPY OF ANY FORM 10-Q REPORT TO THE SEC, AND PROMPTLY UPON THE FILING THEREOF, ANY OTHER FILINGS WITH THE SEC.

(G) ERISA MATTERS. IF AND WHEN ANY MEMBER OF THE ERISA GROUP: (i) GIVES OR IS REQUIRED TO GIVE NOTICE TO THE PBGC OF ANY "REPORTABLE EVENT" (AS DEFINED IN SECTION 4043 OF ERISA) WITH RESPECT TO ANY MATERIAL PLAN WHICH MIGHT CONSTITUTE GROUNDS FOR A TERMINATION OF SUCH PLAN UNDER TITLE IV OF ERISA, OR KNOWS THAT THE PLAN ADMINISTRATOR OF ANY MATERIAL PLAN HAS GIVEN OR IS REQUIRED TO GIVE NOTICE OF ANY SUCH REPORTABLE EVENT, A COPY OF THE NOTICE OF SUCH REPORTABLE EVENT GIVEN OR REQUIRED TO BE GIVEN TO THE PBGC; (ii) RECEIVES, WITH RESPECT TO ANY MATERIAL PLAN THAT IS A MULTIEMPLOYER PLAN, NOTICE OF ANY COMPLETE OR PARTIAL WITHDRAWAL LIABILITY UNDER TITLE IV OF ERISA, OR NOTICE THAT ANY MULTIEMPLOYER PLAN IS IN REORGANIZATION, IS INSOLVENT OR HAS BEEN TERMINATED, A COPY OF SUCH NOTICE; (iii) RECEIVES NOTICE FROM THE PBGC UNDER TITLE IV OF ERISA OF AN INTENT TO TERMINATE, IMPOSE MATERIAL LIABILITY (OTHER THAN FOR PREMIUMS UNDER SECTION 4007 OF ERISA) IN RESPECT OF, OR APPOINT A TRUSTEE TO ADMINISTER ANY MATERIAL PLAN, A COPY OF SUCH NOTICE; (iv) APPLIES FOR A WAIVER OF THE MINIMUM FUNDING STANDARD UNDER SECTION 412 OF THE INTERNAL REVENUE CODE WITH RESPECT TO A MATERIAL PLAN, A COPY OF SUCH APPLICATION; (v) GIVES NOTICE OF INTENT TO TERMINATE ANY PLAN UNDER SECTION 4041(C) OF ERISA, A COPY OF SUCH NOTICE AND OTHER INFORMATION FILED WITH THE PBGC; (vi) GIVES NOTICE OF WITHDRAWAL FROM ANY PLAN PURSUANT TO SECTION 4063 OF ERISA; OR (vii) FAILS TO MAKE ANY PAYMENT OR CONTRIBUTION TO ANY PLAN OR MAKES ANY AMENDMENT TO ANY PLAN WHICH HAS RESULTED OR COULD RESULT IN THE IMPOSITION OF A LIEN OR THE POSTING OF A BOND OR OTHER SECURITY, A COPY OF SUCH NOTICE, A CERTIFICATE OF THE CHIEF ACCOUNTING OFFICER OR CONTROLLER OF THE BORROWER SETTING FORTH DETAILS AS TO SUCH OCCURRENCE AND ACTION, IF ANY, WHICH THE BORROWER OR APPLICABLE MEMBER OF THE ERISA GROUP IS REQUIRED OR PROPOSES TO TAKE.

(H) ORGANIZATIONAL DOCUMENTS. EXCEPT TO THE EXTENT THE SAME HAS BEEN INCLUDED IN ANY FILINGS WITH THE SEC, WITHIN 30 DAYS, COPIES OF ANY AMENDMENT TO THE ORGANIZATIONAL DOCUMENTS OF THE BORROWER OR ANY UTILITY SUBSIDIARY THEREOF.

(I) OTHER INFORMATION. FROM TIME TO TIME SUCH ADDITIONAL FINANCIAL OR OTHER INFORMATION REGARDING THE FINANCIAL CONDITION, RESULTS OF OPERATIONS, PROPERTIES, ASSETS OR BUSINESS OF THE BORROWER OR ANY OF ITS SUBSIDIARIES AS ANY LENDER MAY REASONABLY REQUEST.

THE BORROWER HEREBY ACKNOWLEDGES THAT (A) THE ADMINISTRATIVE AGENT WILL MAKE AVAILABLE TO THE LENDERS AND THE ISSUING LENDER MATERIALS AND/OR INFORMATION PROVIDED BY OR ON BEHALF OF THE BORROWER HEREUNDER (COLLECTIVELY, "BORROWER MATERIALS") BY POSTING THE BORROWER MATERIALS ON INTRALINKS, SYNDTRAK OR ANOTHER SIMILAR ELECTRONIC SYSTEM (THE "PLATFORM") AND (B) CERTAIN OF THE LENDERS MAY BE "PUBLIC-SIDE" LENDERS (I.E., LENDERS THAT DO NOT WISH TO RECEIVE MATERIAL NON-PUBLIC INFORMATION WITH RESPECT TO THE BORROWER OR ITS SECURITIES) (EACH, A "PUBLIC LENDER"). THE BORROWER HEREBY AGREES THAT IT WILL USE COMMERCIALY REASONABLE EFFORTS TO IDENTIFY THAT PORTION OF THE BORROWER MATERIALS THAT MAY BE DISTRIBUTED TO THE PUBLIC LENDERS AND THAT (W) ALL SUCH BORROWER MATERIALS SHALL BE CLEARLY AND CONSPICUOUSLY MARKED "PUBLIC" WHICH, AT A MINIMUM, SHALL MEAN THAT THE WORD "PUBLIC" SHALL APPEAR PROMINENTLY ON THE FIRST PAGE THEREOF; (X) BY MARKING BORROWER MATERIALS "PUBLIC," THE BORROWER SHALL BE DEEMED TO HAVE AUTHORIZED THE ADMINISTRATIVE AGENT, THE ISSUING LENDER AND THE LENDERS TO TREAT SUCH BORROWER MATERIALS AS NOT CONTAINING ANY MATERIAL NON-PUBLIC INFORMATION (ALTHOUGH IT MAY BE SENSITIVE AND PROPRIETARY) WITH RESPECT TO THE BORROWER OR ITS SECURITIES FOR PURPOSES OF UNITED STATES FEDERAL AND STATE SECURITIES LAWS (PROVIDED, HOWEVER, THAT TO THE EXTENT SUCH BORROWER MATERIALS CONSTITUTE INFORMATION (AS DEFINED BELOW), THEY SHALL BE TREATED AS SET FORTH IN SECTION 9.12); (Y) ALL BORROWER MATERIALS MARKED "PUBLIC" ARE PERMITTED TO BE MADE AVAILABLE THROUGH A PORTION OF THE PLATFORM DESIGNATED "PUBLIC INVESTOR;" AND (Z) THE ADMINISTRATIVE AGENT SHALL BE ENTITLED TO TREAT ANY BORROWER MATERIALS THAT ARE NOT MARKED "PUBLIC" AS BEING SUITABLE ONLY FOR POSTING (SUBJECT TO SECTION 9.12) ON A PORTION OF THE PLATFORM NOT DESIGNATED "PUBLIC INVESTOR." "INFORMATION" MEANS ALL INFORMATION RECEIVED FROM THE BORROWER OR ANY OF ITS SUBSIDIARIES RELATING TO THE BORROWER OR ANY OF ITS SUBSIDIARIES OR ANY OF THEIR RESPECTIVE BUSINESSES, OTHER THAN ANY SUCH INFORMATION THAT IS AVAILABLE TO THE ADMINISTRATIVE AGENT, ANY LENDER OR THE ISSUING LENDER ON A NONCONFIDENTIAL BASIS PRIOR TO DISCLOSURE BY THE BORROWER OR ANY OF ITS SUBSIDIARIES; PROVIDED THAT, IN THE CASE OF INFORMATION RECEIVED FROM THE BORROWER OR ANY OF ITS SUBSIDIARIES AFTER THE EFFECTIVE DATE, SUCH INFORMATION IS CLEARLY IDENTIFIED AT THE TIME OF DELIVERY AS CONFIDENTIAL. ANY PERSON REQUIRED TO MAINTAIN THE CONFIDENTIALITY OF INFORMATION AS PROVIDED IN THIS SECTION SHALL BE CONSIDERED TO HAVE COMPLIED WITH ITS OBLIGATION TO DO SO IF SUCH PERSON HAS EXERCISED THE SAME DEGREE OF CARE TO MAINTAIN THE CONFIDENTIALITY OF SUCH INFORMATION AS SUCH PERSON WOULD ACCORD TO ITS OWN CONFIDENTIAL INFORMATION.

SECTION 6.02 MAINTENANCE OF INSURANCE. THE BORROWER WILL MAINTAIN, OR CAUSE TO BE MAINTAINED, INSURANCE WITH FINANCIALLY SOUND (DETERMINED IN THE REASONABLE JUDGMENT OF THE BORROWER) AND RESPONSIBLE COMPANIES IN SUCH AMOUNTS (AND WITH SUCH RISK RETENTIONS) AND AGAINST SUCH RISKS AS IS USUALLY CARRIED BY OWNERS OF SIMILAR BUSINESSES AND PROPERTIES IN THE SAME GENERAL AREAS IN WHICH THE BORROWER OPERATES.

SECTION 6.03 CONDUCT OF BUSINESS AND MAINTENANCE OF EXISTENCE. THE BORROWER WILL (A) CONTINUE TO ENGAGE IN BUSINESSES OF THE SAME GENERAL TYPE AS NOW CONDUCTED BY THE BORROWER AND ITS SUBSIDIARIES AND BUSINESSES RELATED THERETO OR ARISING OUT OF SUCH BUSINESSES, EXCEPT TO THE EXTENT THAT THE FAILURE TO MAINTAIN ANY EXISTING BUSINESS WOULD NOT HAVE A MATERIAL ADVERSE EFFECT AND (B) EXCEPT AS OTHERWISE PERMITTED IN SECTION 6.07, PRESERVE, RENEW AND KEEP IN FULL FORCE AND EFFECT, AND WILL CAUSE EACH OF ITS SUBSIDIARIES TO PRESERVE, RENEW AND KEEP IN FULL FORCE AND EFFECT, THEIR RESPECTIVE CORPORATE (OR OTHER ENTITY) EXISTENCE AND THEIR RESPECTIVE RIGHTS, PRIVILEGES AND FRANCHISES NECESSARY OR MATERIAL TO THE NORMAL CONDUCT OF BUSINESS, EXCEPT, IN EACH CASE, WHERE THE FAILURE TO DO SO COULD NOT REASONABLY BE EXPECTED TO HAVE A MATERIAL ADVERSE EFFECT.

SECTION 6.04 COMPLIANCE WITH LAWS, ETC. THE BORROWER WILL COMPLY WITH ALL APPLICABLE LAWS, REGULATIONS AND ORDERS OF ANY GOVERNMENTAL AUTHORITY, DOMESTIC OR FOREIGN, IN RESPECT OF THE CONDUCT OF ITS BUSINESS AND THE OWNERSHIP OF ITS PROPERTY (INCLUDING, WITHOUT LIMITATION, COMPLIANCE WITH ALL APPLICABLE ERISA AND ENVIRONMENTAL LAWS AND THE REQUIREMENTS OF ANY PERMITS ISSUED UNDER SUCH ENVIRONMENTAL LAWS), EXCEPT TO THE EXTENT (A) SUCH COMPLIANCE IS BEING CONTESTED IN GOOD FAITH BY APPROPRIATE PROCEEDINGS OR (B) NONCOMPLIANCE COULD NOT REASONABLY BE EXPECTED TO HAVE A MATERIAL ADVERSE EFFECT.

SECTION 6.05 BOOKS AND RECORDS. THE BORROWER (A) WILL KEEP, AND WILL CAUSE EACH OF ITS SUBSIDIARIES TO KEEP, PROPER BOOKS OF RECORD AND ACCOUNT IN CONFORMITY WITH GAAP AND (B) WILL PERMIT REPRESENTATIVES OF THE ADMINISTRATIVE AGENT AND EACH OF THE LENDERS TO VISIT AND INSPECT ANY OF THEIR RESPECTIVE PROPERTIES, TO EXAMINE AND MAKE COPIES FROM ANY OF THEIR RESPECTIVE BOOKS AND RECORDS AND TO DISCUSS THEIR RESPECTIVE AFFAIRS, FINANCES AND ACCOUNTS WITH THEIR OFFICERS, ANY EMPLOYEES AND INDEPENDENT PUBLIC ACCOUNTANTS, ALL AT SUCH REASONABLE TIMES AND AS OFTEN AS MAY REASONABLY BE

DESIRED; PROVIDED, THAT, THE RIGHTS CREATED IN THIS SECTION 6.05 TO “VISIT”, “INSPECT”, “DISCUSS” AND COPY SHALL NOT EXTEND TO ANY MATTERS WHICH THE BORROWER DEEMS, IN GOOD FAITH, TO BE CONFIDENTIAL, UNLESS THE ADMINISTRATIVE AGENT AND ANY SUCH LENDER AGREE IN WRITING TO KEEP SUCH MATTERS CONFIDENTIAL.

SECTION 6.06 USE OF PROCEEDS. THE PROCEEDS OF THE LOANS MADE UNDER THIS AGREEMENT WILL BE USED BY THE BORROWER TO REPAY A PORTION OF THE OUTSTANDING AMOUNT UNDER THE DEMAND NOTE ON OR AFTER THE EFFECTIVE DATE AND FOR GENERAL CORPORATE PURPOSES OF THE BORROWER AND ITS SUBSIDIARIES, INCLUDING FOR WORKING CAPITAL PURPOSES AND FOR MAKING INVESTMENTS IN OR LOANS TO SUBSIDIARIES. THE BORROWER WILL REQUEST THE ISSUANCE OF LETTERS OF CREDIT SOLELY FOR GENERAL CORPORATE PURPOSES OF THE BORROWER AND ITS SUBSIDIARIES. NO SUCH USE OF THE PROCEEDS FOR GENERAL CORPORATE PURPOSES WILL BE, DIRECTLY OR INDIRECTLY, FOR THE PURPOSE, WHETHER IMMEDIATE, INCIDENTAL OR ULTIMATE, OF BUYING OR CARRYING ANY MARGIN STOCK WITHIN THE MEANING OF REGULATION U.

SECTION 6.07 MERGER OR CONSOLIDATION. THE BORROWER WILL NOT MERGE WITH OR INTO OR CONSOLIDATE WITH OR INTO ANY OTHER CORPORATION OR ENTITY, UNLESS (A) IMMEDIATELY AFTER GIVING EFFECT THERETO, NO EVENT SHALL OCCUR AND BE CONTINUING WHICH CONSTITUTES A DEFAULT, (B) THE SURVIVING OR RESULTING PERSON, AS THE CASE MAY BE, ASSUMES AND AGREES IN WRITING TO PAY AND PERFORM ALL OF THE OBLIGATIONS OF THE BORROWER UNDER THIS AGREEMENT, (C) SUBSTANTIALLY ALL OF THE CONSOLIDATED ASSETS AND CONSOLIDATED REVENUES OF THE SURVIVING OR RESULTING PERSON, AS THE CASE MAY BE, ARE ANTICIPATED TO COME FROM THE UTILITY OR ENERGY BUSINESSES AND (D) THE SENIOR UNSECURED LONG-TERM DEBT RATINGS FROM BOTH RATING AGENCIES OF THE SURVIVING OR RESULTING PERSON, AS THE CASE MAY BE, IMMEDIATELY FOLLOWING THE MERGER OR CONSOLIDATION IS EQUAL TO OR GREATER THAN THE SENIOR UNSECURED LONG-TERM DEBT RATINGS FROM BOTH RATING AGENCIES OF THE BORROWER IMMEDIATELY PRECEDING THE ANNOUNCEMENT OF SUCH CONSOLIDATION OR MERGER.

SECTION 6.08 ASSET SALES. EXCEPT FOR THE SALE OF ASSETS REQUIRED TO BE SOLD TO CONFORM WITH GOVERNMENTAL REQUIREMENTS, THE BORROWER SHALL NOT CONSUMMATE ANY ASSET SALE, IF THE AGGREGATE NET BOOK VALUE OF ALL SUCH ASSET SALES CONSUMMATED DURING THE FOUR CALENDAR QUARTERS IMMEDIATELY PRECEDING ANY DATE OF DETERMINATION WOULD EXCEED 25% OF THE TOTAL ASSETS OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES AS OF THE BEGINNING OF THE BORROWER’S MOST RECENTLY ENDED FULL FISCAL QUARTER; PROVIDED, HOWEVER, THAT ANY SUCH ASSET SALE WILL BE DISREGARDED FOR PURPOSES OF THE 25% LIMITATION SPECIFIED ABOVE: (A) IF ANY SUCH ASSET SALE IS IN THE ORDINARY COURSE OF BUSINESS OF THE BORROWER; (B) IF THE ASSETS SUBJECT TO ANY SUCH ASSET SALE ARE WORN OUT OR ARE NO LONGER USEFUL OR NECESSARY IN CONNECTION WITH THE OPERATION OF THE BUSINESSES OF THE BORROWER; (C) IF THE ASSETS SUBJECT TO ANY SUCH ASSET SALE ARE BEING TRANSFERRED TO A WHOLLY OWNED SUBSIDIARY OF THE BORROWER; (D) IF THE PROCEEDS FROM ANY SUCH ASSET SALE (i) ARE, WITHIN TWELVE (12) MONTHS OF SUCH ASSET SALE, INVESTED OR REINVESTED BY THE BORROWER IN A PERMITTED BUSINESS, (ii) ARE USED BY THE BORROWER TO REPAY DEBT OF THE BORROWER, OR (iii) ARE RETAINED BY THE BORROWER; OR (E) IF, PRIOR TO ANY SUCH ASSET SALE, BOTH RATING AGENCIES CONFIRM THE THEN-CURRENT BORROWER RATINGS AFTER GIVING EFFECT TO ANY SUCH ASSET SALE.

SECTION 6.09 CONSOLIDATED DEBT TO CONSOLIDATED CAPITALIZATION RATIO. THE RATIO OF CONSOLIDATED DEBT OF THE BORROWER TO CONSOLIDATED CAPITALIZATION OF THE BORROWER SHALL NOT EXCEED 70%, MEASURED AS OF THE END OF EACH FISCAL QUARTER.

SECTION 6.10 LIENS ON SUBSIDIARY VOTING STOCK.

(A) THE BORROWER SHALL NOT CREATE, INCUR OR ASSUME ANY LIEN (OTHER THAN PERMITTED LIENS) UPON ITS COMMON STOCK IN KENTUCKY UTILITIES COMPANY OR ITS COMMON STOCK IN LOUISVILLE GAS AND ELECTRIC COMPANY, WHETHER NOW OWNED OR HEREAFTER ACQUIRED, IN ORDER TO SECURE ANY DEBT OF THE BORROWER. THE FOREGOING AGREEMENT SHALL NOT RESTRICT THE ABILITY OF ANY SUBSIDIARIES OF THE BORROWER TO CREATE, INCUR OR ASSUME ANY LIEN UPON THEIR PROPERTIES OR ASSETS.

(B) THE PROVISIONS OF CLAUSE (A) ABOVE SHALL NOT PROHIBIT THE CREATION, ISSUANCE, INCURRENCE OR ASSUMPTION OF ANY LIEN IF THE BORROWER SHALL MAKE EFFECTIVE PROVISION WHEREBY THE OBLIGATIONS UNDER THIS CREDIT AGREEMENT SHALL BE SECURED EQUALLY AND RATABLY WITH ALL OTHER DEBT THEN OUTSTANDING UNDER SUCH LIEN.

FOR PURPOSES OF THIS SECTION 6.10, “DEBT” WITH RESPECT TO THE BORROWER DOES NOT INCLUDE (IN ADDITION TO EXCLUSIONS IN THE DEFINITION OF DEBT IN SECTION 1.01 HEREOF), OBLIGATIONS UNDER ANY LEASE AGREEMENT (INCLUDING ANY LEASE INTENDED AS SECURITY), WHETHER OR NOT SUCH OBLIGATIONS ARE REQUIRED TO BE CAPITALIZED ON THE BALANCE SHEET OF THE BORROWER UNDER GAAP.

SECTION 6.11 RESTRICTIVE AGREEMENTS. THE BORROWER WILL NOT PERMIT EITHER OF ITS UTILITY SUBSIDIARIES TO ENTER INTO OR ASSUME ANY AGREEMENT PROHIBITING OR OTHERWISE RESTRICTING ITS ABILITY TO PAY DIVIDENDS OR OTHER DISTRIBUTIONS ON ITS COMMON STOCK TO THE BORROWER OR ANY SUBSIDIARIES OF THE BORROWER; PROVIDED THAT THE FOREGOING SHALL NOT APPLY TO (A) PROHIBITIONS, RESTRICTIONS OR CONDITIONS IMPOSED BY APPLICABLE LAW, REGULATION OR ORDER OF ANY GOVERNMENTAL AUTHORITY OR (B) PROHIBITIONS, RESTRICTIONS OR CONDITIONS IDENTIFIED ON SCHEDULE 6.11.

ARTICLE VII DEFAULTS

SECTION 7.01 EVENTS OF DEFAULT. IF ONE OR MORE OF THE FOLLOWING EVENTS (EACH AN “EVENT OF DEFAULT”) SHALL HAVE OCCURRED AND BE CONTINUING:

- (A) THE BORROWER SHALL FAIL TO PAY WHEN DUE ANY PRINCIPAL ON ANY LOANS OR REIMBURSEMENT OBLIGATIONS; OR
- (B) THE BORROWER SHALL FAIL TO PAY WHEN DUE ANY INTEREST ON THE LOANS AND REIMBURSEMENT OBLIGATIONS, ANY FEE OR ANY OTHER AMOUNT PAYABLE HEREUNDER OR UNDER ANY OTHER LOAN DOCUMENT FOR FIVE (5) DAYS FOLLOWING THE DATE SUCH PAYMENT BECOMES DUE HEREUNDER; OR
- (C) THE BORROWER SHALL FAIL TO OBSERVE OR PERFORM ANY COVENANT OR AGREEMENT CONTAINED IN SECTIONS 6.05(B), 6.06, 6.07, 6.08 OR 6.09; OR
- (D) THE BORROWER SHALL FAIL TO OBSERVE OR PERFORM ANY COVENANT OR AGREEMENT CONTAINED IN SECTION 6.01(D)(i) FOR 30 DAYS AFTER ANY SUCH FAILURE OR IN SECTION 6.01(D)(ii) FOR TEN (10) DAYS AFTER ANY SUCH FAILURE; OR

(E) THE BORROWER SHALL FAIL TO OBSERVE OR PERFORM ANY COVENANT OR AGREEMENT CONTAINED IN THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT (OTHER THAN THOSE COVERED BY CLAUSES (A), (B), (C) OR (D) ABOVE) FOR THIRTY (30) DAYS AFTER WRITTEN NOTICE THEREOF HAS BEEN GIVEN TO THE DEFAULTING PARTY BY THE ADMINISTRATIVE AGENT, OR AT THE REQUEST OF THE REQUIRED LENDERS; OR

(F) ANY REPRESENTATION, WARRANTY OR CERTIFICATION MADE BY THE BORROWER IN THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR IN ANY CERTIFICATE, FINANCIAL STATEMENT OR OTHER DOCUMENT DELIVERED PURSUANT HERETO OR THERETO SHALL PROVE TO HAVE BEEN INCORRECT IN ANY MATERIAL RESPECT WHEN MADE OR DEEMED MADE; OR

(G) THE BORROWER SHALL (i) FAIL TO PAY ANY PRINCIPAL OR INTEREST, REGARDLESS OF AMOUNT, DUE IN RESPECT OF ANY MATERIAL DEBT BEYOND ANY PERIOD OF GRACE PROVIDED WITH RESPECT THERETO, OR (ii) FAIL TO OBSERVE OR PERFORM ANY OTHER TERM, COVENANT, CONDITION OR AGREEMENT CONTAINED IN ANY AGREEMENT OR INSTRUMENT EVIDENCING OR GOVERNING ANY SUCH MATERIAL DEBT BEYOND ANY PERIOD OF GRACE PROVIDED WITH RESPECT THERETO IF THE EFFECT OF ANY FAILURE REFERRED TO IN THIS CLAUSE (ii) IS TO CAUSE, OR TO PERMIT THE HOLDER OR HOLDERS OF SUCH DEBT OR A TRUSTEE ON ITS OR THEIR BEHALF TO CAUSE, SUCH DEBT TO BECOME DUE PRIOR TO ITS STATED MATURITY; OR

(H) THE BORROWER SHALL COMMENCE A VOLUNTARY CASE OR OTHER PROCEEDING SEEKING LIQUIDATION, REORGANIZATION OR OTHER RELIEF WITH RESPECT TO ITSELF OR ITS DEBTS UNDER ANY BANKRUPTCY, INSOLVENCY OR OTHER SIMILAR LAW NOW OR HEREAFTER IN EFFECT OR SEEKING THE APPOINTMENT OF A TRUSTEE, RECEIVER, LIQUIDATOR, CUSTODIAN OR OTHER SIMILAR OFFICIAL OF IT OR ANY SUBSTANTIAL PART OF ITS PROPERTY, OR SHALL CONSENT TO ANY SUCH RELIEF OR TO THE APPOINTMENT OF OR TAKING POSSESSION BY ANY SUCH OFFICIAL IN AN INVOLUNTARY CASE OR OTHER PROCEEDING COMMENCED AGAINST IT, OR SHALL MAKE A GENERAL ASSIGNMENT FOR THE BENEFIT OF CREDITORS, OR SHALL FAIL GENERALLY TO PAY, OR SHALL ADMIT IN WRITING ITS INABILITY TO PAY, ITS DEBTS AS THEY BECOME DUE, OR SHALL TAKE ANY CORPORATE ACTION TO AUTHORIZE ANY OF THE FOREGOING; OR

(I) AN INVOLUNTARY CASE OR OTHER PROCEEDING SHALL BE COMMENCED AGAINST THE BORROWER SEEKING LIQUIDATION, REORGANIZATION OR OTHER RELIEF WITH RESPECT TO IT OR ITS DEBTS UNDER ANY BANKRUPTCY, INSOLVENCY OR OTHER SIMILAR LAW NOW OR HEREAFTER IN EFFECT OR SEEKING THE APPOINTMENT OF A TRUSTEE, RECEIVER, LIQUIDATOR, CUSTODIAN OR OTHER SIMILAR OFFICIAL OF IT OR ANY SUBSTANTIAL PART OF ITS PROPERTY, AND SUCH INVOLUNTARY CASE OR OTHER PROCEEDING SHALL REMAIN UNDISMISSED AND UNSTAYED FOR A PERIOD OF 60 DAYS; OR AN ORDER FOR RELIEF SHALL BE ENTERED AGAINST THE BORROWER UNDER THE BANKRUPTCY CODE; OR

(J) ANY MEMBER OF THE ERISA GROUP SHALL FAIL TO PAY WHEN DUE AN AMOUNT OR AMOUNTS AGGREGATING IN EXCESS OF \$50,000,000 WHICH IT SHALL HAVE BECOME LIABLE TO PAY UNDER TITLE IV OF ERISA; OR NOTICE OF INTENT TO TERMINATE A MATERIAL PLAN SHALL BE FILED UNDER TITLE IV OF ERISA BY ANY MEMBER OF THE ERISA GROUP, ANY PLAN ADMINISTRATOR OR ANY COMBINATION OF THE FOREGOING; OR THE PBGC SHALL INSTITUTE PROCEEDINGS UNDER TITLE IV OF ERISA TO TERMINATE, TO IMPOSE LIABILITY (OTHER THAN FOR PREMIUMS UNDER SECTION 4007 OF ERISA) IN RESPECT OF, OR TO CAUSE A TRUSTEE TO BE APPOINTED TO ADMINISTER ANY MATERIAL PLAN; OR A CONDITION SHALL EXIST BY REASON OF WHICH THE PBGC WOULD BE ENTITLED TO OBTAIN A DECREE ADJUDICATING THAT ANY MATERIAL PLAN MUST BE TERMINATED; OR THERE SHALL OCCUR A COMPLETE OR PARTIAL WITHDRAWAL FROM, OR DEFAULT, WITHIN THE MEANING OF SECTION 4219(c)(5) OF ERISA, WITH RESPECT TO, ONE OR MORE MULTIEMPLOYER PLANS WHICH COULD REASONABLY BE EXPECTED TO CAUSE ONE OR MORE MEMBERS OF THE ERISA GROUP TO INCUR A CURRENT PAYMENT OBLIGATION IN EXCESS OF \$50,000,000; OR

(K) THE BORROWER SHALL FAIL WITHIN SIXTY (60) DAYS TO PAY, BOND OR OTHERWISE DISCHARGE ANY JUDGMENT OR ORDER FOR THE PAYMENT OF MONEY IN EXCESS OF \$20,000,000, ENTERED AGAINST THE BORROWER THAT IS NOT STAYED ON APPEAL OR OTHERWISE BEING APPROPRIATELY CONTESTED IN GOOD FAITH; OR

(L) A CHANGE OF CONTROL SHALL HAVE OCCURRED;

THEN, AND IN EVERY SUCH EVENT, WHILE SUCH EVENT IS CONTINUING, THE ADMINISTRATIVE AGENT SHALL (A) IF REQUESTED BY THE REQUIRED LENDERS, BY NOTICE TO THE BORROWER TERMINATE THE COMMITMENTS, AND THE COMMITMENTS SHALL THEREUPON TERMINATE, AND (B) IF REQUESTED BY THE LENDERS HOLDING MORE THAN 50% OF THE SUM OF THE AGGREGATE OUTSTANDING PRINCIPAL AMOUNT OF THE LOANS AND LETTER OF CREDIT LIABILITIES AT SUCH TIME, BY NOTICE TO THE BORROWER DECLARE THE LOANS AND LETTER OF CREDIT LIABILITIES (TOGETHER WITH ACCRUED INTEREST AND ACCRUED AND UNPAID FEES THEREON AND ALL OTHER AMOUNTS DUE HEREUNDER) TO BE, AND THE LOANS AND LETTER OF CREDIT LIABILITIES SHALL THEREUPON BECOME, IMMEDIATELY DUE AND PAYABLE WITHOUT PRESENTMENT, DEMAND, PROTEST OR OTHER NOTICE OF ANY KIND (EXCEPT AS SET FORTH IN CLAUSE (A) ABOVE), ALL OF WHICH ARE HEREBY WAIVED BY THE BORROWER AND REQUIRE THE BORROWER TO, AND THE BORROWER SHALL, CASH COLLATERALIZE (IN ACCORDANCE WITH SECTION 2.09(A)(ii)) ALL LETTER OF CREDIT LIABILITIES THEN OUTSTANDING; PROVIDED, THAT, IN THE CASE OF ANY DEFAULT OR ANY EVENT OF DEFAULT SPECIFIED IN SECTION 7.01(H) OR 7.01(i) ABOVE WITH RESPECT TO THE BORROWER, WITHOUT ANY NOTICE TO THE BORROWER OR ANY OTHER ACT BY THE ADMINISTRATIVE AGENT OR ANY LENDER, THE COMMITMENTS SHALL THEREUPON TERMINATE AND THE LOANS AND LETTER OF CREDIT LIABILITIES (TOGETHER WITH ACCRUED INTEREST AND ACCRUED AND UNPAID FEES THEREON AND ALL OTHER AMOUNTS DUE HEREUNDER) SHALL BECOME IMMEDIATELY DUE AND PAYABLE WITHOUT PRESENTMENT, DEMAND, PROTEST OR OTHER NOTICE OF ANY KIND, ALL OF WHICH ARE HEREBY WAIVED BY THE BORROWER, AND THE BORROWER SHALL CASH COLLATERALIZE (IN ACCORDANCE WITH SECTION 2.09(A)(ii)) ALL LETTER OF CREDIT LIABILITIES THEN OUTSTANDING.

ARTICLE VIII THE ADMINISTRATIVE AGENT

SECTION 8.01 APPOINTMENT AND AUTHORITY. EACH OF THE LENDERS AND THE ISSUING LENDER HEREBY IRREVOCABLY APPOINTS PNC BANK TO ACT ON ITS BEHALF AS THE ADMINISTRATIVE AGENT HEREUNDER AND UNDER THE OTHER LOAN DOCUMENTS AND AUTHORIZES THE ADMINISTRATIVE AGENT TO TAKE SUCH ACTIONS ON ITS BEHALF AND TO EXERCISE SUCH POWERS AS ARE DELEGATED TO THE ADMINISTRATIVE AGENT BY THE TERMS HEREOF OR THEREOF, TOGETHER WITH SUCH ACTIONS AND POWERS AS ARE REASONABLY INCIDENTAL THERETO. THE PROVISIONS OF THIS SECTION 8.01 ARE SOLELY FOR THE BENEFIT OF THE ADMINISTRATIVE AGENT, THE LENDERS AND THE ISSUING LENDER, AND THE BORROWER SHALL NOT HAVE RIGHTS AS A THIRD PARTY BENEFICIARY OF ANY OF SUCH PROVISIONS.

SECTION 8.02 RIGHTS AS A LENDER. THE PERSON SERVING AS THE ADMINISTRATIVE AGENT HEREUNDER SHALL HAVE THE SAME RIGHTS AND POWERS IN ITS CAPACITY AS A LENDER AS ANY OTHER LENDER AND MAY EXERCISE THE SAME AS THOUGH IT WERE NOT THE ADMINISTRATIVE AGENT AND THE TERM "LENDER" OR "LENDERS" SHALL, UNLESS OTHERWISE EXPRESSLY INDICATED OR UNLESS THE CONTEXT OTHERWISE REQUIRES, INCLUDE THE PERSON SERVING AS THE ADMINISTRATIVE AGENT HEREUNDER IN ITS INDIVIDUAL CAPACITY. SUCH PERSON AND ITS AFFILIATES MAY ACCEPT DEPOSITS FROM, LEND MONEY TO, ACT AS THE FINANCIAL ADVISOR OR IN ANY OTHER ADVISORY CAPACITY FOR AND GENERALLY ENGAGE IN ANY KIND OF BUSINESS WITH THE BORROWER OR ANY SUBSIDIARY OR OTHER AFFILIATE THEREOF AS IF SUCH PERSON WERE NOT THE ADMINISTRATIVE AGENT HEREUNDER AND WITHOUT ANY DUTY TO ACCOUNT THEREFOR TO THE LENDERS.

SECTION 8.03 EXCULPATORY PROVISIONS. THE ADMINISTRATIVE AGENT SHALL NOT HAVE ANY DUTIES OR OBLIGATIONS EXCEPT THOSE EXPRESSLY SET FORTH HEREIN AND IN THE OTHER LOAN DOCUMENTS. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, THE ADMINISTRATIVE AGENT:

(A) SHALL NOT BE SUBJECT TO ANY FIDUCIARY OR OTHER IMPLIED DUTIES, REGARDLESS OF WHETHER A DEFAULT OR EVENT OF DEFAULT HAS OCCURRED AND IS CONTINUING;

(B) SHALL NOT HAVE ANY DUTY TO TAKE ANY DISCRETIONARY ACTION OR EXERCISE ANY DISCRETIONARY POWERS, EXCEPT DISCRETIONARY RIGHTS AND POWERS EXPRESSLY CONTEMPLATED HEREBY OR BY THE OTHER LOAN DOCUMENTS THAT THE ADMINISTRATIVE AGENT IS REQUIRED TO EXERCISE AS DIRECTED IN WRITING BY THE REQUIRED LENDERS (OR SUCH OTHER NUMBER OR PERCENTAGE OF THE LENDERS AS SHALL BE EXPRESSLY PROVIDED FOR HEREIN OR IN THE OTHER LOAN DOCUMENTS); PROVIDED THAT THE ADMINISTRATIVE AGENT SHALL NOT BE REQUIRED TO TAKE ANY ACTION THAT, IN ITS OPINION OR THE OPINION OF ITS COUNSEL, MAY EXPOSE THE ADMINISTRATIVE AGENT TO LIABILITY OR THAT IS CONTRARY TO ANY LOAN DOCUMENT OR APPLICABLE LAW; AND

(C) SHALL NOT, EXCEPT AS EXPRESSLY SET FORTH HEREIN AND IN THE OTHER LOAN DOCUMENTS, HAVE ANY DUTY TO DISCLOSE, AND SHALL NOT BE LIABLE FOR THE FAILURE TO DISCLOSE, ANY INFORMATION RELATING TO THE BORROWER OR ANY OF ITS AFFILIATES THAT IS COMMUNICATED TO OR OBTAINED BY THE PERSON SERVING AS THE ADMINISTRATIVE AGENT OR ANY OF ITS AFFILIATES IN ANY CAPACITY.

THE ADMINISTRATIVE AGENT SHALL NOT BE LIABLE FOR ANY ACTION TAKEN OR NOT TAKEN BY IT (i) WITH THE CONSENT OR AT THE REQUEST OF THE REQUIRED LENDERS (OR SUCH OTHER NUMBER OR PERCENTAGE OF THE LENDERS AS SHALL BE NECESSARY, OR AS THE ADMINISTRATIVE AGENT SHALL BELIEVE IN GOOD FAITH SHALL BE NECESSARY, UNDER THE CIRCUMSTANCES AS PROVIDED IN ARTICLE VII AND SECTION 9.05) OR (ii) IN THE ABSENCE OF ITS OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. THE ADMINISTRATIVE AGENT SHALL BE DEEMED NOT TO HAVE KNOWLEDGE OF ANY DEFAULT OR EVENT OF DEFAULT UNLESS AND UNTIL NOTICE DESCRIBING SUCH DEFAULT OR EVENT OF DEFAULT IS GIVEN TO THE ADMINISTRATIVE AGENT BY THE BORROWER, A LENDER OR THE ISSUING LENDER.

THE ADMINISTRATIVE AGENT SHALL NOT BE RESPONSIBLE FOR OR HAVE ANY DUTY TO ASCERTAIN OR INQUIRE INTO (A) ANY STATEMENT, WARRANTY OR REPRESENTATION MADE IN OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, (B) THE CONTENTS OF ANY CERTIFICATE, REPORT OR OTHER DOCUMENT DELIVERED HEREUNDER OR THEREUNDER OR IN CONNECTION HERewith OR THEREWITH, (C) THE PERFORMANCE OR OBSERVANCE OF ANY OF THE COVENANTS, AGREEMENTS OR OTHER TERMS OR CONDITIONS SET FORTH HEREIN OR THEREIN OR THE OCCURRENCE OF ANY DEFAULT OR EVENT OF DEFAULT, (D) THE VALIDITY, ENFORCEABILITY, EFFECTIVENESS OR GENUINENESS OF THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR ANY OTHER AGREEMENT, INSTRUMENT OR DOCUMENT OR (E) THE SATISFACTION OF ANY CONDITION SET FORTH IN SECTION 4.01 OR 4.02 OR ELSEWHERE HEREIN, OTHER THAN TO CONFIRM RECEIPT OF ITEMS EXPRESSLY REQUIRED TO BE DELIVERED TO THE ADMINISTRATIVE AGENT.

SECTION 8.04 RELIANCE BY ADMINISTRATIVE AGENT. THE ADMINISTRATIVE AGENT SHALL BE ENTITLED TO RELY UPON, AND SHALL NOT INCUR ANY LIABILITY FOR RELYING UPON, ANY NOTICE, REQUEST, CERTIFICATE, CONSENT, STATEMENT, INSTRUMENT, DOCUMENT OR OTHER WRITING (INCLUDING ANY ELECTRONIC MESSAGE, INTERNET OR INTRANET WEBSITE POSTING OR OTHER DISTRIBUTION) BELIEVED BY IT TO BE GENUINE AND TO HAVE BEEN SIGNED, SENT OR OTHERWISE AUTHENTICATED BY THE PROPER PERSON. THE ADMINISTRATIVE AGENT ALSO MAY RELY UPON ANY STATEMENT MADE TO IT ORALLY OR BY TELEPHONE AND BELIEVED BY IT TO HAVE BEEN MADE BY THE PROPER PERSON, AND SHALL NOT INCUR ANY LIABILITY FOR RELYING THEREON. IN DETERMINING COMPLIANCE WITH ANY CONDITION HEREUNDER TO THE MAKING OF A LOAN, OR THE ISSUANCE OF A LETTER OF CREDIT, THAT BY ITS TERMS MUST BE FULFILLED TO THE SATISFACTION OF A LENDER OR THE ISSUING LENDER, THE ADMINISTRATIVE AGENT MAY PRESUME THAT SUCH CONDITION IS SATISFACTORY TO SUCH LENDER OR THE ISSUING LENDER UNLESS THE ADMINISTRATIVE AGENT SHALL HAVE RECEIVED NOTICE TO THE CONTRARY FROM SUCH LENDER OR THE ISSUING LENDER PRIOR TO THE MAKING OF SUCH LOAN OR THE ISSUANCE OF SUCH LETTER OF CREDIT. THE ADMINISTRATIVE AGENT MAY CONSULT WITH LEGAL COUNSEL (WHO MAY BE COUNSEL FOR THE BORROWER), INDEPENDENT ACCOUNTANTS AND OTHER EXPERTS SELECTED BY IT, AND SHALL NOT BE LIABLE FOR ANY ACTION TAKEN OR NOT TAKEN BY IT IN ACCORDANCE WITH THE ADVICE OF ANY SUCH COUNSEL, ACCOUNTANTS OR EXPERTS.

SECTION 8.05 DELEGATION OF DUTIES. THE ADMINISTRATIVE AGENT MAY PERFORM ANY AND ALL OF ITS DUTIES AND EXERCISE ITS RIGHTS AND POWERS HEREUNDER OR UNDER ANY OTHER LOAN DOCUMENT BY OR THROUGH ANY ONE OR MORE SUB-AGENTS APPOINTED BY THE ADMINISTRATIVE AGENT. THE ADMINISTRATIVE AGENT AND ANY SUCH SUB-AGENT MAY PERFORM ANY AND ALL OF ITS DUTIES AND EXERCISE ITS RIGHTS AND POWERS BY OR THROUGH THEIR RESPECTIVE RELATED PARTIES. THE EXCULPATORY PROVISIONS OF THIS SECTION 8.05 SHALL APPLY TO ANY SUCH SUB-AGENT AND TO THE RELATED PARTIES OF THE ADMINISTRATIVE AGENT AND ANY SUCH SUB-AGENT, AND SHALL APPLY TO THEIR RESPECTIVE ACTIVITIES IN CONNECTION WITH THE SYNDICATION OF THE CREDIT FACILITIES PROVIDED FOR HEREIN AS WELL AS ACTIVITIES AS ADMINISTRATIVE AGENT.

SECTION 8.06 RESIGNATION OF ADMINISTRATIVE AGENT. THE ADMINISTRATIVE AGENT MAY AT ANY TIME GIVE NOTICE OF ITS RESIGNATION TO THE LENDERS, THE ISSUING LENDER AND THE BORROWER. UPON RECEIPT OF ANY SUCH NOTICE OF RESIGNATION, THE REQUIRED LENDERS SHALL HAVE THE RIGHT, WITH APPROVAL FROM THE BORROWER (SO LONG AS NO EVENT OF DEFAULT HAS OCCURRED AND IS CONTINUING), TO APPOINT A SUCCESSOR, SUCH APPROVAL NOT TO BE UNREASONABLY WITHHELD OR DELAYED. IF NO SUCH SUCCESSOR SHALL HAVE BEEN SO APPOINTED BY THE REQUIRED LENDERS AND SHALL HAVE ACCEPTED SUCH APPOINTMENT WITHIN THIRTY (30) DAYS AFTER THE RETIRING ADMINISTRATIVE AGENT GIVES NOTICE OF ITS RESIGNATION, THEN THE RETIRING ADMINISTRATIVE AGENT MAY ON BEHALF OF THE LENDERS AND THE ISSUING LENDER, APPOINT A SUCCESSOR ADMINISTRATIVE AGENT; PROVIDED THAT IF THE ADMINISTRATIVE AGENT SHALL NOTIFY THE BORROWER AND THE LENDERS THAT NO QUALIFYING PERSON HAS ACCEPTED SUCH APPOINTMENT, THEN SUCH RESIGNATION SHALL NONETHELESS BECOME EFFECTIVE IN ACCORDANCE WITH SUCH NOTICE AND (A) THE RETIRING ADMINISTRATIVE AGENT SHALL BE DISCHARGED FROM ITS DUTIES AND OBLIGATIONS HEREUNDER AND UNDER THE OTHER LOAN DOCUMENTS (EXCEPT THAT IN THE CASE OF ANY COLLATERAL SECURITY HELD BY THE ADMINISTRATIVE AGENT ON BEHALF OF THE LENDERS OR THE ISSUING LENDER UNDER ANY OF THE LOAN DOCUMENTS, THE RETIRING ADMINISTRATIVE AGENT SHALL CONTINUE TO HOLD SUCH COLLATERAL SECURITY UNTIL SUCH TIME AS A SUCCESSOR ADMINISTRATIVE AGENT IS APPOINTED) AND (B) ALL PAYMENTS, COMMUNICATIONS AND DETERMINATIONS PROVIDED TO BE MADE BY, TO OR THROUGH THE ADMINISTRATIVE AGENT SHALL INSTEAD BE MADE BY OR TO EACH LENDER AND THE ISSUING LENDER DIRECTLY, UNTIL SUCH TIME AS THE REQUIRED LENDERS APPOINT A SUCCESSOR ADMINISTRATIVE AGENT AS PROVIDED FOR ABOVE IN THIS SECTION 8.06. UPON THE ACCEPTANCE OF A SUCCESSOR'S APPOINTMENT AS ADMINISTRATIVE AGENT HEREUNDER, SUCH SUCCESSOR SHALL SUCCEED TO AND BECOME VESTED WITH ALL OF THE RIGHTS, POWERS, PRIVILEGES AND DUTIES OF THE RETIRING (OR RETIRED) ADMINISTRATIVE AGENT, AND THE RETIRING ADMINISTRATIVE AGENT SHALL BE DISCHARGED FROM ALL OF ITS DUTIES AND OBLIGATIONS HEREUNDER OR UNDER THE OTHER LOAN DOCUMENTS (IF NOT ALREADY DISCHARGED THEREFROM AS PROVIDED ABOVE IN THIS SECTION). THE FEES PAYABLE BY THE BORROWER TO A SUCCESSOR ADMINISTRATIVE AGENT SHALL BE THE SAME AS THOSE PAYABLE TO ITS PREDECESSOR UNLESS OTHERWISE AGREED BETWEEN THE BORROWER AND SUCH SUCCESSOR. AFTER THE RETIRING ADMINISTRATIVE AGENT'S RESIGNATION HEREUNDER AND UNDER THE OTHER LOAN DOCUMENTS, THE PROVISIONS OF THIS SECTION 8.06 AND SECTION 9.03 SHALL CONTINUE IN EFFECT FOR THE BENEFIT OF SUCH RETIRING ADMINISTRATIVE AGENT, ITS SUB-AGENTS AND THEIR RESPECTIVE RELATED PARTIES IN RESPECT OF ANY ACTIONS TAKEN OR OMITTED TO BE TAKEN BY ANY OF THEM WHILE THE RETIRING ADMINISTRATIVE AGENT WAS ACTING AS ADMINISTRATIVE AGENT.

IF PNC BANK RESIGNS AS ADMINISTRATIVE AGENT UNDER THIS SECTION 8.06, PNC BANK SHALL ALSO RESIGN AS ISSUING LENDER. UPON THE APPOINTMENT OF A SUCCESSOR ADMINISTRATIVE AGENT HEREUNDER, SUCH SUCCESSOR SHALL (i) SUCCEED TO ALL OF THE RIGHTS, POWERS, PRIVILEGES AND DUTIES OF PNC BANK AS THE RETIRING ISSUING LENDER AND ADMINISTRATIVE AGENT AND PNC BANK SHALL BE DISCHARGED FROM ALL OF ITS RESPECTIVE DUTIES AND OBLIGATIONS AS ISSUING LENDER AND ADMINISTRATIVE AGENT UNDER THE LOAN DOCUMENTS, AND (ii) ISSUE LETTERS OF CREDIT IN SUBSTITUTION FOR THE LETTERS OF CREDIT ISSUED BY PNC BANK, IF ANY, OUTSTANDING AT THE TIME OF SUCH SUCCESSION OR MAKE OTHER ARRANGEMENT SATISFACTORY TO PNC BANK TO EFFECTIVELY ASSUME THE OBLIGATIONS OF PNC BANK WITH RESPECT TO SUCH LETTERS OF CREDIT.

SECTION 8.07 NON-RELIANCE ON ADMINISTRATIVE AGENT AND OTHER LENDERS. EACH LENDER AND THE ISSUING LENDER ACKNOWLEDGES THAT IT HAS, INDEPENDENTLY AND WITHOUT RELIANCE UPON THE ADMINISTRATIVE AGENT OR ANY OTHER LENDER OR ANY OF THEIR RELATED PARTIES AND BASED ON SUCH DOCUMENTS AND INFORMATION AS IT HAS DEEMED APPROPRIATE, MADE ITS OWN CREDIT ANALYSIS AND DECISION TO ENTER INTO THIS AGREEMENT. EACH LENDER AND THE ISSUING LENDER ALSO ACKNOWLEDGES THAT IT WILL, INDEPENDENTLY AND WITHOUT RELIANCE UPON THE ADMINISTRATIVE AGENT OR ANY OTHER LENDER OR ANY OF THEIR RELATED PARTIES AND BASED ON SUCH DOCUMENTS AND INFORMATION AS IT SHALL FROM TIME TO TIME DEEM APPROPRIATE, CONTINUE TO MAKE ITS OWN DECISIONS IN TAKING OR NOT TAKING ACTION UNDER OR BASED UPON THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR ANY RELATED AGREEMENT OR ANY DOCUMENT FURNISHED HEREUNDER OR THEREUNDER.

SECTION 8.08 NO OTHER DUTIES, ETC. ANYTHING HEREIN TO THE CONTRARY NOTWITHSTANDING, THE LEAD ARRANGER AND BOOKRUNNER, SYNDICATION AGENT, DOCUMENTATION AGENT OR ANY OTHER AGENT LISTED ON THE COVER PAGE HEREOF SHALL NOT HAVE ANY POWERS, DUTIES OR RESPONSIBILITIES UNDER THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS.

SECTION 8.09 ADMINISTRATIVE AGENT'S FEES. THE BORROWER SHALL PAY TO THE ADMINISTRATIVE AGENT FOR ITS OWN ACCOUNT FEES IN THE AMOUNT AND AT THE TIMES AGREED TO AND ACCEPTED BY THE BORROWER PURSUANT TO THE FEE LETTER.

SECTION 8.10 NO RELIANCE ON ADMINISTRATIVE AGENT'S CUSTOMER IDENTIFICATION PROGRAM. EACH LENDER ACKNOWLEDGES AND AGREES THAT NEITHER SUCH LENDER, NOR ANY OF ITS AFFILIATES, PARTICIPANTS OR ASSIGNEES, MAY RELY ON THE ADMINISTRATIVE AGENT TO CARRY OUT SUCH LENDER'S, AFFILIATE'S, PARTICIPANT'S OR ASSIGNEE'S CUSTOMER IDENTIFICATION PROGRAM, OR OTHER OBLIGATIONS REQUIRED OR IMPOSED UNDER OR PURSUANT TO THE USA PATRIOT ACT OR THE REGULATIONS THEREUNDER, INCLUDING THE REGULATIONS CONTAINED IN 31 CFR 103.121 (AS HEREAFTER AMENDED OR REPLACED, THE "CIP REGULATIONS"), OR ANY OTHER LAW(S) (INCLUDING COMMON LAW), CONSTITUTION, STATUTE, TREATY, REGULATION, RULE, ORDINANCE, OPINION, ISSUED GUIDANCE, RELEASE, RULING, ORDER, EXECUTIVE ORDER, INJUNCTION, WRIT, DECREE, BOND, JUDGMENT, AUTHORIZATION OR APPROVAL, LIEN OR AWARD OF OR ANY SETTLEMENT ARRANGEMENT, BY AGREEMENT, CONSENT OR OTHERWISE, WITH ANY GOVERNMENTAL AUTHORITY, FOREIGN OR DOMESTIC (COLLECTIVELY, "LAWS") RELATING TO TERRORISM, TRADE SANCTIONS PROGRAMS AND EMBARGOES, IMPORT/EXPORT LICENSING, MONEY LAUNDERING OR BRIBERY, AND ANY REGULATION, ORDER, OR DIRECTIVE PROMULGATED, ISSUED OR ENFORCED PURSUANT TO SUCH LAWS, ALL AS AMENDED, SUPPLEMENTED OR REPLACED FROM TIME TO TIME (COLLECTIVELY, "ANTI-TERRORISM LAWS"), INCLUDING ANY PROGRAMS INVOLVING ANY OF THE FOLLOWING ITEMS RELATING TO OR IN CONNECTION WITH THE BORROWER, ITS AFFILIATES OR ITS AGENTS, THE LOAN DOCUMENTS OR THE TRANSACTIONS HEREUNDER OR CONTEMPLATED HEREBY: (i) ANY IDENTITY VERIFICATION PROCEDURES, (ii) ANY RECORDKEEPING, (iii) COMPARISONS WITH GOVERNMENT LISTS, (iv) CUSTOMER NOTICES OR (v) OTHER PROCEDURES REQUIRED UNDER THE CIP REGULATIONS OR SUCH OTHER ANTI-TERRORISM LAWS.

ARTICLE IX MISCELLANEOUS

SECTION 9.01 NOTICES. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, ALL NOTICES AND OTHER COMMUNICATIONS HEREUNDER SHALL BE IN WRITING (FOR PURPOSES HEREOF, THE TERM "WRITING" SHALL INCLUDE INFORMATION IN ELECTRONIC FORMAT SUCH AS ELECTRONIC MAIL AND INTERNET WEB PAGES) OR BY TELEPHONE SUBSEQUENTLY CONFIRMED IN WRITING; PROVIDED THAT THE FOREGOING SHALL NOT APPLY TO NOTICES TO ANY LENDER OR THE ISSUING LENDER PURSUANT TO ARTICLE II OR ARTICLE III, AS APPLICABLE, IF SUCH LENDER OR THE ISSUING LENDER, AS APPLICABLE, HAS NOTIFIED THE ADMINISTRATIVE AGENT THAT IT IS INCAPABLE OF RECEIVING NOTICES UNDER SUCH ARTICLE IN ELECTRONIC FORMAT. ANY NOTICE SHALL HAVE BEEN DULY GIVEN AND SHALL BE EFFECTIVE IF DELIVERED BY HAND DELIVERY OR SENT VIA ELECTRONIC MAIL, TELECOPY, RECOGNIZED OVERNIGHT COURIER SERVICE OR CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, OR POSTING ON AN INTERNET WEB PAGE, AND SHALL BE PRESUMED TO BE RECEIVED BY A PARTY HERETO (A) ON THE DATE OF DELIVERY IF DELIVERED BY HAND OR SENT BY ELECTRONIC MAIL, POSTING ON AN INTERNET WEB PAGE, OR TELECOPY, (B) ON THE BUSINESS DAY FOLLOWING THE DAY ON WHICH THE SAME HAS BEEN DELIVERED PREPAID (OR ON AN INVOICE BASIS) TO A REPUTABLE NATIONAL OVERNIGHT AIR COURIER SERVICE OR (C) ON THE THIRD BUSINESS DAY FOLLOWING THE DAY ON WHICH THE SAME IS SENT BY CERTIFIED OR REGISTERED MAIL, POSTAGE PREPAID, IN EACH CASE TO THE RESPECTIVE PARTIES AT THE ADDRESS OR TELECOPY NUMBERS, IN THE CASE OF THE BORROWER AND THE ADMINISTRATIVE AGENT, SET FORTH BELOW, AND, IN THE CASE OF THE LENDERS, SET FORTH ON SIGNATURE PAGES HERETO, OR AT SUCH OTHER ADDRESS AS SUCH PARTY MAY SPECIFY BY WRITTEN NOTICE TO THE OTHER PARTIES HERETO:

IF TO THE BORROWER:

LG&E AND KU ENERGY LLC
220 WEST MAIN STREET
LOUISVILLE, KENTUCKY 40202
ATTENTION: TREASURER
TELEPHONE: 502-627-4956
FACSIMILE: 502-627-4742

WITH COPIES TO:

LG&E AND KU ENERGY LLC
220 WEST MAIN STREET
LOUISVILLE, KENTUCKY 40202
ATTENTION: GENERAL COUNSEL
TELEPHONE: 502-627-3450

FACSIMILE: 502-627-3367

PPL SERVICES CORPORATION
TWO NORTH NINTH STREET (GENTW4)
ALLENTOWN, PENNSYLVANIA 18101-1179
ATTENTION: FREDERICK C. PAINE, ESQ.
TELEPHONE: 610-774-7445
FACSIMILE: 610-774-6726

PPL SERVICES CORPORATION
TWO NORTH NINTH STREET (GENTW14)
ALLENTOWN, PENNSYLVANIA 18101-1179
ATTENTION: RUSSELL R. CLELLAND
TELEPHONE: 610-774-5151
FACSIMILE: 610-774-5235

IF TO THE ADMINISTRATIVE AGENT:

PNC BANK, NATIONAL ASSOCIATION
c/o AGENCY SERVICES
ATTENTION: TRINA BARKLEY
P7-PFSC-05-W
500 FIRST AVENUE
PITTSBURGH, PENNSYLVANIA 15219
FACSIMILE: (412) 705-2006

SECTION 9.02 NO WAIVERS; NON-EXCLUSIVE REMEDIES. NO FAILURE BY THE ADMINISTRATIVE AGENT, ANY LENDER OR ANY ISSUING LENDER TO EXERCISE, NO COURSE OF DEALING WITH RESPECT TO, AND NO DELAY IN EXERCISING ANY RIGHT, POWER OR PRIVILEGE HEREUNDER OR UNDER ANY NOTE OR OTHER LOAN DOCUMENT SHALL OPERATE AS A WAIVER THEREOF NOR SHALL ANY SINGLE OR PARTIAL EXERCISE THEREOF PRECLUDE ANY OTHER OR FURTHER EXERCISE THEREOF OR THE EXERCISE OF ANY OTHER RIGHT, POWER OR PRIVILEGE. THE RIGHTS AND REMEDIES PROVIDED HEREIN AND IN THE OTHER LOAN DOCUMENTS SHALL BE CUMULATIVE AND NOT EXCLUSIVE OF ANY RIGHTS OR REMEDIES PROVIDED BY LAW.

SECTION 9.03 EXPENSES; INDEMNIFICATION.

(A) EXPENSES. THE BORROWER SHALL PAY (i) ALL OUT-OF-POCKET EXPENSES OF THE ADMINISTRATIVE AGENT AND THE LEAD ARRANGER, INCLUDING LEGAL FEES AND DISBURSEMENTS OF MCGUIREWOODS LLP AND ANY OTHER LOCAL COUNSEL RETAINED BY THE ADMINISTRATIVE AGENT, IN ITS REASONABLE DISCRETION, IN CONNECTION WITH THE PREPARATION, EXECUTION, DELIVERY AND ADMINISTRATION OF THE LOAN DOCUMENTS, THE SYNDICATION EFFORTS OF THE ADMINISTRATIVE AGENT AND THE LEAD ARRANGER WITH RESPECT THERETO, ANY WAIVER OR CONSENT THEREUNDER OR ANY AMENDMENT THEREOF OR ANY DEFAULT OR ALLEGED DEFAULT THEREUNDER AND (ii) ALL REASONABLE OUT-OF-POCKET EXPENSES INCURRED BY THE ADMINISTRATIVE AGENT AND EACH LENDER, INCLUDING (WITHOUT DUPLICATION) THE FEES AND DISBURSEMENTS OF OUTSIDE COUNSEL, IN CONNECTION WITH ANY RESTRUCTURING, WORKOUT, COLLECTION, BANKRUPTCY, INSOLVENCY AND OTHER ENFORCEMENT PROCEEDINGS IN CONNECTION WITH THE ENFORCEMENT AND PROTECTION OF ITS RIGHTS; PROVIDED, THAT THE BORROWER SHALL NOT BE LIABLE FOR ANY LEGAL FEES OR DISBURSEMENTS OF ANY COUNSEL FOR THE ADMINISTRATIVE AGENT, THE LEAD ARRANGER AND THE LENDERS OTHER THAN MCGUIREWOODS LLP ASSOCIATED WITH THE PREPARATION, EXECUTION AND DELIVERY OF THIS AGREEMENT AND THE CLOSING DOCUMENTS CONTEMPLATED HEREBY.

(B) INDEMNITY IN RESPECT OF LOAN DOCUMENTS. THE BORROWER AGREES TO INDEMNIFY THE LEAD ARRANGER, THE ADMINISTRATIVE AGENT AND EACH LENDER, THEIR RESPECTIVE AFFILIATES AND THE RESPECTIVE DIRECTORS, OFFICERS, TRUSTEES, AGENTS, EMPLOYEES AND ADVISORS OF THE FOREGOING (EACH AN "INDEMNITEE") AND HOLD EACH INDEMNITEE HARMLESS FROM AND AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS AND EXPENSES OR DISBURSEMENTS OF ANY KIND WHATSOEVER (INCLUDING, WITHOUT LIMITATION, THE REASONABLE FEES AND DISBURSEMENTS OF COUNSEL AND ANY CIVIL PENALTIES OR FINES ASSESSED BY OFAC), WHICH MAY AT ANY TIME (INCLUDING, WITHOUT LIMITATION, AT ANY TIME FOLLOWING THE PAYMENT OF THE OBLIGATIONS OF THE BORROWER HEREUNDER) BE IMPOSED ON, INCURRED BY OR ASSERTED AGAINST SUCH INDEMNITEE IN CONNECTION WITH ANY INVESTIGATIVE, ADMINISTRATIVE OR JUDICIAL PROCEEDING (WHETHER OR NOT SUCH INDEMNITEE SHALL BE DESIGNATED A PARTY THERETO) BROUGHT OR THREATENED (BY ANY THIRD PARTY, BY THE BORROWER OR ANY SUBSIDIARY OF THE BORROWER) IN ANY WAY RELATING TO OR ARISING OUT OF THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR ANY DOCUMENTS CONTEMPLATED HEREBY OR REFERRED TO HEREIN OR THEREIN OR ANY ACTUAL OR PROPOSED USE OF PROCEEDS OF LOANS HEREUNDER; PROVIDED, THAT NO INDEMNITEE SHALL HAVE THE RIGHT TO BE INDEMNIFIED HEREUNDER FOR SUCH INDEMNITEE'S OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT AS DETERMINED BY A COURT OF COMPETENT JURISDICTION IN A FINAL, NON-APPEALABLE JUDGMENT OR ORDER.

(C) INDEMNITY IN RESPECT OF ENVIRONMENTAL LIABILITIES. THE BORROWER AGREES TO INDEMNIFY EACH INDEMNITEE AND HOLD EACH INDEMNITEE HARMLESS FROM AND AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, CLAIMS, COSTS AND EXPENSES OR DISBURSEMENTS OF ANY KIND WHATSOEVER (INCLUDING, WITHOUT LIMITATION, REASONABLE EXPENSES OF INVESTIGATION BY ENGINEERS, ENVIRONMENTAL CONSULTANTS AND SIMILAR TECHNICAL PERSONNEL AND REASONABLE FEES AND DISBURSEMENTS OF COUNSEL) WHICH MAY AT ANY TIME (INCLUDING, WITHOUT LIMITATION, AT ANY TIME FOLLOWING THE PAYMENT OF THE OBLIGATIONS OF THE BORROWER HEREUNDER) BE IMPOSED ON, INCURRED BY OR ASSERTED AGAINST SUCH INDEMNITEE IN RESPECT OF OR IN CONNECTION WITH ANY ACTUAL OR ALLEGED PRESENCE OR RELEASE OF HAZARDOUS SUBSTANCES ON OR FROM ANY PROPERTY NOW OR PREVIOUSLY OWNED OR OPERATED BY THE BORROWER OR ANY OF ITS SUBSIDIARIES OR ANY PREDECESSOR OF THE BORROWER OR ANY OF ITS SUBSIDIARIES, OR ANY AND ALL ENVIRONMENTAL LIABILITIES. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, THE BORROWER HEREBY WAIVES ALL RIGHTS OF CONTRIBUTION OR ANY OTHER RIGHTS OF RECOVERY WITH RESPECT TO LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS AND EXPENSES AND DISBURSEMENTS IN RESPECT OF OR IN CONNECTION WITH ENVIRONMENTAL LIABILITIES THAT IT MIGHT HAVE BY STATUTE OR OTHERWISE AGAINST ANY INDEMNITEE.

(D) WAIVER OF DAMAGES. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE BORROWER SHALL NOT ASSERT, AND HEREBY WAIVES, ANY CLAIM AGAINST ANY INDEMNITEE, ON ANY THEORY OF LIABILITY, FOR SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES (AS OPPOSED TO DIRECT OR ACTUAL DAMAGES) ARISING OUT OF, IN CONNECTION WITH, OR AS A RESULT OF, THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR ANY AGREEMENT OR INSTRUMENT CONTEMPLATED HEREBY OR THEREBY, THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, ANY LOAN OR LETTER OF CREDIT OR THE USE OF THE PROCEEDS THEREOF. NO INDEMNITEE REFERRED TO IN CLAUSE (B) ABOVE SHALL BE LIABLE FOR ANY DAMAGES ARISING FROM THE USE BY UNINTENDED RECIPIENTS OF ANY INFORMATION OR OTHER MATERIALS DISTRIBUTED BY IT THROUGH TELECOMMUNICATIONS, ELECTRONIC OR OTHER INFORMATION TRANSMISSION SYSTEMS IN CONNECTION WITH THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY; PROVIDED THAT NOTHING IN THIS SECTION 9.03(D) SHALL RELIEVE ANY LENDER FROM ITS OBLIGATIONS UNDER SECTION 9.12.

SECTION 9.04 SHARING OF SET-OFFS. EACH LENDER AGREES THAT IF IT SHALL, BY EXERCISING ANY RIGHT OF SET-OFF OR COUNTERCLAIM OR OTHERWISE, RECEIVE PAYMENT OF A PROPORTION OF THE AGGREGATE AMOUNT OF PRINCIPAL AND INTEREST DUE WITH RESPECT TO ANY LOAN MADE OR NOTE HELD BY IT AND ANY LETTER OF CREDIT LIABILITIES WHICH IS GREATER THAN THE PROPORTION RECEIVED BY ANY OTHER LENDER IN RESPECT OF THE AGGREGATE AMOUNT OF PRINCIPAL AND INTEREST DUE WITH RESPECT TO ANY LOAN, NOTE AND LETTER OF CREDIT LIABILITIES MADE OR HELD BY SUCH OTHER LENDER, THE LENDER RECEIVING SUCH PROPORTIONATELY GREATER PAYMENT SHALL PURCHASE SUCH PARTICIPATIONS IN THE LOAN MADE OR NOTES AND LETTER OF CREDIT LIABILITIES HELD BY THE OTHER LENDERS, AND SUCH OTHER ADJUSTMENTS SHALL BE MADE, IN EACH CASE AS MAY BE REQUIRED SO THAT ALL SUCH PAYMENTS OF PRINCIPAL AND INTEREST WITH RESPECT TO THE LOAN MADE OR NOTES AND LETTER OF CREDIT LIABILITIES MADE OR HELD BY THE LENDERS SHALL BE SHARED BY THE LENDERS PRO RATA; PROVIDED, THAT NOTHING IN THIS SECTION SHALL IMPAIR THE RIGHT OF ANY LENDER TO EXERCISE ANY RIGHT OF SET-OFF OR COUNTERCLAIM IT MAY HAVE FOR PAYMENT OF INDEBTEDNESS OF THE BORROWER OTHER THAN ITS INDEBTEDNESS HEREUNDER.

SECTION 9.05 AMENDMENTS AND WAIVERS. ANY PROVISION OF THIS AGREEMENT OR THE NOTES MAY BE AMENDED OR WAIVED IF, BUT ONLY IF, SUCH AMENDMENT OR WAIVER IS IN WRITING AND IS SIGNED BY THE BORROWER AND THE REQUIRED LENDERS (AND, IF THE RIGHTS OR DUTIES OF THE ADMINISTRATIVE AGENT OR THE ISSUING LENDER ARE AFFECTED THEREBY, BY THE ADMINISTRATIVE AGENT OR THE ISSUING LENDER, AS RELEVANT); PROVIDED, THAT NO SUCH AMENDMENT OR WAIVER SHALL, (A) UNLESS SIGNED BY EACH LENDER ADVERSELY AFFECTED THEREBY, (i) INCREASE THE COMMITMENT OF ANY LENDER OR SUBJECT ANY LENDER TO ANY ADDITIONAL OBLIGATION (IT BEING UNDERSTOOD THAT WAIVERS OR MODIFICATIONS OF CONDITIONS PRECEDENT, COVENANTS, DEFAULTS OR OF MANDATORY REDUCTIONS IN THE COMMITMENTS SHALL NOT CONSTITUTE AN INCREASE OF THE COMMITMENT OF ANY LENDER, AND THAT AN INCREASE IN THE AVAILABLE PORTION OF ANY COMMITMENT OF ANY LENDER AS IN EFFECT AT ANY TIME SHALL NOT CONSTITUTE AN INCREASE IN SUCH COMMITMENT), (ii) REDUCE THE PRINCIPAL OF OR RATE OF INTEREST ON ANY LOAN (EXCEPT IN CONNECTION WITH A WAIVER OF APPLICABILITY OF ANY POST-DEFAULT INCREASE IN INTEREST RATES) OR THE AMOUNT TO BE REIMBURSED IN RESPECT OF ANY LETTER OF CREDIT OR ANY INTEREST THEREON OR ANY FEES HEREUNDER, (iii) POSTPONE THE DATE FIXED FOR ANY PAYMENT OF INTEREST ON ANY LOAN OR THE AMOUNT TO BE REIMBURSED IN RESPECT OF ANY LETTER OF CREDIT OR ANY INTEREST THEREON OR ANY FEES HEREUNDER OR FOR ANY SCHEDULED REDUCTION OR TERMINATION OF ANY COMMITMENT OR (EXCEPT AS EXPRESSLY PROVIDED IN ARTICLE III) EXPIRATION DATE OF ANY LETTER OF CREDIT, (iv) POSTPONE OR CHANGE THE DATE FIXED FOR ANY SCHEDULED PAYMENT OF PRINCIPAL OF ANY LOAN, (v) CHANGE ANY PROVISION HEREOF IN A MANNER THAT WOULD ALTER THE PRO RATA FUNDING OF LOANS REQUIRED BY SECTION 2.04(B), THE PRO RATA SHARING OF PAYMENTS REQUIRED BY SECTIONS 2.09(B), 2.11(A) OR 9.04 OR THE PRO RATA REDUCTION OF COMMITMENTS REQUIRED BY SECTION 2.08(A) OR (vi) CHANGE THE CURRENCY IN WHICH LOANS ARE TO BE MADE, LETTERS OF CREDIT ARE TO BE ISSUED OR PAYMENT UNDER THE LOAN DOCUMENTS IS TO BE MADE, OR ADD ADDITIONAL BORROWERS OR (B) UNLESS SIGNED BY EACH LENDER, CHANGE THE DEFINITION OF REQUIRED LENDER OR THIS SECTION 9.05 OR SECTION 9.06(A); PROVIDED, FURTHER, THAT IF, IN CONNECTION WITH ANY PROPOSED AMENDMENT OR WAIVER REFERRED TO ABOVE, THE CONSENT OF THE REQUIRED LENDERS IS OBTAINED BUT THE CONSENT OF ONE OR MORE OF SUCH OTHER LENDERS WHOSE CONSENT IS REQUIRED IS NOT OBTAINED (EACH A "NON-CONSENTING LENDER"), THEN THE BORROWER SHALL HAVE THE RIGHT TO REPLACE ANY SUCH NON-CONSENTING LENDER WITH ONE OR MORE REPLACEMENT LENDERS PURSUANT TO SECTION 2.08(B).

SECTION 9.06 SUCCESSORS AND ASSIGNS.

(A) SUCCESSORS AND ASSIGNS. THE PROVISIONS OF THIS AGREEMENT SHALL BE BINDING UPON AND INURE TO THE BENEFIT OF THE PARTIES HERETO AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS, EXCEPT THAT THE BORROWER MAY NOT ASSIGN OR OTHERWISE TRANSFER ANY OF ITS RIGHTS UNDER THIS AGREEMENT WITHOUT THE PRIOR WRITTEN CONSENT OF ALL OF THE LENDERS, EXCEPT TO THE EXTENT ANY SUCH ASSIGNMENT RESULTS FROM THE CONSUMMATION OF A MERGER OR CONSOLIDATION PERMITTED PURSUANT TO SECTION 6.07 OF THIS AGREEMENT.

(B) PARTICIPATIONS. ANY LENDER MAY AT ANY TIME GRANT TO ONE OR MORE BANKS OR OTHER FINANCIAL INSTITUTIONS OR SPECIAL PURPOSE FUNDING VEHICLE (EACH A "PARTICIPANT") PARTICIPATING INTERESTS IN ITS COMMITMENTS AND/OR ANY OR ALL OF ITS LOANS AND LETTER OF CREDIT LIABILITIES. IN THE EVENT OF ANY SUCH GRANT BY A LENDER OF A PARTICIPATING INTEREST TO A PARTICIPANT, WHETHER OR NOT UPON NOTICE TO THE BORROWER AND THE ADMINISTRATIVE AGENT, SUCH LENDER SHALL REMAIN RESPONSIBLE FOR THE PERFORMANCE OF ITS OBLIGATIONS HEREUNDER, AND THE BORROWER, THE ISSUING LENDER AND THE ADMINISTRATIVE AGENT SHALL CONTINUE TO DEAL SOLELY AND DIRECTLY WITH SUCH LENDER IN CONNECTION WITH SUCH LENDER'S RIGHTS AND OBLIGATIONS UNDER THIS AGREEMENT. ANY AGREEMENT PURSUANT TO WHICH ANY LENDER MAY GRANT SUCH A PARTICIPATING INTEREST SHALL PROVIDE THAT SUCH LENDER SHALL RETAIN THE SOLE RIGHT AND RESPONSIBILITY TO ENFORCE THE OBLIGATIONS OF THE BORROWER HEREUNDER INCLUDING, WITHOUT LIMITATION, THE RIGHT TO APPROVE ANY AMENDMENT, MODIFICATION OR WAIVER OF ANY PROVISION OF THIS AGREEMENT; PROVIDED, THAT SUCH PARTICIPATION AGREEMENT MAY PROVIDE THAT SUCH LENDER WILL NOT AGREE TO ANY MODIFICATION, AMENDMENT OR WAIVER OF THIS AGREEMENT WHICH WOULD (i) EXTEND THE TERMINATION DATE, REDUCE THE RATE OR EXTEND THE TIME OF PAYMENT OF PRINCIPAL, INTEREST OR FEES ON ANY LOAN OR LETTER OF CREDIT LIABILITY IN WHICH SUCH PARTICIPANT IS PARTICIPATING (EXCEPT IN CONNECTION WITH A WAIVER OF APPLICABILITY OF ANY POST-DEFAULT INCREASE IN INTEREST RATES) OR REDUCE THE PRINCIPAL AMOUNT THEREOF, OR INCREASE THE AMOUNT OF THE PARTICIPANT'S PARTICIPATION OVER THE AMOUNT THEREOF THEN IN EFFECT (IT BEING UNDERSTOOD THAT A WAIVER OF ANY DEFAULT OR OF A MANDATORY REDUCTION IN THE COMMITMENTS SHALL NOT CONSTITUTE A CHANGE IN THE TERMS OF SUCH PARTICIPATION) AND THAT AN INCREASE IN ANY COMMITMENT OR LOAN OR LETTER OF CREDIT LIABILITY SHALL BE PERMITTED WITHOUT THE CONSENT OF ANY PARTICIPANT IF THE PARTICIPANT'S PARTICIPATION IS NOT INCREASED AS A RESULT THEREOF) OR (ii) ALLOW THE ASSIGNMENT OR TRANSFER BY THE BORROWER OF ANY OF ITS RIGHTS AND OBLIGATIONS UNDER THIS AGREEMENT, WITHOUT THE CONSENT OF THE PARTICIPANT, EXCEPT TO THE EXTENT ANY SUCH ASSIGNMENT RESULTS FROM THE CONSUMMATION OF A MERGER OR CONSOLIDATION PERMITTED PURSUANT TO SECTION 6.07 OF THIS AGREEMENT. THE BORROWER AGREES THAT EACH PARTICIPANT SHALL, TO THE EXTENT PROVIDED IN ITS PARTICIPATION AGREEMENT, BE ENTITLED TO THE BENEFITS OF ARTICLE II WITH RESPECT TO ITS PARTICIPATING INTEREST TO THE SAME EXTENT AS IF IT WERE A LENDER, SUBJECT TO THE SAME LIMITATIONS, AND IN NO CASE SHALL ANY PARTICIPANT BE ENTITLED TO RECEIVE ANY AMOUNT PAYABLE PURSUANT TO ARTICLE II THAT IS GREATER THAN THE AMOUNT THE LENDER GRANTING SUCH PARTICIPANT'S PARTICIPATING INTEREST WOULD HAVE BEEN ENTITLED TO RECEIVE HAD SUCH LENDER NOT SOLD SUCH PARTICIPATING INTEREST. AN ASSIGNMENT OR OTHER TRANSFER WHICH IS NOT PERMITTED BY SUBSECTION (C) OR (D) BELOW SHALL BE GIVEN EFFECT FOR PURPOSES OF THIS AGREEMENT ONLY TO THE EXTENT OF A PARTICIPATING INTEREST GRANTED IN ACCORDANCE WITH THIS SUBSECTION (B). EACH LENDER THAT SELLS A PARTICIPATION SHALL, ACTING SOLELY FOR THIS PURPOSE AS A NON-FIDUCIARY AGENT OF THE BORROWER, MAINTAIN A REGISTER (SOLELY FOR TAX PURPOSES) ON WHICH IT ENTERS THE NAME AND ADDRESS OF EACH PARTICIPANT AND THE PRINCIPAL AMOUNTS (AND STATED INTEREST) OF EACH PARTICIPANT'S INTEREST IN THE LOANS OR OTHER OBLIGATIONS UNDER THE LOAN DOCUMENTS

(THE “PARTICIPANT REGISTER”). THE ENTRIES IN THE PARTICIPANT REGISTER SHALL BE CONCLUSIVE ABSENT MANIFEST ERROR, AND SUCH LENDER SHALL TREAT EACH PERSON WHOSE NAME IS RECORDED IN THE PARTICIPANT REGISTER AS THE OWNER OF SUCH PARTICIPATION FOR ALL PURPOSES OF THIS AGREEMENT NOTWITHSTANDING ANY NOTICE TO THE CONTRARY.

(C) ASSIGNMENTS GENERALLY. ANY LENDER MAY AT ANY TIME ASSIGN TO ONE OR MORE ELIGIBLE ASSIGNEES (EACH, AN “ASSIGNEE”) ALL, OR A PROPORTIONATE PART (EQUIVALENT TO AN INITIAL AMOUNT OF NOT LESS THAN \$2,000,000 OR ANY LARGER INTEGRAL MULTIPLE OF \$1,000,000), OF ITS RIGHTS AND OBLIGATIONS UNDER THIS AGREEMENT AND THE NOTES WITH RESPECT TO ITS LOANS AND, IF STILL IN EXISTENCE, ITS COMMITMENT, AND SUCH ASSIGNEE SHALL ASSUME SUCH RIGHTS AND OBLIGATIONS, PURSUANT TO AN ASSIGNMENT AND ASSUMPTION AGREEMENT IN SUBSTANTIALLY THE FORM OF EXHIBIT C ATTACHED HERETO EXECUTED BY SUCH ASSIGNEE AND SUCH TRANSFEROR, WITH (AND SUBJECT TO) THE CONSENT OF THE BORROWER, THE ADMINISTRATIVE AGENT AND THE ISSUING LENDER, WHICH CONSENTS SHALL NOT BE UNREASONABLY WITHHELD OR DELAYED; PROVIDED, THAT IF AN ASSIGNEE IS AN AFFILIATE OF SUCH TRANSFEROR LENDER OR WAS A LENDER IMMEDIATELY PRIOR TO SUCH ASSIGNMENT, NO SUCH CONSENT OF THE BORROWER OR THE ADMINISTRATIVE AGENT SHALL BE REQUIRED; PROVIDED, FURTHER, THAT IF AT THE TIME OF SUCH ASSIGNMENT A DEFAULT OR AN EVENT OF DEFAULT HAS OCCURRED AND IS CONTINUING, NO SUCH CONSENT OF THE BORROWER SHALL BE REQUIRED; PROVIDED, FURTHER, THAT NO SUCH ASSIGNMENT MAY BE MADE PRIOR TO THE EFFECTIVE DATE WITHOUT THE PRIOR WRITTEN CONSENT OF THE ADMINISTRATIVE AGENT; PROVIDED, FURTHER, THAT THE PROVISIONS OF SECTIONS 2.12, 2.16, 2.17 AND 9.03 OF THIS AGREEMENT SHALL INURE TO THE BENEFIT OF A TRANSFEROR WITH RESPECT TO ANY LOANS MADE, ANY LETTERS OF CREDIT ISSUED OR ANY OTHER ACTIONS TAKEN BY SUCH TRANSFEROR WHILE IT WAS A LENDER. UPON EXECUTION AND DELIVERY OF SUCH INSTRUMENT AND PAYMENT BY SUCH ASSIGNEE TO SUCH TRANSFEROR OF AN AMOUNT EQUAL TO THE PURCHASE PRICE AGREED BETWEEN SUCH TRANSFEROR AND SUCH ASSIGNEE, SUCH ASSIGNEE SHALL BE A LENDER PARTY TO THIS AGREEMENT AND SHALL HAVE ALL THE RIGHTS AND OBLIGATIONS OF A LENDER WITH A COMMITMENT, IF ANY, AS SET FORTH IN SUCH INSTRUMENT OF ASSUMPTION, AND THE TRANSFEROR SHALL BE RELEASED FROM ITS OBLIGATIONS HEREUNDER TO A CORRESPONDING EXTENT, AND NO FURTHER CONSENT OR ACTION BY ANY PARTY SHALL BE REQUIRED. UPON THE CONSUMMATION OF ANY ASSIGNMENT PURSUANT TO THIS SUBSECTION (C), THE TRANSFEROR, THE ADMINISTRATIVE AGENT AND THE BORROWER SHALL MAKE APPROPRIATE ARRANGEMENTS SO THAT, IF REQUIRED, A NEW NOTE IS ISSUED TO THE ASSIGNEE. IN CONNECTION WITH ANY SUCH ASSIGNMENT, THE TRANSFEROR SHALL PAY TO THE ADMINISTRATIVE AGENT AN ADMINISTRATIVE FEE FOR PROCESSING SUCH ASSIGNMENT IN THE AMOUNT OF \$3,500; PROVIDED THAT THE ADMINISTRATIVE AGENT MAY, IN ITS SOLE DISCRETION, ELECT TO WAIVE SUCH ADMINISTRATIVE FEE IN THE CASE OF ANY ASSIGNMENT. EACH ASSIGNEE SHALL, ON OR BEFORE THE EFFECTIVE DATE OF SUCH ASSIGNMENT, DELIVER TO THE BORROWER AND THE ADMINISTRATIVE AGENT CERTIFICATION AS TO EXEMPTION FROM DEDUCTION OR WITHHOLDING OF ANY UNITED STATES TAXES IN ACCORDANCE WITH SECTION 2.17(E).

(D) ASSIGNMENTS TO FEDERAL RESERVE BANKS. ANY LENDER MAY AT ANY TIME ASSIGN ALL OR ANY PORTION OF ITS RIGHTS UNDER THIS AGREEMENT AND ITS NOTE TO A FEDERAL RESERVE BANK. NO SUCH ASSIGNMENT SHALL RELEASE THE TRANSFEROR LENDER FROM ITS OBLIGATIONS HEREUNDER.

(E) REGISTER. THE BORROWER HEREBY DESIGNATES THE ADMINISTRATIVE AGENT TO SERVE AS THE BORROWER’S AGENT, SOLELY FOR PURPOSES OF THIS SECTION 9.06(E). TO (I) MAINTAIN A REGISTER (THE “REGISTER”) ON WHICH THE ADMINISTRATIVE AGENT WILL RECORD THE COMMITMENTS FROM TIME TO TIME OF EACH LENDER, THE LOANS MADE BY EACH LENDER AND EACH REPAYMENT IN RESPECT OF THE PRINCIPAL AMOUNT OF THE LOANS OF EACH LENDER AND TO (II) RETAIN A COPY OF EACH ASSIGNMENT AND ASSUMPTION AGREEMENT DELIVERED TO THE ADMINISTRATIVE AGENT PURSUANT TO THIS SECTION. FAILURE TO MAKE ANY SUCH RECORDATION, OR ANY ERROR IN SUCH RECORDATION, SHALL NOT AFFECT THE BORROWER’S OBLIGATION IN RESPECT OF SUCH LOANS. THE ENTRIES IN THE REGISTER SHALL BE CONCLUSIVE, IN THE ABSENCE OF MANIFEST ERROR, AND THE BORROWER, THE ADMINISTRATIVE AGENT, THE ISSUING LENDER AND THE OTHER LENDERS SHALL TREAT EACH PERSON IN WHOSE NAME A LOAN AND THE NOTE EVIDENCING THE SAME IS REGISTERED AS THE OWNER THEREOF FOR ALL PURPOSES OF THIS AGREEMENT, NOTWITHSTANDING NOTICE OR ANY PROVISION HEREIN TO THE CONTRARY. WITH RESPECT TO ANY LENDER, THE ASSIGNMENT OR OTHER TRANSFER OF THE COMMITMENTS OF SUCH LENDER AND THE RIGHTS TO THE PRINCIPAL OF, AND INTEREST ON, ANY LOAN MADE AND ANY NOTE ISSUED PURSUANT TO THIS AGREEMENT SHALL NOT BE EFFECTIVE UNTIL SUCH ASSIGNMENT OR OTHER TRANSFER IS RECORDED ON THE REGISTER AND, EXCEPT TO THE EXTENT PROVIDED IN THIS SECTION 9.06(E), OTHERWISE COMPLIES WITH SECTION 9.06, AND PRIOR TO SUCH RECORDATION ALL AMOUNTS OWING TO THE TRANSFERRING LENDER WITH RESPECT TO SUCH COMMITMENTS, LOANS AND NOTES SHALL REMAIN OWING TO THE TRANSFERRING LENDER. THE REGISTRATION OF ASSIGNMENT OR OTHER TRANSFER OF ALL OR PART OF ANY COMMITMENTS, LOANS AND NOTES FOR A LENDER SHALL BE RECORDED BY THE ADMINISTRATIVE AGENT ON THE REGISTER ONLY UPON THE ACCEPTANCE BY THE ADMINISTRATIVE AGENT OF A PROPERLY EXECUTED AND DELIVERED ASSIGNMENT AND ASSUMPTION AGREEMENT AND PAYMENT OF THE ADMINISTRATIVE FEE REFERRED TO IN SECTION 9.06(C). THE REGISTER SHALL BE AVAILABLE FOR INSPECTION BY EACH OF THE BORROWER AND THE ISSUING LENDER AT ANY REASONABLE TIME AND FROM TIME TO TIME UPON REASONABLE PRIOR NOTICE. IN ADDITION, AT ANY TIME THAT A REQUEST FOR A CONSENT FOR A MATERIAL OR SUBSTANTIVE CHANGE TO THE LOAN DOCUMENTS IS PENDING, ANY LENDER WISHING TO CONSULT WITH OTHER LENDERS IN CONNECTION THEREWITH MAY REQUEST AND RECEIVE FROM THE ADMINISTRATIVE AGENT A COPY OF THE REGISTER. THE BORROWER MAY NOT REPLACE ANY LENDER PURSUANT TO SECTION 2.08(B), UNLESS, WITH RESPECT TO ANY NOTES HELD BY SUCH LENDER, THE REQUIREMENTS OF SECTION 9.06(C) AND THIS SECTION 9.06(E) HAVE BEEN SATISFIED.

SECTION 9.07 GOVERNING LAW; SUBMISSION TO JURISDICTION. THIS AGREEMENT AND EACH NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK. THE BORROWER HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

SECTION 9.08 COUNTERPARTS; INTEGRATION; EFFECTIVENESS. THIS AGREEMENT SHALL BECOME EFFECTIVE ON THE EFFECTIVE DATE. THIS AGREEMENT MAY BE SIGNED IN ANY NUMBER OF COUNTERPARTS, EACH OF WHICH SHALL BE AN ORIGINAL, WITH THE SAME EFFECT AS IF THE SIGNATURES THERETO AND HERETO WERE UPON THE SAME INSTRUMENT. ON AND AFTER THE EFFECTIVE DATE, THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, AND THE FEE LETTER CONSTITUTE THE ENTIRE AGREEMENT AND UNDERSTANDING AMONG THE PARTIES HERETO AND SUPERSEDE ANY AND ALL PRIOR AGREEMENTS AND UNDERSTANDINGS, ORAL OR WRITTEN, RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF.

SECTION 9.09 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. UNLESS OTHERWISE SPECIFIED HEREIN, ALL ACCOUNTING TERMS USED HEREIN SHALL BE INTERPRETED, ALL ACCOUNTING DETERMINATIONS HEREUNDER SHALL BE MADE AND ALL FINANCIAL STATEMENTS REQUIRED TO BE DELIVERED HEREUNDER SHALL BE PREPARED IN ACCORDANCE WITH GAAP AS IN EFFECT FROM TIME TO TIME, APPLIED ON A BASIS CONSISTENT (EXCEPT FOR CHANGES CONCURRED IN BY THE BORROWER’S INDEPENDENT PUBLIC ACCOUNTANTS) WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE BORROWER AND ITS CONSOLIDATED SUBSIDIARIES MOST RECENTLY DELIVERED TO THE LENDERS; PROVIDED, THAT, IF THE BORROWER NOTIFIES THE ADMINISTRATIVE AGENT THAT THE BORROWER WISHES TO AMEND ANY COVENANT IN ARTICLE VI TO ELIMINATE THE EFFECT OF ANY CHANGE IN GAAP ON THE OPERATION OF SUCH COVENANT (OR IF THE ADMINISTRATIVE AGENT NOTIFIES THE BORROWER THAT THE REQUIRED LENDERS WISH TO AMEND ARTICLE VI FOR SUCH PURPOSE), THEN THE BORROWER’S COMPLIANCE WITH SUCH COVENANT SHALL BE DETERMINED ON THE BASIS OF GAAP IN EFFECT

IMMEDIATELY BEFORE THE RELEVANT CHANGE IN GAAP BECAME EFFECTIVE, UNTIL EITHER SUCH NOTICE IS WITHDRAWN OR SUCH COVENANT IS AMENDED IN A MANNER SATISFACTORY TO THE BORROWER AND THE REQUIRED LENDERS.

SECTION 9.10 USAGE. THE FOLLOWING RULES OF CONSTRUCTION AND USAGE SHALL BE APPLICABLE TO THIS AGREEMENT AND TO ANY INSTRUMENT OR AGREEMENT THAT IS GOVERNED BY OR REFERRED TO IN THIS AGREEMENT.

(A) ALL TERMS DEFINED IN THIS AGREEMENT SHALL HAVE THE DEFINED MEANINGS WHEN USED IN ANY INSTRUMENT GOVERNED HEREBY OR REFERRED TO HEREIN AND IN ANY CERTIFICATE OR OTHER DOCUMENT MADE OR DELIVERED PURSUANT HERETO OR THERETO UNLESS OTHERWISE DEFINED THEREIN.

(B) THE WORDS "HEREOF", "HEREIN", "HEREUNDER" AND WORDS OF SIMILAR IMPORT WHEN USED IN THIS AGREEMENT OR IN ANY INSTRUMENT OR AGREEMENT GOVERNED HERE SHALL BE CONSTRUED TO REFER TO THIS AGREEMENT OR SUCH INSTRUMENT OR AGREEMENT, AS APPLICABLE, IN ITS ENTIRETY AND NOT TO ANY PARTICULAR PROVISION OR SUBDIVISION HEREOF OR THEREOF.

(C) REFERENCES IN THIS AGREEMENT TO "ARTICLE", "SECTION", "EXHIBIT", "SCHEDULE" OR ANOTHER SUBDIVISION OR ATTACHMENT SHALL BE CONSTRUED TO REFER TO AN ARTICLE, SECTION OR OTHER SUBDIVISION OF, OR AN EXHIBIT, SCHEDULE OR OTHER ATTACHMENT TO, THIS AGREEMENT UNLESS THE CONTEXT OTHERWISE REQUIRES; REFERENCES IN ANY INSTRUMENT OR AGREEMENT GOVERNED BY OR REFERRED TO IN THIS AGREEMENT TO "ARTICLE", "SECTION", "EXHIBIT", "SCHEDULE" OR ANOTHER SUBDIVISION OR ATTACHMENT SHALL BE CONSTRUED TO REFER TO AN ARTICLE, SECTION OR OTHER SUBDIVISION OF, OR AN EXHIBIT, SCHEDULE OR OTHER ATTACHMENT TO, SUCH INSTRUMENT OR AGREEMENT UNLESS THE CONTEXT OTHERWISE REQUIRES.

(D) THE DEFINITIONS CONTAINED IN THIS AGREEMENT SHALL APPLY EQUALLY TO THE SINGULAR AND PLURAL FORMS OF SUCH TERMS. WHENEVER THE CONTEXT MAY REQUIRE, ANY PRONOUN SHALL INCLUDE THE CORRESPONDING MASCULINE, FEMININE AND NEUTER FORMS. THE WORD "WILL" SHALL BE CONSTRUED TO HAVE THE SAME MEANING AS THE WORD "SHALL". THE TERM "INCLUDING" SHALL BE CONSTRUED TO HAVE THE SAME MEANING AS THE PHRASE "INCLUDING WITHOUT LIMITATION".

(E) UNLESS THE CONTEXT OTHERWISE REQUIRES, ANY DEFINITION OF OR REFERENCE TO ANY AGREEMENT, INSTRUMENT, STATUTE OR DOCUMENT CONTAINED IN THIS AGREEMENT OR IN ANY AGREEMENT OR INSTRUMENT THAT IS GOVERNED BY OR REFERRED TO IN THIS AGREEMENT SHALL BE CONSTRUED (i) AS REFERRING TO SUCH AGREEMENT, INSTRUMENT, STATUTE OR DOCUMENT AS THE SAME MAY BE AMENDED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME (SUBJECT TO ANY RESTRICTIONS ON SUCH AMENDMENTS, SUPPLEMENTS OR MODIFICATIONS SET FORTH IN THIS AGREEMENT OR IN ANY AGREEMENT OR INSTRUMENT GOVERNED BY OR REFERRED TO IN THIS AGREEMENT), INCLUDING (IN THE CASE OF AGREEMENTS OR INSTRUMENTS) BY WAIVER OR CONSENT AND (IN THE CASE OF STATUTES) BY SUCCESSION OF COMPARABLE SUCCESSOR STATUTES AND (ii) TO INCLUDE (IN THE CASE OF AGREEMENTS OR INSTRUMENTS) REFERENCES TO ALL ATTACHMENTS THERETO AND INSTRUMENTS INCORPORATED THEREIN. ANY REFERENCE TO ANY PERSON SHALL BE CONSTRUED TO INCLUDE SUCH PERSON'S SUCCESSORS AND PERMITTED ASSIGNS.

(F) UNLESS THE CONTEXT OTHERWISE REQUIRES, WHENEVER ANY STATEMENT IS QUALIFIED BY "TO THE BEST KNOWLEDGE OF" OR "KNOWN TO" (OR A SIMILAR PHRASE) ANY PERSON THAT IS NOT A NATURAL PERSON, IT IS INTENDED TO INDICATE THAT THE SENIOR MANAGEMENT OF SUCH PERSON HAS CONDUCTED A COMMERCIALY REASONABLE INQUIRY AND INVESTIGATION PRIOR TO MAKING SUCH STATEMENT AND NO MEMBER OF THE SENIOR MANAGEMENT OF SUCH PERSON (INCLUDING MANAGERS, IN THE CASE OF LIMITED LIABILITY COMPANIES, AND GENERAL PARTNERS, IN THE CASE OF PARTNERSHIPS) HAS CURRENT ACTUAL KNOWLEDGE OF THE INACCURACY OF SUCH STATEMENT.

(G) UNLESS OTHERWISE SPECIFIED, ALL REFERENCES HEREIN TO TIMES OF DAY SHALL CONSTITUTE REFERENCES TO EASTERN TIME.

SECTION 9.11 WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 9.12 CONFIDENTIALITY. EACH LENDER AGREES TO HOLD ALL NON-PUBLIC INFORMATION OBTAINED PURSUANT TO THE REQUIREMENTS OF THIS AGREEMENT IN ACCORDANCE WITH ITS CUSTOMARY PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION OF THIS NATURE AND IN ACCORDANCE WITH SAFE AND SOUND BANKING PRACTICES; PROVIDED, THAT NOTHING HEREIN SHALL PREVENT ANY LENDER FROM DISCLOSING SUCH INFORMATION (A) TO ANY OTHER LENDER OR TO THE ADMINISTRATIVE AGENT, (B) TO ANY OTHER PERSON IF REASONABLY INCIDENTAL TO THE ADMINISTRATION OF THE LOANS AND LETTER OF CREDIT LIABILITIES, (C) UPON THE ORDER OF ANY COURT OR ADMINISTRATIVE AGENCY, (D) TO THE EXTENT REQUESTED BY, OR REQUIRED TO BE DISCLOSED TO, ANY RATING AGENCY OR REGULATORY AGENCY OR SIMILAR AUTHORITY (INCLUDING ANY SELF-REGULATORY AUTHORITY, SUCH AS THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS), (E) WHICH HAD BEEN PUBLICLY DISCLOSED OTHER THAN AS A RESULT OF A DISCLOSURE BY THE ADMINISTRATIVE AGENT OR ANY LENDER PROHIBITED BY THIS AGREEMENT, (F) IN CONNECTION WITH ANY LITIGATION TO WHICH THE ADMINISTRATIVE AGENT, ANY LENDER OR ANY OF THEIR RESPECTIVE SUBSIDIARIES OR AFFILIATES MAY BE PARTY, (G) TO THE EXTENT NECESSARY IN CONNECTION WITH THE EXERCISE OF ANY REMEDY HEREBY, (H) TO SUCH LENDER'S OR THE ADMINISTRATIVE AGENT'S AFFILIATES AND THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS INCLUDING LEGAL COUNSEL AND INDEPENDENT AUDITORS (IT BEING UNDERSTOOD THAT THE PERSONS TO WHOM SUCH DISCLOSURE IS MADE WILL BE INFORMED OF THE CONFIDENTIAL NATURE OF SUCH INFORMATION AND INSTRUCTED TO KEEP SUCH INFORMATION CONFIDENTIAL), (I) WITH THE CONSENT OF THE BORROWER, (J) TO GOLD SHEETS AND OTHER SIMILAR BANK TRADE PUBLICATIONS, SUCH INFORMATION TO CONSIST SOLELY OF DEAL TERMS AND OTHER INFORMATION CUSTOMARILY FOUND IN SUCH PUBLICATIONS AND (K) SUBJECT TO PROVISIONS SUBSTANTIALLY SIMILAR TO THOSE CONTAINED IN THIS SECTION, TO ANY ACTUAL OR PROPOSED PARTICIPANT OR ASSIGNEE OR TO ANY ACTUAL OR PROSPECTIVE COUNTERPARTY (OR ITS ADVISORS) TO ANY SECURITIZATION, SWAP OR DERIVATIVE TRANSACTION RELATING TO THE BORROWER'S OBLIGATIONS HEREBY. NOTWITHSTANDING THE FOREGOING, THE ADMINISTRATIVE AGENT, ANY LENDER OR MCGUIREWOODS LLP MAY CIRCULATE PROMOTIONAL MATERIALS AND PLACE ADVERTISEMENTS IN FINANCIAL AND OTHER NEWSPAPERS AND PERIODICALS OR ON A HOME PAGE OR SIMILAR PLACE FOR DISSEMINATION OF INFORMATION ON THE INTERNET OR WORLDWIDE WEB, IN EACH CASE, AFTER THE CLOSING OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT IN THE FORM OF A "TOMBSTONE" OR OTHER RELEASE LIMITED TO DESCRIBING THE NAMES OF THE BORROWER OR ITS AFFILIATES, OR ANY OF THEM, AND THE AMOUNT, TYPE AND CLOSING DATE OF SUCH TRANSACTIONS, ALL AT THEIR SOLE EXPENSE.

SECTION 9.13 USA PATRIOT ACT NOTICE. EACH LENDER THAT IS SUBJECT TO THE PATRIOT ACT (AS HEREINAFTER DEFINED) AND THE ADMINISTRATIVE AGENT (FOR ITSELF AND NOT ON BEHALF OF ANY LENDER) HEREBY NOTIFIES THE BORROWER THAT PURSUANT TO THE REQUIREMENTS OF THE USA PATRIOT ACT (TITLE III OF PUB.L. 107-56 (SIGNED INTO LAW OCTOBER 26, 2001)) (THE "PATRIOT ACT"), IT IS REQUIRED TO OBTAIN, VERIFY AND RECORD INFORMATION THAT IDENTIFIES THE BORROWER, WHICH INFORMATION INCLUDES THE NAME AND ADDRESS OF THE BORROWER AND OTHER INFORMATION THAT WILL ALLOW SUCH LENDER OR THE ADMINISTRATIVE AGENT, AS APPLICABLE, TO IDENTIFY THE BORROWER IN ACCORDANCE WITH THE PATRIOT ACT.

SECTION 9.14 No Fiduciary Duty. THE ADMINISTRATIVE AGENT, EACH LENDER AND THEIR RESPECTIVE AFFILIATES (COLLECTIVELY, SOLELY FOR PURPOSES OF THIS PARAGRAPH, THE "LENDER PARTIES"), MAY HAVE ECONOMIC INTERESTS THAT CONFLICT WITH THOSE OF THE BORROWER, ITS AFFILIATES AND/OR THEIR RESPECTIVE STOCKHOLDERS (COLLECTIVELY, SOLELY FOR PURPOSES OF THIS PARAGRAPH, THE "BORROWER PARTIES"). THE BORROWER AGREES THAT NOTHING IN THE LOAN DOCUMENTS OR OTHERWISE WILL BE DEEMED TO CREATE AN ADVISORY, FIDUCIARY OR AGENCY RELATIONSHIP OR FIDUCIARY OR OTHER IMPLIED DUTY (OTHER THAN ANY IMPLIED DUTY OF GOOD FAITH) BETWEEN ANY LENDER PARTY, ON THE ONE HAND, AND ANY BORROWER PARTY, ON THE OTHER. THE LENDER PARTIES ACKNOWLEDGE AND AGREE THAT (A) THE TRANSACTIONS CONTEMPLATED BY THE LOAN DOCUMENTS (INCLUDING THE EXERCISE OF RIGHTS AND REMEDIES HEREUNDER AND THEREUNDER) ARE ARM'S-LENGTH COMMERCIAL TRANSACTIONS BETWEEN THE LENDER PARTIES, ON THE ONE HAND, AND THE BORROWER, ON THE OTHER AND (B) IN CONNECTION THEREWITH AND WITH THE PROCESS LEADING THERETO, (i) NO LENDER PARTY HAS ASSUMED AN ADVISORY OR FIDUCIARY RESPONSIBILITY IN FAVOR OF ANY BORROWER PARTY WITH RESPECT TO THE TRANSACTIONS CONTEMPLATED HEREBY (OR THE EXERCISE OF RIGHTS OR REMEDIES WITH RESPECT THERETO) OR THE PROCESS LEADING THERETO (IRRESPECTIVE OF WHETHER ANY LENDER PARTY HAS ADVISED, IS CURRENTLY ADVISING OR WILL ADVISE ANY BORROWER PARTY ON OTHER MATTERS) OR ANY OTHER OBLIGATION TO ANY BORROWER PARTY EXCEPT THE OBLIGATIONS EXPRESSLY SET FORTH IN THE LOAN DOCUMENTS AND (ii) EACH LENDER PARTY IS ACTING SOLELY AS PRINCIPAL AND NOT AS THE AGENT OR FIDUCIARY OF ANY BORROWER PARTY. THE BORROWER ACKNOWLEDGES AND AGREES THAT THE BORROWER HAS CONSULTED ITS OWN LEGAL AND FINANCIAL ADVISORS TO THE EXTENT IT DEEMED APPROPRIATE AND THAT IT IS RESPONSIBLE FOR MAKING ITS OWN INDEPENDENT JUDGMENT WITH RESPECT TO SUCH TRANSACTIONS AND THE PROCESS LEADING THERETO. THE BORROWER AGREES THAT IT WILL NOT CLAIM THAT ANY LENDER PARTY HAS RENDERED ADVISORY SERVICES OF ANY NATURE OR RESPECT, OR OWES A FIDUCIARY OR SIMILAR DUTY TO ANY BORROWER PARTY, IN CONNECTION WITH SUCH TRANSACTION OR THE PROCESS LEADING THERETO.

[SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE CAUSED THIS AGREEMENT TO BE DULY EXECUTED BY THEIR RESPECTIVE AUTHORIZED OFFICERS AS OF THE DAY AND YEAR FIRST ABOVE WRITTEN.

LG&E AND KU ENERGY LLC

By: /s/ DANIEL K. ARBOUGH

NAME: DANIEL K. ARBOUGH

TITLE: TREASURER

PNC BANK, NATIONAL ASSOCIATION,
AS THE ADMINISTRATIVE AGENT, THE ISSUING LENDER AND A LENDER

BY: /s/ THOMAS E. REDMOND
NAME: THOMAS E. REDMOND
TITLE: SENIOR VICE PRESIDENT

FIFTH THIRD BANK, AS A LENDER

BY: /s/ MICHAEL S. BARNETT

NAME: MICHAEL S. BARNETT

TITLE: MANAGING DIRECTOR

CENTRAL BANK & TRUST COMPANY, AS A LENDER

By: /s/ JASON A. SMITH
NAME: JASON A. SMITH
TITLE: VICE PRESIDENT

REPUBLIC BANK & TRUST COMPANY, AS A LENDER

BY: /s/ THOMAS G. FANGMAN

NAME: THOMAS G. FANGMAN

TITLE: SENIOR VICE PRESIDENT

MAINSOURCE BANK, AS A LENDER

BY: /S/PHILIP COOPER
NAME: PHILIP COOPER
TITLE: VICE PRESIDENT

HERITAGE BANK USA, INC., AS A LENDER

BY: /s/ CHIP KNIGHT

NAME: CHIP KNIGHT

TITLE: MARKET PRESIDENT / SENIOR LENDER

COMMONWEALTH BANK & TRUST COMPANY, AS A LENDER

BY: /s/ COURTNEY GIESEL
NAME: COURTNEY GIESEL
TITLE: EXECUTIVE VICE PRESIDENT

HERITAGE BANK INC., AS A LENDER

BY: /s/ PETER J. WEICKGENANNT

NAME: PETER J. WEICKGENANNT

TITLE: SENIOR LENDER

CUMBERLAND VALLEY NATIONAL BANK & TRUST COMPANY, AS
A LENDER

By: /s/ TIM EDWARDS
NAME: TIM EDWARDS
TITLE: EXECUTIVE VICE-PRESIDENT

FARMERS NATIONAL BANK OF DANVILLE, AS A LENDER

BY: /s/ J. MARTY GIBSON

NAME: J. MARTY GIBSON

TITLE: EXECUTIVE VICE PRESIDENT, HEAD OF LENDING

BANK OF HARLAN, AS A LENDER

BY: /s/ STEVE TOLLIVER
NAME: STEVE TOLLIVER
TITLE: PRESIDENT / CEO

COMMITMENTS

<u>LENDER</u>	<u>COMMITMENT</u>	<u>APPLICABLE PERCENTAGE</u>
PNC BANK, NATIONAL ASSOCIATION	\$ 16,500,000.00	22.000000000%
FIFTH THIRD BANK	\$ 14,000,000.00	18.666666667%
CENTRAL BANK & TRUST COMPANY	\$ 12,000,000.00	16.000000000%
REPUBLIC BANK & TRUST COMPANY	\$ 8,000,000.00	10.666666667%
MAINSOURCE BANK	\$ 5,500,000.00	7.333333333%
HERITAGE BANK USA, INC.	\$ 5,500,000.00	7.333333333%
COMMONWEALTH BANK & TRUST COMPANY	\$ 3,500,000.00	4.666666667%
HERITAGE BANK INC.	\$ 3,500,000.00	4.666666667%
CUMBERLAND VALLEY NATIONAL BANK & TRUST COMPANY	\$ 2,500,000.00	3.333333333%
FARMERS NATIONAL BANK OF DANVILLE	\$ 2,000,000.00	2.666666667%
BANK OF HARLAN	\$ 2,000,000.00	2.666666667%
TOTAL	\$ 75,000,000.00	100.000000000%

SCHEDULE 5.14

UTILITY SUBSIDIARIES

SUBSIDIARY

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

JURISDICTION(S) OF INCORPORATION

KENTUCKY
KENTUCKY AND VIRGINIA

SCHEDULE 6.10

EXISTING LIENS

NONE.

SCHEDULE 6.11

RESTRICTIVE AGREEMENTS

RESTRICTIONS IN THE AMENDED AND RESTATED ARTICLES OF INCORPORATION (“ARTICLES”) AND BY-LAWS OF EACH OF THE UTILITY SUBSIDIARIES AS IN EFFECT ON THE EFFECTIVE DATE.

THE ARTICLES AND BY-LAWS OF EACH OF THE UTILITY SUBSIDIARIES CONTAIN RESTRICTIONS ON DIVIDENDS AND OTHER PAYMENTS RELATING TO CERTAIN SERIES OF PREFERRED AND PREFERENCE STOCK. NEITHER OF THE UTILITY SUBSIDIARIES HAS ANY PREFERRED OR PREFERENCE STOCK OUTSTANDING AS OF THE EFFECTIVE DATE.

FORM OF NOTICE OF BORROWING

PNC BANK, NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT
P7-PFSC-05-W
500 FIRST AVENUE
PITTSBURGH, PENNSYLVANIA 15219
ATTENTION: AGENCY SERVICES
FACSIMILE: (412) 762-8672

LADIES AND GENTLEMEN:

THIS NOTICE SHALL CONSTITUTE A "NOTICE OF BORROWING" PURSUANT TO SECTION 2.03 OF THE REVOLVING CREDIT AGREEMENT DATED AS OF OCTOBER 30, 2013 (AS AMENDED, RESTATED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME, THE "CREDIT AGREEMENT") AMONG LG&E AND KU ENERGY LLC, AS THE BORROWER, THE LENDING INSTITUTIONS PARTY THERETO FROM TIME TO TIME AND PNC BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT. TERMS DEFINED IN THE CREDIT AGREEMENT AND NOT OTHERWISE DEFINED HEREIN HAVE THE RESPECTIVE MEANINGS PROVIDED FOR IN THE CREDIT AGREEMENT.

1. THE DATE OF THE BORROWING WILL BE _____, _____ .1
2. THE AGGREGATE PRINCIPAL AMOUNT OF THE BORROWING WILL BE _____ .2
3. THE BORROWING WILL CONSIST OF [BASE RATE] [EURO-DOLLAR] LOANS.
4. THE INITIAL INTEREST PERIOD FOR THE LOANS COMPRISING SUCH BORROWING SHALL BE _____ .3

[INSERT APPROPRIATE DELIVERY INSTRUCTIONS, WHICH SHALL INCLUDE BANK AND ACCOUNT NUMBER].

[SIGNATURE PAGE FOLLOWS]

¹ MUST BE A BUSINESS DAY.

² REVOLVING BORROWINGS MUST BE AN AGGREGATE PRINCIPAL AMOUNT OF \$5,000,000 OR ANY LARGER INTEGRAL MULTIPLE OF \$1,000,000, EXCEPT THE BORROWING MAY BE IN THE AGGREGATE AMOUNT OF THE REMAINING UNUSED COMMITMENTS.

³ APPLICABLE FOR EURO-DOLLAR LOANS ONLY. INSERT "ONE MONTH", "TWO MONTHS", "THREE MONTHS" OR "SIX MONTHS" (SUBJECT TO THE PROVISIONS OF THE DEFINITION OF "INTEREST PERIOD").

LG&E AND KU ENERGY LLC

By: _____

NAME:

TITLE:

FORM OF NOTICE OF CONVERSION/CONTINUATION

PNC BANK, NATIONAL ASSOCIATION,
 AS ADMINISTRATIVE AGENT
 P7-PFSC-05-W
 500 FIRST AVENUE
 PITTSBURGH, PENNSYLVANIA 15219
 ATTENTION: AGENCY SERVICES
 FACSIMILE: (412) 762-8672

LADIES AND GENTLEMEN:

THIS NOTICE SHALL CONSTITUTE A "NOTICE OF CONVERSION/CONTINUATION" PURSUANT TO SECTION 2.06(D)(II) OF THE REVOLVING CREDIT AGREEMENT DATED AS OF OCTOBER 30, 2013 (AS AMENDED, RESTATED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME, THE "CREDIT AGREEMENT") AMONG LG&E AND KU ENERGY LLC, AS THE BORROWER, THE LENDING INSTITUTIONS PARTY THERETO FROM TIME TO TIME AND PNC BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT. TERMS DEFINED IN THE CREDIT AGREEMENT AND NOT OTHERWISE DEFINED HEREIN HAVE THE RESPECTIVE MEANINGS PROVIDED FOR IN THE CREDIT AGREEMENT.

1. THE GROUP OF LOANS (OR PORTION THEREOF) TO WHICH THIS NOTICE APPLIES IS [ALL OR A PORTION OF ALL BASE RATE LOANS CURRENTLY OUTSTANDING] [ALL OR A PORTION OF ALL EURO-DOLLAR LOANS CURRENTLY OUTSTANDING HAVING AN INTEREST PERIOD OF ___ MONTHS AND ENDING ON THE ELECTION DATE SPECIFIED BELOW].

2. THE DATE ON WHICH THE CONVERSION/CONTINUATION SELECTED HEREBY IS TO BE EFFECTIVE IS _____, _____ (THE "ELECTION DATE").¹

3. THE PRINCIPAL AMOUNT OF THE GROUP OF LOANS (OR PORTION THEREOF) TO WHICH THIS NOTICE APPLIES IS \$_____.²

4. [THE GROUP OF LOANS (OR PORTION THEREOF) WHICH ARE TO BE CONVERTED WILL BEAR INTEREST BASED UPON THE [BASE RATE] [ADJUSTED LONDON INTERBANK OFFERED RATE].] [THE GROUP OF LOANS (OR PORTION THEREOF) WHICH ARE TO BE CONTINUED WILL BEAR INTEREST BASED UPON THE [BASE RATE][ADJUSTED LONDON INTERBANK OFFERED RATE].]

5. THE INTEREST PERIOD FOR SUCH LOANS WILL BE _____.³
 [SIGNATURE PAGE FOLLOWS]

¹ MUST BE A BUSINESS DAY.

² MAY APPLY TO A PORTION OF THE AGGREGATE PRINCIPAL AMOUNT OF THE RELEVANT GROUP OF LOANS; PROVIDED THAT (i) SUCH PORTION IS ALLOCATED RATABLY AMONG THE LOANS COMPRISING SUCH GROUP AND (ii) THE PORTION TO WHICH SUCH NOTICE APPLIES, AND THE REMAINING PORTION TO WHICH IT DOES NOT APPLY, ARE EACH \$5,000,000 OR ANY LARGER INTEGRAL MULTIPLE OF \$1,000,000.

³ APPLICABLE ONLY IN THE CASE OF A CONVERSION TO, OR A CONTINUATION OF, EURO-DOLLAR LOANS. INSERT "ONE MONTH", "TWO MONTHS", "THREE MONTHS" OR "SIX MONTHS" (SUBJECT TO THE PROVISIONS OF THE DEFINITION OF "INTEREST PERIOD").

LG&E AND KU ENERGY LLC

By: _____

NAME:

TITLE:

FORM OF LETTER OF CREDIT REQUEST

_____ , _____

PNC BANK, NATIONAL ASSOCIATION,
AS ISSUING LENDER
P7-PFSC-02-T
500 FIRST AVENUE
PITTSBURGH, PENNSYLVANIA 15219
FACSIMILE: (412) 762-5960

LADIES AND GENTLEMEN:

THIS NOTICE SHALL CONSTITUTE A "LETTER OF CREDIT REQUEST" PURSUANT TO SECTION 3.02 OF THE REVOLVING CREDIT AGREEMENT DATED AS OF OCTOBER 30, 2013 (AS AMENDED, RESTATED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME, THE "CREDIT AGREEMENT") AMONG LG&E AND KU ENERGY LLC, AS THE BORROWER, THE LENDING INSTITUTIONS PARTY THERETO FROM TIME TO TIME AND PNC BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT. TERMS DEFINED IN THE CREDIT AGREEMENT AND NOT OTHERWISE DEFINED HEREIN HAVE THE RESPECTIVE MEANINGS PROVIDED FOR IN THE CREDIT AGREEMENT.

[THE UNDERSIGNED HEREBY REQUESTS THAT PNC BANK, NATIONAL ASSOCIATION ISSUE A LETTER OF CREDIT ON _____, _____¹ IN THE AGGREGATE AMOUNT OF \$_____.] [THIS REQUEST IS TO EXTEND A LETTER OF CREDIT PREVIOUSLY ISSUED UNDER THE CREDIT AGREEMENT; LETTER OF CREDIT No. _____.]

THE BENEFICIARY OF THE REQUESTED LETTER OF CREDIT WILL BE _____², AND SUCH LETTER OF CREDIT WILL BE IN SUPPORT OF _____³ AND WILL HAVE A STATED TERMINATION DATE OF _____⁴.

COPIES OF ALL DOCUMENTATION WITH RESPECT TO THE SUPPORTED TRANSACTION ARE ATTACHED HERETO.

[SIGNATURE PAGE FOLLOWS]

¹ MUST BE A BUSINESS DAY.

² INSERT NAME AND ADDRESS OF BENEFICIARY.

³ INSERT A DESCRIPTION OF THE OBLIGATIONS, THE NAME OF EACH AGREEMENT AND/OR A DESCRIPTION OF THE COMMERCIAL TRANSACTION TO WHICH THIS LETTER OF CREDIT REQUEST RELATES.

⁴ INSERT THE LAST DATE UPON WHICH DRAFTS MAY BE PRESENTED (WHICH MAY NOT BE LATER THAN ONE YEAR AFTER THE DATE OF ISSUANCE SPECIFIED ABOVE OR BEYOND THE FIFTH BUSINESS DAY PRIOR TO THE TERMINATION DATE).

LG&E AND KU ENERGY LLC

By: _____
NAME:
TITLE:

APPROVED:

PNC BANK, NATIONAL ASSOCIATION

By: _____
NAME:
TITLE:

FORM OF NOTE

FOR VALUE RECEIVED, THE UNDERSIGNED, LG&E AND KU ENERGY LLC, A KENTUCKY LIMITED LIABILITY COMPANY (THE "BORROWER"), PROMISES TO PAY TO THE ORDER OF _____ (HEREINAFTER, TOGETHER WITH ITS SUCCESSORS AND ASSIGNS, CALLED THE "HOLDER"), AT THE PLACE AND TIMES PROVIDED IN THE CREDIT AGREEMENT (AS DEFINED BELOW), THE PRINCIPAL SUM OF AND/100s DOLLARS (\$), OR, IF LESS, THE PRINCIPAL AMOUNT OF ALL LOANS ADVANCED BY THE HOLDER TO THE BORROWER PURSUANT TO THE CREDIT AGREEMENT, PLUS INTEREST AS HEREINAFTER PROVIDED. SUCH LOANS MAY BE ENDORSED FROM TIME TO TIME ON THE GRID ATTACHED HERETO, BUT THE FAILURE TO MAKE SUCH NOTATIONS SHALL NOT AFFECT THE VALIDITY OF THE BORROWER'S OBLIGATION TO REPAY UNPAID PRINCIPAL AND INTEREST HEREUNDER.

ALL CAPITALIZED TERMS USED HEREIN SHALL HAVE THE MEANINGS ASCRIBED TO THEM IN THAT CERTAIN REVOLVING CREDIT AGREEMENT DATED AS OF OCTOBER 30, 2013 (AS AMENDED, RESTATED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME, THE "CREDIT AGREEMENT") AMONG THE BORROWER, THE LENDING INSTITUTIONS PARTY THERETO FROM TIME TO TIME AND PNC BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT FOR ITSELF AND ON BEHALF OF THE LENDERS AND THE ISSUING LENDER, EXCEPT TO THE EXTENT SUCH CAPITALIZED TERMS ARE OTHERWISE DEFINED OR LIMITED HEREIN.

THE BORROWER SHALL REPAY PRINCIPAL OUTSTANDING HEREUNDER FROM TIME TO TIME, AS NECESSARY, IN ORDER TO COMPLY WITH THE CREDIT AGREEMENT. ALL AMOUNTS PAID BY THE BORROWER SHALL BE APPLIED TO THE OBLIGATIONS IN SUCH ORDER OF APPLICATION AS PROVIDED IN THE CREDIT AGREEMENT.

A FINAL PAYMENT OF ALL PRINCIPAL AMOUNTS AND OTHER OBLIGATIONS THEN OUTSTANDING HEREUNDER SHALL BE DUE AND PAYABLE ON THE MATURITY DATE PROVIDED IN THE CREDIT AGREEMENT, OR SUCH EARLIER DATE AS PAYMENT OF THE LOANS SHALL BE DUE, WHETHER BY ACCELERATION OR OTHERWISE.

THE BORROWER SHALL BE ENTITLED TO BORROW, REPAY, REBORROW, CONTINUE AND CONVERT THE HOLDER'S LOANS (OR PORTIONS THEREOF) HEREUNDER PURSUANT TO THE TERMS AND CONDITIONS OF THE CREDIT AGREEMENT. PREPAYMENT OF THE PRINCIPAL AMOUNT OF ANY LOAN MAY BE MADE AS PROVIDED IN THE CREDIT AGREEMENT.

THE BORROWER HEREBY PROMISES TO PAY INTEREST ON THE UNPAID PRINCIPAL AMOUNT HEREOF AS PROVIDED IN ARTICLE II OF THE CREDIT AGREEMENT. INTEREST UNDER THIS NOTE SHALL ALSO BE DUE AND PAYABLE WHEN THIS NOTE SHALL BECOME DUE (WHETHER AT MATURITY, BY REASON OF ACCELERATION OR OTHERWISE). OVERDUE PRINCIPAL AND, TO THE EXTENT PERMITTED BY LAW, OVERDUE INTEREST, SHALL BEAR INTEREST PAYABLE ON DEMAND AT THE DEFAULT RATE AS PROVIDED IN THE CREDIT AGREEMENT.

IN NO EVENT SHALL THE AMOUNT OF INTEREST DUE OR PAYABLE HEREUNDER EXCEED THE MAXIMUM RATE OF INTEREST ALLOWED BY APPLICABLE LAW, AND IN THE EVENT ANY SUCH PAYMENT IS INADVERTENTLY MADE BY THE BORROWER OR INADVERTENTLY RECEIVED BY THE HOLDER, THEN SUCH EXCESS SUM SHALL BE CREDITED AS A PAYMENT OF PRINCIPAL, UNLESS THE BORROWER SHALL NOTIFY THE HOLDER IN WRITING THAT IT ELECTS TO HAVE SUCH EXCESS SUM RETURNED FORTHWITH. IT IS THE EXPRESS INTENT HEREOF THAT THE BORROWER NOT PAY AND THE HOLDER NOT RECEIVE, DIRECTLY OR INDIRECTLY IN ANY MANNER WHATSOEVER, INTEREST IN EXCESS OF THAT WHICH MAY LEGALLY BE PAID BY THE BORROWER UNDER APPLICABLE LAW.

ALL PARTIES NOW OR HEREAFTER LIABLE WITH RESPECT TO THIS NOTE, WHETHER THE BORROWER, ANY GUARANTOR, ENDORSER OR ANY OTHER PERSON OR ENTITY, HEREBY WAIVE PRESENTMENT FOR PAYMENT, DEMAND, NOTICE OF NON-PAYMENT OR DISHONOR, PROTEST AND NOTICE OF PROTEST.

NO DELAY OR OMISSION ON THE PART OF THE HOLDER OR ANY HOLDER HEREOF IN EXERCISING ITS RIGHTS UNDER THIS NOTE, OR DELAY OR OMISSION ON THE PART OF THE HOLDER, THE ADMINISTRATIVE AGENT OR THE LENDERS COLLECTIVELY, OR ANY OF THEM, IN EXERCISING ITS OR THEIR RIGHTS UNDER THE CREDIT AGREEMENT OR UNDER ANY OTHER LOAN DOCUMENT, OR COURSE OF CONDUCT RELATING THERETO, SHALL OPERATE AS A WAIVER OF SUCH RIGHTS OR ANY OTHER RIGHT OF THE HOLDER OR ANY HOLDER HEREOF, NOR SHALL ANY WAIVER BY THE HOLDER, THE ADMINISTRATIVE AGENT, THE REQUIRED LENDERS OR THE LENDERS COLLECTIVELY, OR ANY OF THEM, OR ANY HOLDER HEREOF, OF ANY SUCH RIGHT OR RIGHTS ON ANY ONE OCCASION BE DEEMED A BAR TO, OR WAIVER OF, THE SAME RIGHT OR RIGHTS ON ANY FUTURE OCCASION.

THE BORROWER PROMISES TO PAY ALL REASONABLE COSTS OF COLLECTION, INCLUDING REASONABLE ATTORNEYS' FEES, SHOULD THIS NOTE BE COLLECTED BY OR THROUGH AN ATTORNEY-AT-LAW OR UNDER ADVICE THEREFROM.

THIS NOTE EVIDENCES THE HOLDER'S LOANS (OR PORTION THEREOF) UNDER, AND IS ENTITLED TO THE BENEFITS AND SUBJECT TO THE TERMS OF, THE CREDIT AGREEMENT, WHICH CONTAINS PROVISIONS WITH RESPECT TO THE ACCELERATION OF THE MATURITY OF THIS NOTE UPON THE HAPPENING OF CERTAIN STATED EVENTS, AND PROVISIONS FOR PREPAYMENT.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, THE UNDERSIGNED HAS CAUSED THIS NOTE TO BE EXECUTED BY ITS DULY AUTHORIZED REPRESENTATIVE AS OF THE DAY AND YEAR FIRST ABOVE WRITTEN.

LG&E AND KU ENERGY LLC

By: _____
NAME:
TITLE:

LOANS AND PAYMENTS OF PRINCIPAL

DATE	AMOUNT OF LOAN	TYPE	AMOUNT OF PRINCIPAL REPAID	NOTATION MADE BY

FORM OF ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION (THE “ASSIGNMENT AND ASSUMPTION”) IS DATED AS OF THE EFFECTIVE DATE SET FORTH BELOW AND IS ENTERED INTO BY AND BETWEEN [THE] [EACH]¹² ASSIGNOR IDENTIFIED ON THE SCHEDULES HERETO AS “ASSIGNOR” [OR “ASSIGNORS”] ([COLLECTIVELY, THE “ASSIGNORS” AND EACH] AN “ASSIGNOR”) AND [THE] [EACH]¹³ ASSIGNEE IDENTIFIED ON THE SCHEDULES HERETO AS “ASSIGNEE” [OR “ASSIGNEES”] ([COLLECTIVELY, THE “ASSIGNEES” AND EACH] AN “ASSIGNEE”). [IT IS UNDERSTOOD AND AGREED THAT THE RIGHTS AND OBLIGATIONS OF [THE ASSIGNORS] [THE ASSIGNEES]¹⁴ HEREUNDER ARE SEVERAL AND NOT JOINT.]¹⁵ CAPITALIZED TERMS USED BUT NOT DEFINED HEREIN SHALL HAVE THE MEANINGS GIVEN TO THEM IN THE CREDIT AGREEMENT IDENTIFIED BELOW (THE “CREDIT AGREEMENT”), RECEIPT OF A COPY OF WHICH IS HEREBY ACKNOWLEDGED BY [THE] [EACH] ASSIGNEE. THE STANDARD TERMS AND CONDITIONS SET FORTH IN ANNEX 1 ATTACHED HERETO ARE HEREBY AGREED TO AND INCORPORATED HEREIN BY REFERENCE AND MADE A PART OF THIS ASSIGNMENT AND ASSUMPTION AS IF SET FORTH HEREIN IN FULL.

FOR AN AGREED CONSIDERATION, [THE] [EACH] ASSIGNOR HEREBY IRREVOCABLY SELLS AND ASSIGNS TO [THE ASSIGNEE] [THE RESPECTIVE ASSIGNEES], AND [THE] [EACH] ASSIGNEE HEREBY IRREVOCABLY PURCHASES AND ASSUMES FROM [THE ASSIGNOR] [THE RESPECTIVE ASSIGNORS], SUBJECT TO AND IN ACCORDANCE WITH THE STANDARD TERMS AND CONDITIONS AND THE CREDIT AGREEMENT, AS OF THE EFFECTIVE DATE INSERTED BY THE ADMINISTRATIVE AGENT AS CONTEMPLATED BELOW (A) ALL OF [THE ASSIGNOR’S] [THE RESPECTIVE ASSIGNORS’] RIGHTS AND OBLIGATIONS IN [ITS CAPACITY AS A LENDER] [THEIR RESPECTIVE CAPACITIES AS LENDERS] UNDER THE CREDIT AGREEMENT AND ANY OTHER DOCUMENTS OR INSTRUMENTS DELIVERED PURSUANT THERETO TO THE EXTENT RELATED TO THE AMOUNT AND PERCENTAGE INTEREST IDENTIFIED BELOW OF ALL OF SUCH OUTSTANDING RIGHTS AND OBLIGATIONS OF [THE ASSIGNOR] [THE RESPECTIVE ASSIGNORS] UNDER THE RESPECTIVE FACILITIES IDENTIFIED BELOW (INCLUDING WITHOUT LIMITATION ANY LETTERS OF CREDIT AND GUARANTEES INCLUDED IN SUCH FACILITIES) AND (B) TO THE EXTENT PERMITTED TO BE ASSIGNED UNDER APPLICABLE LAW, ALL CLAIMS, SUITS, CAUSES OF ACTION AND ANY OTHER RIGHT OF [THE ASSIGNOR (IN ITS CAPACITY AS A LENDER)] [THE RESPECTIVE ASSIGNORS (IN THEIR RESPECTIVE CAPACITIES AS LENDERS)] AGAINST ANY PERSON, WHETHER KNOWN OR UNKNOWN, ARISING UNDER OR IN CONNECTION WITH THE CREDIT AGREEMENT, ANY OTHER DOCUMENTS OR INSTRUMENTS DELIVERED PURSUANT THERETO OR THE LOAN TRANSACTIONS GOVERNED THEREBY OR IN ANY WAY BASED ON OR RELATED TO ANY OF THE FOREGOING, INCLUDING, BUT NOT LIMITED TO, CONTRACT CLAIMS, TORT CLAIMS, MALPRACTICE CLAIMS, STATUTORY CLAIMS AND ALL OTHER CLAIMS AT LAW OR IN EQUITY RELATED TO THE RIGHTS AND OBLIGATIONS SOLD AND ASSIGNED PURSUANT TO CLAUSE (A) ABOVE (THE RIGHTS AND OBLIGATIONS SOLD AND ASSIGNED BY [THE] [ANY] ASSIGNOR TO [THE] [ANY] ASSIGNEE PURSUANT TO CLAUSES (A) AND (B) ABOVE BEING REFERRED TO HEREIN COLLECTIVELY AS, THE “ASSIGNED INTEREST”). EACH SUCH SALE AND ASSIGNMENT IS WITHOUT RECOURSE TO [THE] [ANY] ASSIGNOR AND, EXCEPT AS EXPRESSLY PROVIDED IN THIS ASSIGNMENT AND ASSUMPTION, WITHOUT REPRESENTATION OR WARRANTY BY [THE] [ANY] ASSIGNOR.

1. ASSIGNOR: *See Schedule attached hereto*
 2. ASSIGNEE: *See Schedule attached hereto*
 3. BORROWER: LG&E AND KU ENERGY LLC
 4. ADMINISTRATIVE AGENT: PNC BANK, NATIONAL ASSOCIATION, AS THE ADMINISTRATIVE AGENT UNDER THE CREDIT AGREEMENT
 5. CREDIT AGREEMENT: THE REVOLVING CREDIT AGREEMENT DATED AS OF OCTOBER 30, 2013 (AS AMENDED, RESTATED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME) AMONG LG&E AND KU ENERGY LLC, AS THE BORROWER, THE LENDING INSTITUTIONS PARTY THERETO FROM TIME TO TIME AND PNC BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
 6. ASSIGNED INTEREST: *See Schedule attached hereto*
- [7. TRADE DATE:]¹⁶

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

¹² FOR BRACKETED LANGUAGE HERE AND ELSEWHERE IN THIS FORM RELATING TO THE ASSIGNOR(S), IF THE ASSIGNMENT IS FROM A SINGLE ASSIGNOR, CHOOSE THE FIRST BRACKETED LANGUAGE. IF THE ASSIGNMENT IS FROM MULTIPLE ASSIGNORS, CHOOSE THE SECOND BRACKETED LANGUAGE.

¹³ FOR BRACKETED LANGUAGE HERE AND ELSEWHERE IN THIS FORM RELATING TO THE ASSIGNEE(S), IF THE ASSIGNMENT IS TO A SINGLE ASSIGNEE, CHOOSE THE FIRST BRACKETED LANGUAGE. IF THE ASSIGNMENT IS TO MULTIPLE ASSIGNEES, CHOOSE THE SECOND BRACKETED LANGUAGE.

¹⁴ SELECT AS APPROPRIATE.

¹⁵ INCLUDE BRACKETED LANGUAGE IF THERE ARE EITHER MULTIPLE ASSIGNORS OR MULTIPLE ASSIGNEES.

¹⁶ TO BE COMPLETED IF THE ASSIGNOR(S) AND THE ASSIGNEE(S) INTEND THAT THE MINIMUM ASSIGNMENT AMOUNT IS TO BE DETERMINED AS OF THE TRADE DATE.

EFFECTIVE DATE: _____, 20__

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

THE TERMS SET FORTH IN THIS ASSIGNMENT AND ASSUMPTION ARE HEREBY AGREED TO:

ASSIGNOR[S]

[NAME(S) OF ASSIGNOR(S)]

By: _____

TITLE:

ASSIGNEE[S]

See Schedule attached hereto

[CONSENTED TO AND]¹⁷ ACCEPTED:

PNC BANK, NATIONAL ASSOCIATION,

AS ADMINISTRATIVE AGENT [AND ISSUING LENDER]

By: _____

TITLE:

[CONSENTED TO:]¹⁸

LG&E AND KU ENERGY LLC

By: _____

TITLE:

¹⁷ TO BE ADDED ONLY IF THE CONSENT OF THE ADMINISTRATIVE AGENT AND/OR ISSUING LENDER IS REQUIRED BY THE TERMS OF THE CREDIT AGREEMENT.

¹⁸ TO BE ADDED ONLY IF THE CONSENT OF THE BORROWER IS REQUIRED BY THE TERMS OF THE CREDIT AGREEMENT.

SCHEDULE

TO ASSIGNMENT AND ASSUMPTION

BY ITS EXECUTION OF THIS SCHEDULE, THE ASSIGNEE(S) AGREE(S) TO THE TERMS SET FORTH IN THE ATTACHED ASSIGNMENT AND ASSUMPTION.

ASSIGNED INTERESTS:

AGGREGATE AMOUNT OF COMMITMENT/ LOANS FOR ALL LENDERS ¹⁹	AMOUNT OF COMMITMENT/ LOANS ASSIGNED ²⁰	PERCENTAGE ASSIGNED OF COMMITMENT/ LOANS ²¹	CUSIP NUMBER
\$	\$	%	
[NAME OF ASSIGNEE] ²²		[AND IS AN AFFILIATE OF [<i>identify Lender</i>]] ²³	

¹⁹ AMOUNT TO BE ADJUSTED BY THE COUNTERPARTIES TO TAKE INTO ACCOUNT ANY PAYMENTS OR PREPAYMENTS MADE BETWEEN THE TRADE DATE AND THE EFFECTIVE DATE.

²⁰ AMOUNT TO BE ADJUSTED BY THE COUNTERPARTIES TO TAKE INTO ACCOUNT ANY PAYMENTS OR PREPAYMENTS MADE BETWEEN THE TRADE DATE AND THE EFFECTIVE DATE.

²¹ SET FORTH, TO AT LEAST 9 DECIMALS, AS A PERCENTAGE OF THE COMMITMENT/LOANS OF ALL LENDERS THEREUNDER.

²² ADD ADDITIONAL SIGNATURE BLOCKS, AS NEEDED.

²³ SELECT AS APPLICABLE.

ANNEX 1 TO ASSIGNMENT AND ASSUMPTION

REVOLVING CREDIT AGREEMENT DATED AS OF
OCTOBER 30, 2013
BY AND AMONG

LG&E AND KU ENERGY LLC, AS BORROWER, THE LENDERS PARTY THERETO AND PNC BANK, NATIONAL ASSOCIATION, AS
ADMINISTRATIVE AGENT

STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. REPRESENTATIONS AND WARRANTIES.

1.1. ASSIGNOR. [THE] [EACH] ASSIGNOR (A) REPRESENTS AND WARRANTS THAT (i) IT IS THE LEGAL AND BENEFICIAL OWNER OF [THE] [THE RELEVANT] ASSIGNED INTEREST, (ii) [THE] [SUCH] ASSIGNED INTEREST IS FREE AND CLEAR OF ANY LIEN, ENCUMBRANCE OR OTHER ADVERSE CLAIM AND (iii) IT HAS FULL POWER AND AUTHORITY, AND HAS TAKEN ALL ACTION NECESSARY, TO EXECUTE AND DELIVER THIS ASSIGNMENT AND ASSUMPTION AND TO CONSUMMATE THE TRANSACTIONS CONTEMPLATED HEREBY; AND (B) ASSUMES NO RESPONSIBILITY WITH RESPECT TO (i) ANY STATEMENTS, WARRANTIES OR REPRESENTATIONS MADE IN OR IN CONNECTION WITH THE CREDIT AGREEMENT OR ANY OTHER LOAN DOCUMENT, (ii) THE EXECUTION, LEGALITY, VALIDITY, ENFORCEABILITY, GENUINENESS, SUFFICIENCY OR VALUE OF THE LOAN DOCUMENTS OR ANY COLLATERAL THEREUNDER, (iii) THE FINANCIAL CONDITION OF THE BORROWER, ANY OF ITS SUBSIDIARIES OR AFFILIATES OR ANY OTHER PERSON OBLIGATED IN RESPECT OF ANY LOAN DOCUMENT OR (iv) THE PERFORMANCE OR OBSERVANCE BY THE BORROWER, ANY OF ITS SUBSIDIARIES OR AFFILIATES OR ANY OTHER PERSON OF ANY OF THEIR RESPECTIVE OBLIGATIONS UNDER ANY LOAN DOCUMENT.

1.2. ASSIGNEE. [THE] [EACH] ASSIGNEE (A) REPRESENTS AND WARRANTS THAT (i) IT HAS FULL POWER AND AUTHORITY, AND HAS TAKEN ALL ACTION NECESSARY, TO EXECUTE AND DELIVER THIS ASSIGNMENT AND ASSUMPTION AND TO CONSUMMATE THE TRANSACTIONS CONTEMPLATED HEREBY AND TO BECOME A LENDER UNDER THE CREDIT AGREEMENT, (ii) IT MEETS ALL REQUIREMENTS OF AN ELIGIBLE ASSIGNEE UNDER THE CREDIT AGREEMENT (SUBJECT TO RECEIPT OF SUCH CONSENTS AS MAY BE REQUIRED UNDER THE CREDIT AGREEMENT), (iii) FROM AND AFTER THE EFFECTIVE DATE, IT SHALL BE BOUND BY THE PROVISIONS OF THE CREDIT AGREEMENT AS A LENDER THEREUNDER AND, TO THE EXTENT OF THE ASSIGNED INTEREST, SHALL HAVE THE OBLIGATIONS OF A LENDER THEREUNDER, (iv) IT HAS RECEIVED A COPY OF THE CREDIT AGREEMENT, TOGETHER WITH COPIES OF THE MOST RECENT FINANCIAL STATEMENTS DELIVERED PURSUANT TO SECTION 6.01 THEREOF, AS APPLICABLE, AND SUCH OTHER DOCUMENTS AND INFORMATION AS IT HAS DEEMED APPROPRIATE TO MAKE ITS OWN CREDIT ANALYSIS AND DECISION TO ENTER INTO THIS ASSIGNMENT AND ASSUMPTION AND TO PURCHASE [THE] [THE RELEVANT] ASSIGNED INTEREST ON THE BASIS OF WHICH IT HAS MADE SUCH ANALYSIS AND DECISION INDEPENDENTLY AND WITHOUT RELIANCE ON THE ADMINISTRATIVE AGENT OR ANY OTHER LENDER, AND (B) AGREES THAT (i) IT WILL, INDEPENDENTLY AND WITHOUT RELIANCE ON THE ADMINISTRATIVE AGENT, [THE] [ANY] ASSIGNOR OR ANY OTHER LENDER, AND BASED ON SUCH DOCUMENTS AND INFORMATION AS IT SHALL DEEM APPROPRIATE AT THE TIME, CONTINUE TO MAKE ITS OWN CREDIT DECISIONS IN TAKING OR NOT TAKING ACTION UNDER THE LOAN DOCUMENTS, AND (ii) IT WILL PERFORM IN ACCORDANCE WITH THEIR TERMS ALL OF THE OBLIGATIONS THAT BY THE TERMS OF THE LOAN DOCUMENTS ARE REQUIRED TO BE PERFORMED BY IT AS A LENDER.

2. PAYMENTS. FROM AND AFTER THE EFFECTIVE DATE, THE ADMINISTRATIVE AGENT SHALL MAKE ALL PAYMENTS IN RESPECT OF THE ASSIGNED INTEREST (INCLUDING PAYMENTS OF PRINCIPAL, INTEREST, FEES AND OTHER AMOUNTS) TO THE ASSIGNOR FOR AMOUNTS THAT HAVE ACCRUED TO BUT EXCLUDING THE EFFECTIVE DATE AND TO THE ASSIGNEE FOR AMOUNTS THAT HAVE ACCRUED FROM AND AFTER THE EFFECTIVE DATE.

3. GENERAL PROVISIONS. THIS ASSIGNMENT AND ASSUMPTION SHALL BE BINDING UPON, AND INURE TO THE BENEFIT OF, THE PARTIES HERETO AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS. THIS ASSIGNMENT AND ASSUMPTION MAY BE EXECUTED IN ANY NUMBER OF COUNTERPARTS, WHICH TOGETHER SHALL CONSTITUTE ONE INSTRUMENT. DELIVERY OF AN EXECUTED COUNTERPART OF A SIGNATURE PAGE OF THIS ASSIGNMENT AND ASSUMPTION BY TELECOPY SHALL BE EFFECTIVE AS DELIVERY OF A MANUALLY EXECUTED COUNTERPART OF THIS ASSIGNMENT AND ASSUMPTION. THIS ASSIGNMENT AND ASSUMPTION SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK.

FORM OF OPINION OF COUNSEL FOR THE BORROWER

FORM OF NOTICE OF REVOLVING INCREASE

DATED AS OF: _____

LG&E AND KU ENERGY LLC (THE "BORROWER"), IN CONNECTION WITH THE REVOLVING CREDIT AGREEMENT DATED AS OF OCTOBER 30, 2013 (AS AMENDED, RESTATED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME, THE "CREDIT AGREEMENT") AMONG THE BORROWER, THE LENDING INSTITUTIONS PARTY THERETO FROM TIME TO TIME AND PNC BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT, HEREBY CERTIFIES THAT:

1. THE BORROWER HAS OBTAINED AN AGREEMENT FROM CERTAIN FINANCIAL INSTITUTIONS TO INCREASE THEIR COMMITMENTS IN THE AGGREGATE AMOUNT OF _____ (\$ _____)²³ (THE "OPTIONAL INCREASE").

2. ALL OF THE REPRESENTATIONS AND WARRANTIES OF THE BORROWER CONTAINED IN THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS ARE TRUE AND CORRECT IN ALL MATERIAL RESPECTS (EXCEPT TO THE EXTENT ANY SUCH REPRESENTATION AND WARRANTY IS QUALIFIED BY MATERIALITY OR REFERENCE TO MATERIAL ADVERSE EFFECT, IN WHICH CASE SUCH REPRESENTATION AND WARRANTY SHALL BE TRUE AND CORRECT IN ALL RESPECTS) ON AND AS OF THE DATE HEREOF, EXCEPT TO THE EXTENT THAT SUCH REPRESENTATIONS AND WARRANTIES SPECIFICALLY REFER TO AN EARLIER DATE, IN WHICH CASE THEY WERE TRUE AND CORRECT IN ALL MATERIAL RESPECTS (EXCEPT TO THE EXTENT ANY SUCH REPRESENTATION AND WARRANTY IS QUALIFIED BY MATERIALITY OR REFERENCE TO MATERIAL ADVERSE EFFECT, IN WHICH CASE SUCH REPRESENTATION AND WARRANTY WAS TRUE AND CORRECT IN ALL RESPECTS) AS OF SUCH EARLIER DATE AND EXCEPT FOR THE REPRESENTATIONS IN SECTION 5.04(C), SECTION 5.05 AND SECTION 5.13 OF THE CREDIT AGREEMENT, WHICH SHALL BE DEEMED ONLY TO RELATE TO THE MATTERS REFERRED TO THEREIN ON AND AS OF THE EFFECTIVE DATE.

3. THERE DOES NOT EXIST, AS OF THIS DATE, AND THERE WILL NOT EXIST AFTER GIVING EFFECT TO THE OPTIONAL INCREASE, ANY DEFAULT OR EVENT OF DEFAULT UNDER THE CREDIT AGREEMENT.

4. ALL NECESSARY GOVERNMENTAL, REGULATORY AND THIRD PARTY APPROVALS, IF REQUIRED, HAVE BEEN OBTAINED OR MADE, ARE IN FULL FORCE AND EFFECT AND ARE NOT SUBJECT TO ANY PENDING OR, TO THE KNOWLEDGE OF THE BORROWER, THREATENED REVERSAL OR CANCELLATION.

5. ATTACHED HERETO AS ANNEX A ARE RESOLUTIONS ADOPTED BY THE BORROWER AUTHORIZING SUCH OPTIONAL INCREASE, AND SUCH RESOLUTIONS ARE TRUE AND CORRECT AND HAVE NOT BEEN ALTERED, AMENDED OR REPEALED AND ARE IN FULL FORCE AND EFFECT.

CAPITALIZED TERMS USED IN THIS NOTICE OF REVOLVING INCREASE AND NOT OTHERWISE DEFINED HEREIN ARE USED AS DEFINED IN THE CREDIT AGREEMENT.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

²³ EACH OPTIONAL INCREASE SHALL BE IN A MINIMUM AMOUNT OF \$2,500,000.

IN WITNESS WHEREOF, THE BORROWER, ACTING THROUGH AN AUTHORIZED SIGNATORY, HAS SIGNED THIS NOTICE OF REVOLVING INCREASE AS OF THE DAY AND YEAR FIRST ABOVE WRITTEN.

LG&E AND KU ENERGY LLC

BY: _____
NAME:
TITLE:

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	2013	2012	2011	2010	2009
Earnings, as defined:					
Income from Continuing Operations Before Income Taxes (a)	\$ 1,309	\$ 2,082	\$ 2,201	\$ 1,239	\$ 538
Adjustment to reflect earnings from equity method investments on a cash basis (b)		34	1	7	1
	<u>1,309</u>	<u>2,116</u>	<u>2,202</u>	<u>1,246</u>	<u>539</u>
Total fixed charges as below	1,096	1,065	1,022	698	513
Less:					
Capitalized interest	47	53	51	30	43
Preferred security distributions of subsidiaries on a pre-tax basis		5	23	21	24
Interest expense and fixed charges related to discontinued operations			3	12	15
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>1,049</u>	<u>1,007</u>	<u>945</u>	<u>635</u>	<u>431</u>
Total earnings	<u>\$ 2,358</u>	<u>\$ 3,123</u>	<u>\$ 3,147</u>	<u>\$ 1,881</u>	<u>\$ 970</u>
Fixed charges, as defined:					
Interest charges (c)	\$ 1,058	\$ 1,019	\$ 955	\$ 637	\$ 446
Estimated interest component of operating rentals	38	41	44	39	42
Preferred securities distributions of subsidiaries on a pre-tax basis		5	23	21	24
Fixed charges of majority-owned share of 50% or less-owned persons				1	1
Total fixed charges (d)	<u>\$ 1,096</u>	<u>\$ 1,065</u>	<u>\$ 1,022</u>	<u>\$ 698</u>	<u>\$ 513</u>
Ratio of earnings to fixed charges	<u>2.2</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (e)	<u>2.2</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>

- (a) In September 2013, PPL Montana executed a definitive agreement to sell certain hydroelectric generating facilities. The sale is not expected to close before the second half of 2014. To facilitate the sale, PPL Montana terminated a lease agreement which resulted in a \$697 million charge, included in "Loss on lease termination" on the Statement of Income. See Note 8 to the Financial Statements for additional information.
- (b) Includes other-than-temporary impairment loss of \$25 million in 2012.
- (c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
- (d) Interest on unrecognized tax benefits is not included in fixed charges.
- (e) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Earnings, as defined:					
Income (Loss) from Continuing Operations Before					
Income Taxes (a)	\$ (371)	\$ 738	\$ 1,212	\$ 881	\$ (13)
Adjustments to reflect earnings from equity method					
investments on a cash basis			1	7	1
	<u>(371)</u>	<u>738</u>	<u>1,213</u>	<u>888</u>	<u>(12)</u>
Total fixed charges as below	<u>226</u>	<u>238</u>	<u>259</u>	<u>426</u>	<u>364</u>
Less:					
Capitalized interest	36	47	47	33	44
Interest expense and fixed charges related to					
discontinued operations			3	147	102
Total fixed charges included in Income (Loss) from					
Continuing Operations Before Income Taxes	<u>190</u>	<u>191</u>	<u>209</u>	<u>246</u>	<u>218</u>
Total earnings	<u>\$ (181)</u>	<u>\$ 929</u>	<u>\$ 1,422</u>	<u>\$ 1,134</u>	<u>\$ 206</u>
Fixed charges, as defined:					
Interest charges (b)	\$ 207	\$ 214	\$ 223	\$ 387	\$ 321
Estimated interest component of operating rentals	19	24	36	38	42
Fixed charges of majority-owned share of 50% or					
less-owned persons				1	1
Total fixed charges (c)	<u>\$ 226</u>	<u>\$ 238</u>	<u>\$ 259</u>	<u>\$ 426</u>	<u>\$ 364</u>
Ratio of earnings to fixed charges (d)	<u>(0.8)</u>	<u>3.9</u>	<u>5.5</u>	<u>2.7</u>	<u>0.6</u>

- (a) In September 2013, PPL Montana executed a definitive agreement to sell certain hydroelectric generating facilities. The sale is not expected to close before the second half of 2014. To facilitate the sale, PPL Montana terminated a lease agreement which resulted in a \$697 million charge, included in "Loss on lease termination" on the Statement of Income. See Note 8 to the Financial Statements for additional information.
- (b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
- (c) Interest on unrecognized tax benefits is not included in fixed charges.
- (d) The lease termination referred to in (a) above resulted in earnings that were less than fixed charges for 2013. The total amount of fixed charges for 2013 was \$226 million and the total amount of earnings for the same period was \$(181) million. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was \$407 million.

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Global's operating results were reclassified as Discontinued Operations. Upon reflecting this reclassification, earnings were less than fixed charges for 2009. See Note 9 in PPL Energy Supply's 2011 Form 10-K for additional information. The total amount of fixed charges for this period was \$364 million and the total amount of earnings was \$206 million. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was \$158 million.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Earnings, as defined:					
Income Before Income Taxes	\$ 317	\$ 204	\$ 257	\$ 192	\$ 221
Total fixed charges as below	<u>117</u>	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>
Total earnings	<u>\$ 434</u>	<u>\$ 311</u>	<u>\$ 362</u>	<u>\$ 294</u>	<u>\$ 342</u>
Fixed charges, as defined:					
Interest charges (a)	\$ 113	\$ 104	\$ 102	\$ 101	\$ 120
Estimated interest component of operating rentals	<u>4</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>
Total fixed charges (b)	<u>\$ 117</u>	<u>\$ 107</u>	<u>\$ 105</u>	<u>\$ 102</u>	<u>\$ 121</u>
Ratio of earnings to fixed charges	<u>3.7</u>	<u>2.9</u>	<u>3.4</u>	<u>2.9</u>	<u>2.8</u>
Preferred stock dividend requirements on a pre-tax basis					
	\$	\$ 6	\$ 21	\$ 23	\$ 28
Fixed charges, as above	<u>117</u>	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>
Total fixed charges and preferred stock dividends	<u>\$ 117</u>	<u>\$ 113</u>	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 149</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>3.7</u>	<u>2.8</u>	<u>2.9</u>	<u>2.4</u>	<u>2.3</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)				Predecessor (b)	
	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:						
Income from Continuing Operations						
Before Income Taxes	\$ 551	\$ 331	\$ 419	\$ 70	\$ 300	\$ (1,235)
Adjustment to reflect earnings from equity method investments on a cash basis (c)		33	(1)		(4)	11
Loss on impairment of goodwill						1,493
Mark to market impact of derivative instruments				2	(20)	(19)
	<u>551</u>	<u>364</u>	<u>418</u>	<u>72</u>	<u>276</u>	<u>250</u>
Total fixed charges as below	<u>151</u>	<u>157</u>	<u>153</u>	<u>25</u>	<u>158</u>	<u>186</u>
Total earnings	<u>\$ 702</u>	<u>\$ 521</u>	<u>\$ 571</u>	<u>\$ 97</u>	<u>\$ 434</u>	<u>\$ 436</u>
Fixed charges, as defined:						
Interest charges (d) (e)	\$ 145	\$ 151	\$ 147	\$ 24	\$ 153	\$ 176
Estimated interest component of operating rentals	6	6	6	1	5	5
Estimated discontinued operations interest component of rental expense						5
Total fixed charges	<u>\$ 151</u>	<u>\$ 157</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 158</u>	<u>\$ 186</u>
Ratio of earnings to fixed charges	<u>4.6</u>	<u>3.3</u>	<u>3.7</u>	<u>3.9</u>	<u>2.7</u>	<u>2.3</u>

- (a) Post-acquisition activity covering the time period after October 31, 2010.
(b) Pre-acquisition activity covering the time period prior to November 1, 2010.
(c) Includes other-than-temporary impairment loss of \$25 million in 2012.
(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(e) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)				Predecessor (b)	
	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:						
Income Before Income Taxes	\$ 257	\$ 192	\$ 195	\$ 29	\$ 167	\$ 142
Mark to market impact of derivative instruments				1	(20)	(20)
	<u>257</u>	<u>192</u>	<u>195</u>	<u>30</u>	<u>147</u>	<u>122</u>
Total fixed charges as below	<u>36</u>	<u>44</u>	<u>46</u>	<u>8</u>	<u>40</u>	<u>46</u>
Total earnings	<u>\$ 293</u>	<u>\$ 236</u>	<u>\$ 241</u>	<u>\$ 38</u>	<u>\$ 187</u>	<u>\$ 168</u>
Fixed charges, as defined:						
Interest charges (c) (d)	\$ 34	\$ 42	\$ 44	\$ 8	\$ 38	\$ 44
Estimated interest component of operating rentals	<u>2</u>	<u>2</u>	<u>2</u>		<u>2</u>	<u>2</u>
Total fixed charges	<u>\$ 36</u>	<u>\$ 44</u>	<u>\$ 46</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 46</u>
Ratio of earnings fixed charges	<u>8.1</u>	<u>5.4</u>	<u>5.2</u>	<u>4.8</u>	<u>4.7</u>	<u>3.7</u>

- (a) Post-acquisition activity covering the time period after October 31, 2010.
(b) Pre-acquisition activity covering the time period prior to November 1, 2010.
(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(d) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)				Predecessor (b)	
	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:						
Income Before Income Taxes	\$ 360	\$ 215	\$ 282	\$ 55	\$ 218	\$ 200
Adjustment to reflect earnings from equity method investments on a cash basis (c)		33	(1)		(4)	11
Mark to market impact of derivative instruments						1
	<u>360</u>	<u>248</u>	<u>281</u>	<u>55</u>	<u>214</u>	<u>212</u>
Total fixed charges as below	<u>73</u>	<u>72</u>	<u>73</u>	<u>11</u>	<u>71</u>	<u>79</u>
Total earnings	<u>\$ 433</u>	<u>\$ 320</u>	<u>\$ 354</u>	<u>\$ 66</u>	<u>\$ 285</u>	<u>\$ 291</u>
Fixed charges, as defined:						
Interest charges (d)	\$ 70	\$ 69	\$ 70	\$ 10	\$ 69	\$ 76
Estimated interest component of operating rentals	<u>3</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>
Total fixed charges	<u>\$ 73</u>	<u>\$ 72</u>	<u>\$ 73</u>	<u>\$ 11</u>	<u>\$ 71</u>	<u>\$ 79</u>
Ratio of earnings to fixed charges	<u>5.9</u>	<u>4.4</u>	<u>4.8</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>

- (a) Post-acquisition activity covering the time period after October 31, 2010.
(b) Pre-acquisition activity covering the time period prior to November 1, 2010.
(c) Includes other-than-temporary impairment loss of \$25 million in 2012.
(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

**PPL Corporation
Subsidiaries of the Registrant
At December 31, 2013**

Exhibit 21

Company Name Business Conducted under Same Name	State or Jurisdiction of Incorporation/Formation
LG&E and KU Energy LLC	Kentucky
Louisville Gas and Electric Company	Kentucky
Kentucky Utilities Company	Kentucky and Virginia
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Funding Corporation	Pennsylvania
CEP Reserves, Inc.	Delaware
PPL Energy Supply, LLC	Delaware
PPL Investment Corporation	Delaware
PPL Generation, LLC	Delaware
PPL Susquehanna, LLC	Delaware
PPL Montana Holdings, LLC	Delaware
PPL Montana, LLC	Delaware
PPL Global, LLC	Delaware
PMDC International Holdings, Inc.	Delaware
PPL UK Holdings, LLC	Delaware
PPL UK Resources Limited	United Kingdom
PPL WW Holdings Limited	United Kingdom
Western Power Distribution LLP	United Kingdom
Western Power Distribution (South West) plc	United Kingdom
Western Power Distribution (South Wales) plc	United Kingdom
PPL UK Investments Limited	United Kingdom
PPL WEM Holdings Limited	United Kingdom
WPD Midlands Holdings Limited	United Kingdom
Western Power Distribution (East Midlands) plc	United Kingdom
Western Power Distribution (West Midlands) plc	United Kingdom

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Corporation's Registration Statement on Form S-3 No. 333-180410, the Registration Statement on Form S-3D No 333-161826, and the Registration Statements on Form S-8 (Nos. 333-02003, 333-112453, 333-110372, 333-95967, 333-144047, 333-175680, and 333-181752) of our reports dated February 24, 2014, with respect to the consolidated financial statements of PPL Corporation and the effectiveness of internal control over financial reporting of PPL Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 24, 2014

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Energy Supply, LLC's Registration Statement on Form S-3 (No. 333-180410-04) and the Registration Statement on Form S-4 (No. 333-185996) of our report dated February 24, 2014, with respect to the consolidated financial statements of PPL Energy Supply, LLC, included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 24, 2014

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Electric Utilities Corporation's Registration Statement on Form S-3 (No. 333-180410-03) of our report dated February 24, 2014, with respect to the consolidated financial statements of PPL Electric Utilities Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 24, 2014

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-180410-05) of LG&E and KU Energy LLC and in the related Prospectus of our report dated February 24, 2014, with respect to the consolidated financial statements and schedule of LG&E and KU Energy LLC included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 24, 2014

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-180410-01) of Louisville Gas and Electric Company and in the related Prospectus of our report dated February 24, 2014, with respect to the financial statements of Louisville Gas and Electric Company included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 24, 2014

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-180410-02) of Kentucky Utilities Company and in the related Prospectus of our report dated February 24, 2014, with respect to the financial statements of Kentucky Utilities Company included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 24, 2014

PPL CORPORATION
 2013 ANNUAL REPORT
 TO THE SECURITIES AND EXCHANGE COMMISSION
 ON FORM 10-K

POWER OF ATTORNEY

The undersigned directors of PPL Corporation, a Pennsylvania corporation, that is to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2013 ("Form 10-K Report"), do hereby appoint each of William H. Spence, Paul A. Farr, Robert J. Grey and Michael A. McGrail, and each of them, their true and lawful attorney, with power to act without the other and with full power of substitution and resubstitution, to execute for them and in their names the Form 10-K Report and any and all amendments thereto, whether said amendments add to, delete from or otherwise alter the Form 10-K Report, or add or withdraw any exhibits or schedules to be filed therewith and any and all instruments in connection therewith. The undersigned hereby grant to each said attorney full power and authority to do and perform in the name of and on behalf of the undersigned, and in any and all capacities, any act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as the undersigned might do, hereby ratifying and approving the acts of each of the said attorneys.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this 19th day of February, 2014.

/s/ Frederick M. Bernthal
 Frederick M. Bernthal

/s/ John W. Conway
 John W. Conway

/s/ Philip G. Cox
 Philip G. Cox

/s/ Steven G. Elliott
 Steven G. Elliott

/s/ Louise K. Goeser
 Louise K. Goeser

/s/ Stuart E. Graham
 Stuart E. Graham

/s/ Stuart Heydt
 Stuart Heydt

/s/ Venkata Rajamannar Madabhushi
 Venkata Rajamannar Madabhushi

/s/ Craig A. Rogerson
 Craig A. Rogerson

/s/ William H. Spence
 William H. Spence

/s/ Natica von Althann
 Natica von Althann

/s/ Keith H. Williamson
 Keith H. Williamson

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ William H. Spence

William H. Spence
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 PPL Corporation

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Paul A. Farr
 Paul A. Farr
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)
 PPL Corporation

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Energy Supply, LLC (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ David G. DeCampli
 David G. DeCampli
 President
 (Principal Executive Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Energy Supply, LLC (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Paul A. Farr
 Paul A. Farr
 Executive Vice President
 (Principal Financial Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Gregory N. Dudkin
 Gregory N. Dudkin
 President
 (Principal Executive Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, DENNIS A. URBAN, JR., certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal Accounting Officer)
PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2014

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013

In connection with the annual report on Form 10-K of PPL Energy Supply, LLC (the "Company") for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, David G. DeCampli, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2014

/s/ David G. DeCampli
David G. DeCampli
President
(Principal Executive Officer)
PPL Energy Supply, LLC

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
(Principal Financial Officer)
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Dennis A. Urban, Jr., the Principal Financial Officer and Principal Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2014

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal Accounting Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013

In connection with the annual report on Form 10-K of LG&E and KU Energy LLC (the "Company") for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2014

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013

In connection with the annual report on Form 10-K of Louisville Gas and Electric Company (the "Company") for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2014

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013

In connection with the annual report on Form 10-K of Kentucky Utilities Company (the "Company") for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2014

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

PPL CORPORATION AND SUBSIDIARIES
LONG-TERM DEBT SCHEDULE
(Unaudited)
(Millions of Dollars)

<u>PPL</u> <u>U.S.</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>December 31, 2013</u>
PPL Capital Funding			
<i>Senior Unsecured Notes</i>			
69352PAD5	4.200%	06/15/2022	\$ 400
69352PAE3	3.500%	12/01/2022	400
69352PAG8	1.900%	06/01/2018	250
69352PAF0	3.400%	06/01/2023	600
69352PAH6	4.700%	06/01/2043	300
Total Senior Unsecured Notes			<u>1,950</u>
<i>Junior Subordinated Notes</i>			
69351TAC0 ¹	4.320%	05/01/2019	978
69352PAC7	6.700%	03/30/2067	480
69352P202	5.900%	04/30/2073	450
Total Junior Subordinated Notes			<u>1,908</u>
Total PPL Capital Funding Long-term Debt			<u>3,858</u>
PPL Energy Supply			
<i>Senior Unsecured Notes</i>			
			2,493
<i>Senior Secured Notes</i>			
			49
<i>Other</i>			
			5
Total PPL Energy Supply Long-term Debt			<u>2,547</u>
PPL Electric			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
			2,314
<i>Other</i>			
			10
Total PPL Electric Long-term Debt			<u>2,324</u>
LKE			
<i>Senior Unsecured Notes</i>			
			1,125
<i>Senior Secured Notes/First Mortgage Bonds</i>			
			3,460
Total LKE Long-term Debt			<u>4,585</u>
Total U.S. Long-term Debt			<u>13,314</u>

<u>U.K.</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>December 31, 2013</u>
<i>Senior Unsecured Notes</i>			
USG7208UAB73	3.900%	05/01/2016	460
USG7208UAA90	5.375%	05/01/2021	500
USG9796VAD58	7.250%	12/15/2017	100
USG9796VAE32	7.375%	12/15/2028	202
XS0627333221	5.250%	01/17/2023	1,147
XS0568142482	6.250%	12/10/2040	409
XS0568142052	6.000%	05/09/2025	409
XS0627336323	5.750%	04/16/2032	1,310
XS0979476602	3.875%	10/17/2024	655
XS0061222484	9.250%	11/09/2020	246
XS0280014282	4.804%	12/21/2037	369
XS0496999219	5.750%	03/23/2040	328
XS0165510313	5.875%	03/25/2027	409
XS0496975110	5.750%	03/23/2040	328
Total Senior Unsecured Notes			6,872
<i>Index-Linked Notes</i> ²			
XS0632038666	2.671%	06/01/2043	178
XS0974143439	1.676%	09/24/2052	107
XS0277685987	1.541%	12/01/2053	217
XS0279320708	1.541%	12/01/2056	247
Total Index-Linked Notes			749
Total U.K. Long-term Debt			7,621
Total Long-term Debt Before Adjustments			20,935
Fair market value adjustments			23
Unamortized premium and (discount), net			(51)
Total Long-term Debt			20,907
Less current portion of Long-term Debt			315
Total Long-term Debt, noncurrent			\$ 20,592

	Interest Rate	Maturity Date	December 31, 2013
PPL Energy Supply			
<i>Senior Unsecured Notes</i>			
69352JAF4	5.400%	08/15/2014	\$ 300
69352JAG2 ³	5.700%	10/15/2035	300
69352JAH0	6.200%	05/15/2016	350
69352JAL1	6.500%	05/01/2018	400
69352JAN7	4.600%	12/15/2021	712
69352JAK3	6.000%	12/15/2036	200
708686CX6 ⁴	3.000%	12/01/2038	100
708686CZ1 ⁴	3.000%	12/01/2038	50
708686CY4 ⁴	3.000%	12/01/2037	81
Total Senior Unsecured Notes			2,493
<i>Senior Secured Notes</i>			
00103XAC7	8.857%	11/30/2025	49
Total Senior Secured Notes			49
<i>Other</i>			
N/A	6.000%	11/30/2020	5
Total Other			5
Total Long-term Debt Before Adjustments			2,547
Fair market value adjustments			(22)
Unamortized premium and (discount), net			
Total Long-term Debt			2,525
Less current portion of Long-term Debt			304
Total Long-term Debt, noncurrent			\$ 2,221
PPL Electric			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
524808BM3	4.750%	02/15/2027	\$ 108
524808BL5	4.700%	09/01/2029	116
70869MAC8 ⁴	4.000%	10/01/2023	90
69351UAF0	4.950%	12/15/2015	100
69351UAG8	5.150%	12/15/2020	100
69351UAP8	3.000%	09/15/2021	400
69351UAQ6	2.500%	09/01/2022	250
69351UAH6/UAK9	6.450%	08/15/2037	250
69351UAM5	6.250%	05/15/2039	300
69351UAN3	5.200%	07/15/2041	250
63951UAR4	4.750%	07/15/2043	350
Total Senior Secured Notes			2,314
<i>Other</i>			
709051CD6	7.375%	03/01/2014	10
Total Other			10
Total Long-term Debt Before Adjustments			2,324
Unamortized discount			(9)
Total Long-term Debt			2,315
Less current portion of Long-term Debt			10
Total Long-term Debt, noncurrent			\$ 2,305

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>December 31, 2013</u>
<u>LKE</u>			
<i>Senior Unsecured Notes</i>			
50188FAB1/FAA3	2.125 %	11/15/2015	\$ 400
50188FAD7	3.750 %	11/15/2020	475
50188FAE5	4.375 %	10/01/2021	<u>250</u>
Total Senior Unsecured Notes			1,125
<u>LG&E</u>			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
			1,359
<u>KU</u>			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
Total Long-term Debt Before Adjustments			<u>2,101</u>
			4,585
Fair market value adjustments			(1)
Unamortized discount			<u>(19)</u>
Total Long-term Debt			<u>\$ 4,565</u>
<u>LG&E</u>			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
546676AS6	1.625%	11/15/2015	250
546676AU1	5.125%	11/15/2040	285
546676AV9	4.650%	11/15/2043	250
896221AA6	4.600%	06/01/2033	60
473044BV6 ⁵	0.180%	09/01/2026	22
896224AT9 ⁵	0.180%	09/01/2026	28
N/A ^{5,7}	0.780%	05/01/2027	25
47302PAA8 ⁵	0.140%	09/01/2027	10
896224AU6 ⁵	0.310%	11/01/2027	35
473044BW4 ⁵	0.310%	11/01/2027	35
896224AS1 ⁵	0.160%	08/01/2030	83
896224AV4 ⁵	0.140%	10/01/2032	42
546751AE8	1.150%	06/01/2033	31
546751AG3	1.600%	06/01/2033	35
546749AJ1	1.650%	10/01/2033	128
546749AK8	2.200%	02/01/2035	<u>40</u>
Total Long-term Debt Before Adjustments			1,359
Fair market value adjustments			(1)
Unamortized discount			<u>(5)</u>
Total Long-term Debt			<u>\$ 1,353</u>

	Interest Rate	Maturity Date	December 31, 2013
KU			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
491674BC0	1.625%	11/01/2015	\$ 250
491674BE6	3.250%	11/01/2020	500
491674BG1/BF3	5.125%	11/01/2040	750
491674BJ5	4.650%	11/15/2043	250
14483RAH0	5.750%	02/01/2026	18
896221AC2	6.000%	03/01/2037	9
587829AC6 ⁶	0.060%	05/01/2023	13
14483RAN7 ⁶	0.060%	02/01/2032	78
144838AA7 ⁶	0.300%	02/01/2032	21
144838AB5 ⁶	0.300%	02/01/2032	2
587824AA1 ⁶	0.300%	02/01/2032	8
62479PAA4 ⁶	0.300%	02/01/2032	2
144838AC3 ⁶	0.100%	10/01/2032	96
14483RAP2 ⁶	0.060%	10/01/2034	54
14483RAM9 ⁶	0.060%	10/01/2034	50
Total Long-term Debt Before Adjustments			<u>2,101</u>
Fair market value adjustments			1
Unamortized discount			(11)
Total Long-term Debt			<u>\$ 2,091</u>

- (1) The notes are related to the 2011 Equity Units and are expected to be remarketed in 2014. If remarketing fails, holders of the notes will have the right to put the notes to PPL Capital Funding on May 1, 2014.
- (2) Principal amount of the notes are adjusted based on changes in a specified index, as detailed in the terms of the related indentures.
- (3) The REPS are required to be put by existing holders on October 15, 2015 for either (a) purchase and remarketing by a designated market dealer or (b) repurchase by PPL Energy Supply.
- (4) Securities are currently in a term rate mode.
- (5) Securities have a floating rate of interest that periodically resets. At December 31, 2013 the weighted average rate of the \$280 million of notes at LG&E was 0.25%.
- (6) Securities have a floating rate of interest that periodically resets. At December 31, 2013 the weighted average rate of the \$324 million of notes at KU was 0.10%.
- (7) No CUSIP - Bonds were remarketed and 100% of bonds are held by a third party.

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FORM 10-Q

PPL CORP - PPL

Filed: May 02, 2014 (period: March 31, 2014)

Quarterly report with a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	PPL Energy Supply, LLC (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Energy Supply, LLC	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u> </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u> </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Energy Supply, LLC	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u> </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u> </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	[X]	[]	[]	[]
PPL Energy Supply, LLC	[]	[]	[X]	[]
PPL Electric Utilities Corporation	[]	[]	[X]	[]
LG&E and KU Energy LLC	[]	[]	[X]	[]
Louisville Gas and Electric Company	[]	[]	[X]	[]
Kentucky Utilities Company	[]	[]	[X]	[]

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <u> </u>	No <u>X</u>
PPL Energy Supply, LLC	Yes <u> </u>	No <u>X</u>
PPL Electric Utilities Corporation	Yes <u> </u>	No <u>X</u>
LG&E and KU Energy LLC	Yes <u> </u>	No <u>X</u>
Louisville Gas and Electric Company	Yes <u> </u>	No <u>X</u>
Kentucky Utilities Company	Yes <u> </u>	No <u>X</u>

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 631,744,500 shares outstanding at April 25, 2014.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at April 25, 2014.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at April 25, 2014.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at April 25, 2014.

This document is available free of charge at the Investor Center on PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

**PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2014

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Brunner Island - PPL Brunner Island, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Energy Supply, PPL Global and other subsidiaries.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Montour - PPL Montour, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides services to PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, a subsidiary of PPL Generation that owns a nuclear-powered generating station.

PPL WEM - PPL WEM Holdings Limited (formerly PPL WEM Holdings plc), an indirect U.K. subsidiary of PPL Global. PPL WEM indirectly owns both WPD (East Midlands) and WPD (West Midlands).

PPL WW - PPL WW Holdings Limited, an indirect U.K. subsidiary of PPL Global. PPL WW Holdings indirectly owns WPD (South Wales) and WPD (South West).

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Subsidiary Registrant(s) - Registrants that are direct or indirect wholly owned subsidiaries of PPL: PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company.

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Purchase Contract(s) - a contract that is a component of a 2010 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to May 1, 2014.

2013 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2013.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and changes to the AEPS.

AEPS - Alternative Energy Portfolio Standard.

AFUDC - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Baseload generation - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

CAIR - the EPA's Clean Air Interstate Rule.

Cane Run Unit 7 - a natural gas combined-cycle unit under construction in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 640 MW (141 MW and 499 MW to LG&E and KU) in 2015.

CCR - Coal Combustion Residuals. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for the furnishing of utility service to the public.

CSAPR - Cross-State Air Pollution Rule.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

DNO - Distribution Network Operator.

DPCR4 - Distribution Price Control Review 4, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2005.

DPCR5 - Distribution Price Control Review 5, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2010.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - the distribution system improvement charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of costs and revenues lost by implementing DSM programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and by-products from the production of energy from coal.

EEL - Electric Energy, Inc., owns and operates a coal-fired plant and a natural gas facility in southern Illinois. KU's 20% ownership interest in EEL is accounted for as an equity method investment.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ESOP - Employee Stock Ownership Plan.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

Fitch - Fitch, Inc., a credit rating agency.

FTRs - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations, known as source and sink.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved LG&E's recovery of costs associated with gas service lines, gas risers, leak mitigation, and gas main replacements. Rate recovery became effective on January 1, 2013.

IBEW - International Brotherhood of Electrical Workers.

If-Converted Method - A method applied to calculate diluted EPS for a company with outstanding convertible debt. The method is applied as follows: Interest charges (after tax) applicable to the convertible debt are added back to net income and the convertible debt is assumed to have been converted to equity at the beginning of the period, and the resulting common shares are treated as outstanding shares. Both adjustments are made only for purposes of calculating diluted EPS. This method was applied in 2013 to PPL's Equity Units prior to settlement.

Intermediate and peaking generation - includes the output provided by PPL's oil- and natural gas-fired units.

IRS - Internal Revenue Service, a U.S. government agency.

ISO - Independent System Operator.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LIBOR - London Interbank Offered Rate.

LTIP - Long Term Infrastructure Improvement Plan.

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle generating plant.

NorthWestern - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

NRC - Nuclear Regulatory Commission, the U.S. federal agency that regulates nuclear power facilities.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

Opacity - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity of power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined summer rating capacities of 2,120 MW.

PADEP - the Pennsylvania Department of Environmental Protection, a state government agency.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts, which are components of the 2010 and 2011 Equity Units.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index in order to allow for the effects of inflation. Since the beginning of DPCR5 in April 2010, RAV additions have been based on a percentage of annual total expenditures.

RCRA - Resource Conservation and Recovery Act of 1976.

RECs - renewable energy credits.

Regional Transmission Line Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies changes and additions to the grid necessary to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects assigned to them by the PJM Board.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RIIO-ED1 - RIIO represents "Revenues = Incentive + Innovation + Outputs - Electricity Distribution." RIIO-ED1 refers to the initial eight-year rate review period applicable to WPD commencing April 1, 2015.

RMC - Risk Management Committee.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

SNCR - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

Spark Spread - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2 or 549 MW of the capacity.

Tolling agreement - agreement whereby the owner of an electricity generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

TRA - Tennessee Regulatory Authority, the state agency that has jurisdiction over the regulation of rates and service of utilities in Tennessee.

Treasury Stock Method - A method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2013 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical, nuclear decommissioning liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery or revenue filings by PPL Electric, LG&E, KU or WPD;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions and our ability to successfully operate acquired businesses and realize expected benefits from business acquisitions.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended March 31,	
	2014	2013
Operating Revenues		
Utility	\$ 2,162	\$ 1,950
Unregulated wholesale energy	(1,429)	143
Unregulated retail energy	349	237
Energy-related businesses	141	127
Total Operating Revenues	1,223	2,457
Operating Expenses		
Operation		
Fuel	758	529
Energy purchases	(1,494)	57
Other operation and maintenance	697	676
Depreciation	305	284
Taxes, other than income	104	96
Energy-related businesses	138	122
Total Operating Expenses	508	1,764
Operating Income	715	693
Other Income (Expense) - net	(23)	122
Interest Expense	264	251
Income Before Income Taxes	428	564
Income Taxes	112	151
Net Income Attributable to PPL Shareowners	\$ 316	\$ 413
Earnings Per Share of Common Stock:		
Basic	\$ 0.50	\$ 0.70
Diluted	\$ 0.49	\$ 0.65
Dividends Declared Per Share of Common Stock	\$ 0.3725	\$ 0.3675
Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	630,749	582,640
Diluted	663,939	657,020

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Net income	\$ 316	\$ 413
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Foreign currency translation adjustments, net of tax of \$1, (\$6)	131	(245)
Available-for-sale securities, net of tax of (\$6), (\$25)	5	23
Qualifying derivatives, net of tax of \$25, (\$20)	(46)	62
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):		
Available-for-sale securities, net of tax of \$1, \$1	(1)	(1)
Qualifying derivatives, net of tax of (\$4), \$35	19	(80)
Defined benefit plans:		
Prior service costs, net of tax of (\$1), (\$1)	1	1
Net actuarial loss, net of tax of (\$9), (\$13)	27	34
Total other comprehensive income (loss) attributable to PPL Shareowners	136	(206)
Comprehensive income (loss) attributable to PPL Shareowners	\$ 452	\$ 207

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 316	\$ 413
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	305	284
Amortization	60	64
Defined benefit plans - expense	21	51
Deferred income taxes and investment tax credits	(26)	80
Unrealized (gains) losses on derivatives, and other hedging activities	241	98
Adjustment to WPD line loss accrual	65	
Other	33	30
Change in current assets and current liabilities		
Accounts receivable	(185)	(187)
Accounts payable	93	(138)
Unbilled revenues	(33)	137
Fuel, materials and supplies	96	55
Prepayments	(70)	(117)
Counterparty collateral	2	(64)
Taxes payable	126	122
Other	(51)	(129)
Other operating activities		
Defined benefit plans - funding	(135)	(429)
Other assets	(3)	33
Other liabilities	76	(59)
Net cash provided by (used in) operating activities	<u>931</u>	<u>244</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(892)	(828)
Purchases of nuclear plant decommissioning trust investments	(32)	(28)
Proceeds from the sale of nuclear plant decommissioning trust investments	27	24
Proceeds from the receipt of grants	56	1
Net (increase) decrease in restricted cash and cash equivalents	(334)	(52)
Other investing activities	(8)	(16)
Net cash provided by (used in) investing activities	<u>(1,183)</u>	<u>(899)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt		450
Retirement of long-term debt	(239)	(8)
Payment of common stock dividends	(234)	(210)
Net increase (decrease) in short-term debt	878	416
Other financing activities	(13)	(27)
Net cash provided by (used in) financing activities	<u>392</u>	<u>621</u>
Effect of Exchange Rates on Cash and Cash Equivalents	14	(14)
Net Increase (Decrease) in Cash and Cash Equivalents	154	(48)
Cash and Cash Equivalents at Beginning of Period	<u>1,102</u>	<u>901</u>
Cash and Cash Equivalents at End of Period	<u>\$ 1,256</u>	<u>\$ 853</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,256	\$ 1,102
Restricted cash and cash equivalents	416	83
Accounts receivable (less reserve: 2014, \$66; 2013, \$64)		
Customer	1,108	923
Other	103	97
Unbilled revenues	874	835
Fuel, materials and supplies	607	702
Prepayments	224	153
Deferred taxes	342	246
Price risk management assets	1,087	942
Regulatory assets	32	33
Other current assets	45	37
Total Current Assets	6,094	5,153
Investments		
Nuclear plant decommissioning trust funds	879	864
Other investments	39	43
Total Investments	918	907
Property, Plant and Equipment		
Regulated utility plant	28,616	27,755
Less: accumulated depreciation - regulated utility plant	5,108	4,873
Regulated utility plant, net	23,508	22,882
Non-regulated property, plant and equipment		
Generation	11,818	11,881
Nuclear fuel	712	591
Other	854	834
Less: accumulated depreciation - non-regulated property, plant and equipment	6,283	6,172
Non-regulated property, plant and equipment, net	7,101	7,134
Construction work in progress	3,165	3,071
Property, Plant and Equipment, net	33,774	33,087
Other Noncurrent Assets		
Regulatory assets	1,245	1,246
Goodwill	4,298	4,225
Other intangibles	943	947
Price risk management assets	344	337
Other noncurrent assets	357	357
Total Other Noncurrent Assets	7,187	7,112
Total Assets	\$ 47,973	\$ 46,259

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,579	\$ 701
Long-term debt due within one year	304	315
Accounts payable	1,345	1,308
Taxes	240	114
Interest	358	325
Dividends	236	232
Price risk management liabilities	1,302	829
Regulatory liabilities	80	90
Other current liabilities	932	998
Total Current Liabilities	<u>6,376</u>	<u>4,912</u>
Long-term Debt	<u>20,514</u>	<u>20,592</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,096	3,928
Investment tax credits	281	342
Price risk management liabilities	450	415
Accrued pension obligations	1,159	1,286
Asset retirement obligations	701	687
Regulatory liabilities	1,037	1,048
Other deferred credits and noncurrent liabilities	642	583
Total Deferred Credits and Other Noncurrent Liabilities	<u>8,366</u>	<u>8,289</u>
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
Common stock - \$0.01 par value (a)	6	6
Additional paid-in capital	8,352	8,316
Earnings reinvested	5,788	5,709
Accumulated other comprehensive loss	(1,429)	(1,565)
Total Equity	<u>12,717</u>	<u>12,466</u>
Total Liabilities and Equity	<u>\$ 47,973</u>	<u>\$ 46,259</u>

(a) 780,000 shares authorized; 631,417 and 630,321 shares issued and outstanding at March 31, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

PPL Shareowners

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non- controlling interests	Total
December 31, 2013	630,321	\$ 6	\$ 8,316	\$ 5,709	\$ (1,565)		\$ 12,466
Common stock issued (b)	1,096		30				30
Stock-based compensation (c)			6				6
Net income				316			316
Dividends and dividend equivalents (d)				(237)			(237)
Other comprehensive income (loss)					136		136
March 31, 2014	<u>631,417</u>	<u>\$ 6</u>	<u>\$ 8,352</u>	<u>\$ 5,788</u>	<u>\$ (1,429)</u>		<u>\$ 12,717</u>
December 31, 2012	581,944	\$ 6	\$ 6,936	\$ 5,478	\$ (1,940)	\$ 18	\$ 10,498
Common stock issued (b)	1,270		37				37
Stock-based compensation (c)			15				15
Net income				413			413
Dividends, dividend equivalents and distributions (d)				(215)			(215)
Other comprehensive income (loss)					(206)		(206)
March 31, 2013	<u>583,214</u>	<u>\$ 6</u>	<u>\$ 6,988</u>	<u>\$ 5,676</u>	<u>\$ (2,146)</u>	<u>\$ 18</u>	<u>\$ 10,542</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

(b) Each period includes shares of common stock issued through various stock and incentive compensation plans.

(c) The three months ended March 31, 2014 and 2013 include \$27 million and \$28 million of stock-based compensation expense related to new and existing unvested equity awards. These periods also include \$(21) million and \$(13) million related primarily to the reclassification from "Stock-based compensation" to "Common stock issued" for the issuance of common stock after applicable equity award vesting periods and tax adjustments related to stock-based compensation.

(d) "Earnings reinvested" includes dividends and dividend equivalents on PPL common stock and restricted stock units.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Operating Revenues		
Unregulated wholesale energy	\$ (1,429)	\$ 143
Unregulated wholesale energy to affiliate	27	14
Unregulated retail energy	351	238
Energy-related businesses	125	113
Total Operating Revenues	(926)	508
Operating Expenses		
Operation		
Fuel	482	298
Energy purchases	(1,804)	(199)
Other operation and maintenance	258	235
Depreciation	80	78
Taxes, other than income	21	17
Energy-related businesses	124	110
Total Operating Expenses	(839)	539
Operating Income (Loss)	(87)	(31)
Other Income (Expense) - net	6	4
Interest Expense	34	46
Income (Loss) Before Income Taxes	(115)	(73)
Income Taxes	(49)	(35)
Net Income (Loss) Attributable to PPL Energy Supply Member	\$ (66)	\$ (38)

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Net income (loss)	\$ (66)	\$ (38)
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Available-for-sale securities, net of tax of (\$6), (\$25)	5	23
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):		
Available-for-sale securities, net of tax of \$1, \$1	(1)	(1)
Qualifying derivatives, net of tax of \$4, \$21	(5)	(30)
Defined benefit plans:		
Prior service costs, net of tax of (\$1), (\$1)	1	1
Net actuarial loss, net of tax of (\$1), (\$2)	1	4
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	1	(3)
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ (65)	\$ (41)

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities		
Net income (loss)	\$ (66)	\$ (38)
Adjustments to reconcile net income (loss) to net cash provided (used in) by operating activities		
Depreciation	80	78
Amortization	44	44
Defined benefit plans - expense	8	12
Deferred income taxes and investment tax credits	(121)	(21)
Impairment of assets	18	
Unrealized (gains) losses on derivatives, and other hedging activities	229	214
Other	5	5
Change in current assets and current liabilities		
Accounts receivable	(15)	71
Accounts payable	153	(94)
Unbilled revenues	(92)	123
Fuel, materials and supplies	43	11
Prepayments	(10)	(104)
Taxes payable	53	37
Counterparty collateral	2	(64)
Other	(22)	(14)
Other operating activities		
Defined benefit plans - funding	(30)	(105)
Other assets	(5)	44
Other liabilities	2	(74)
Net cash provided by (used in) operating activities	<u>276</u>	<u>125</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(88)	(124)
Purchases of nuclear plant decommissioning trust investments	(32)	(28)
Proceeds from the sale of nuclear plant decommissioning trust investments	27	24
Proceeds from the receipt of grants	56	
Net (increase) decrease in restricted cash and cash equivalents	(344)	(59)
Other investing activities	(8)	(8)
Net cash provided by (used in) investing activities	<u>(389)</u>	<u>(195)</u>
Cash Flows from Financing Activities		
Distributions to member	(654)	(313)
Net increase (decrease) in short-term debt	970	125
Other financing activities	(1)	(8)
Net cash provided by (used in) financing activities	<u>315</u>	<u>(196)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	202	(266)
Cash and Cash Equivalents at Beginning of Period	<u>239</u>	<u>413</u>
Cash and Cash Equivalents at End of Period	<u>\$ 441</u>	<u>\$ 147</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	March 31, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 441	\$ 239
Restricted cash and cash equivalents	412	68
Accounts receivable (less reserve: 2014, \$21; 2013, \$21)		
Customer	232	233
Other	92	97
Accounts receivable from affiliates	66	45
Unbilled revenues	378	286
Fuel, materials and supplies	315	358
Prepayments	30	20
Deferred taxes	87	
Price risk management assets	1,080	860
Other current assets	30	27
Total Current Assets	3,163	2,233
Investments		
Nuclear plant decommissioning trust funds	879	864
Other investments	34	37
Total Investments	913	901
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,826	11,891
Nuclear fuel	712	591
Other	290	288
Less: accumulated depreciation - non-regulated property, plant and equipment	6,141	6,046
Non-regulated property, plant and equipment, net	6,687	6,724
Construction work in progress	369	450
Property, Plant and Equipment, net	7,056	7,174
Other Noncurrent Assets		
Goodwill	86	86
Other intangibles	266	266
Price risk management assets	337	328
Other noncurrent assets	82	86
Total Other Noncurrent Assets	771	766
Total Assets	\$ 11,903	\$ 11,074

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	March 31, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 970	
Long-term debt due within one year	304	\$ 304
Accounts payable	490	393
Accounts payable to affiliates	33	4
Taxes	84	31
Interest	43	22
Price risk management liabilities	1,211	750
Other current liabilities	239	278
Total Current Liabilities	3,374	1,782
Long-term Debt	2,220	2,221
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,154	1,114
Investment tax credits	145	205
Price risk management liabilities	316	320
Accrued pension obligations	84	111
Asset retirement obligations	400	393
Other deferred credits and noncurrent liabilities	131	130
Total Deferred Credits and Other Noncurrent Liabilities	2,230	2,273
Commitments and Contingent Liabilities (Note 10)		
Member's Equity	4,079	4,798
Total Liabilities and Equity	\$ 11,903	\$ 11,074

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<u>Member's equity</u>	<u>Non- controlling interests</u>	<u>Total</u>
December 31, 2013	\$ 4,798		\$ 4,798
Net income (loss)	(66)		(66)
Other comprehensive income (loss)	1		1
Distributions	(654)		(654)
March 31, 2014	<u>\$ 4,079</u>		<u>\$ 4,079</u>
December 31, 2012	\$ 3,830	\$ 18	\$ 3,848
Net income (loss)	(38)		(38)
Other comprehensive income (loss)	(3)		(3)
Distributions	(313)		(313)
March 31, 2013	<u>\$ 3,476</u>	<u>\$ 18</u>	<u>\$ 3,494</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Operating Revenues	\$ 592	\$ 513
Operating Expenses		
Operation		
Energy purchases	189	172
Energy purchases from affiliate	27	14
Other operation and maintenance	134	133
Depreciation	45	43
Taxes, other than income	32	30
Total Operating Expenses	<u>427</u>	<u>392</u>
Operating Income	165	121
Other Income (Expense) - net	2	1
Interest Expense	<u>29</u>	<u>25</u>
Income Before Income Taxes	138	97
Income Taxes	<u>53</u>	<u>33</u>
Net Income (a)	<u>\$ 85</u>	<u>\$ 64</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 85	\$ 64
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	45	43
Amortization	4	5
Defined benefit plans - expense	3	7
Deferred income taxes and investment tax credits	25	45
Other	(14)	(3)
Change in current assets and current liabilities		
Accounts receivable	(107)	(87)
Accounts payable	22	(34)
Prepayments	(61)	(28)
Other	(1)	(6)
Other operating activities		
Defined benefit plans - funding	(19)	(88)
Other assets	4	8
Other liabilities	10	(3)
Net cash provided by (used in) operating activities	<u>(4)</u>	<u>(77)</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(201)	(189)
Net (increase) decrease in notes receivable from affiliates	150	
Other investing activities	9	(3)
Net cash provided by (used in) investing activities	<u>(42)</u>	<u>(192)</u>
Cash Flows from Financing Activities		
Retirement of long-term debt	(10)	
Contributions from parent	65	60
Payment of common stock dividends to parent	(32)	(25)
Net increase (decrease) in short-term debt	40	125
Net cash provided by (used in) financing activities	<u>63</u>	<u>160</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17	(109)
Cash and Cash Equivalents at Beginning of Period	<u>25</u>	<u>140</u>
Cash and Cash Equivalents at End of Period	<u>\$ 42</u>	<u>\$ 31</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 42	\$ 25
Accounts receivable (less reserve: 2014, \$17; 2013, \$18)		
Customer	387	284
Other	9	5
Accounts receivable from affiliates	4	4
Notes receivable from affiliate		150
Unbilled revenues	105	116
Materials and supplies	34	35
Prepayments	101	40
Deferred income taxes	82	85
Other current assets	10	22
Total Current Assets	<u>774</u>	<u>766</u>
Property, Plant and Equipment		
Regulated utility plant	6,998	6,886
Less: accumulated depreciation - regulated utility plant	2,454	2,417
Regulated utility plant, net	4,544	4,469
Other, net	1	2
Construction work in progress	684	591
Property, Plant and Equipment, net	<u>5,229</u>	<u>5,062</u>
Other Noncurrent Assets		
Regulatory assets	770	772
Intangibles	214	211
Other noncurrent assets	35	35
Total Other Noncurrent Assets	<u>1,019</u>	<u>1,018</u>
Total Assets	<u>\$ 7,022</u>	<u>\$ 6,846</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 60	\$ 20
Long-term debt due within one year		10
Accounts payable	300	295
Accounts payable to affiliates	88	57
Taxes	39	51
Interest	23	34
Regulatory liabilities	68	76
Other current liabilities	83	82
Total Current Liabilities	<u>661</u>	<u>625</u>
Long-term Debt	<u>2,306</u>	<u>2,305</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,439	1,399
Accrued pension obligations	78	96
Regulatory liabilities	13	15
Other deferred credits and noncurrent liabilities	58	57
Total Deferred Credits and Other Noncurrent Liabilities	<u>1,588</u>	<u>1,567</u>
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	1,405	1,340
Earnings reinvested	698	645
Total Equity	<u>2,467</u>	<u>2,349</u>
Total Liabilities and Equity	<u>\$ 7,022</u>	<u>\$ 6,846</u>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at March 31, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2013	66,368	\$ 364	\$ 1,340	\$ 645	\$ 2,349
Net income				85	85
Capital contributions from PPL			65		65
Cash dividends declared on common stock				(32)	(32)
March 31, 2014	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,405</u>	<u>\$ 698</u>	<u>\$ 2,467</u>
December 31, 2012	66,368	\$ 364	\$ 1,135	\$ 563	\$ 2,062
Net income				64	64
Capital contributions from PPL			60		60
Cash dividends declared on common stock				(25)	(25)
March 31, 2013	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,195</u>	<u>\$ 602</u>	<u>\$ 2,161</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Operating Revenues	\$ 934	\$ 800
Operating Expenses		
Operation		
Fuel	277	231
Energy purchases	124	86
Other operation and maintenance	206	197
Depreciation	86	82
Taxes, other than income	13	12
Total Operating Expenses	<u>706</u>	<u>608</u>
Operating Income	228	192
Other Income (Expense) - net	(2)	(2)
Interest Expense	42	37
Income Before Income Taxes	184	153
Income Taxes	69	57
Net Income (a)	<u>\$ 115</u>	<u>\$ 96</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 115	\$ 96
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	86	82
Amortization	6	7
Defined benefit plans - expense	8	17
Deferred income taxes and investment tax credits	74	45
Other	(1)	1
Change in current assets and current liabilities		
Accounts receivable	(50)	(78)
Accounts payable	22	31
Accounts payable to affiliates		1
Unbilled revenues	36	
Fuel, materials and supplies	53	47
Accrued interest	36	30
Taxes	(14)	(2)
Other	(24)	(29)
Other operating activities		
Defined benefit plans - funding	(38)	(154)
Other assets		2
Other liabilities		(11)
Net cash provided by operating activities	<u>309</u>	<u>85</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(272)	(271)
Net (increase) decrease in notes receivable from affiliates	66	
Net (increase) decrease in restricted cash and cash equivalents	1	4
Net cash provided by (used in) investing activities	<u>(205)</u>	<u>(267)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates		60
Net increase (decrease) in short-term debt	(45)	60
Distributions to member	(104)	(4)
Contributions from member	40	75
Net cash provided by (used in) financing activities	<u>(109)</u>	<u>191</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5)	9
Cash and Cash Equivalents at Beginning of Period	35	43
Cash and Cash Equivalents at End of Period	<u>\$ 30</u>	<u>\$ 52</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 30	\$ 35
Accounts receivable (less reserve: 2014, \$26; 2013, \$22)		
Customer	265	224
Other	27	20
Unbilled revenues	144	180
Fuel, materials and supplies	225	278
Prepayments	22	21
Notes receivable from affiliates	4	70
Deferred income taxes	139	159
Regulatory assets	31	27
Other current assets	3	3
Total Current Assets	<u>890</u>	<u>1,017</u>
Property, Plant and Equipment		
Regulated utility plant	8,683	8,526
Less: accumulated depreciation - regulated utility plant	849	778
Regulated utility plant, net	7,834	7,748
Other, net	3	3
Construction work in progress	1,868	1,793
Property, Plant and Equipment, net	<u>9,705</u>	<u>9,544</u>
Other Noncurrent Assets		
Regulatory assets	475	474
Goodwill	996	996
Other intangibles	209	221
Other noncurrent assets	96	98
Total Other Noncurrent Assets	<u>1,776</u>	<u>1,789</u>
Total Assets	<u>\$ 12,371</u>	<u>\$ 12,350</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	March 31, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 200	\$ 245
Accounts payable	341	346
Accounts payable to affiliates	3	3
Customer deposits	50	50
Taxes	25	39
Price risk management liabilities	4	4
Regulatory liabilities	12	14
Interest	59	23
Other current liabilities	87	111
Total Current Liabilities	<u>781</u>	<u>835</u>
Long-term Debt	<u>4,565</u>	<u>4,565</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,021	965
Investment tax credits	134	135
Accrued pension obligations	119	152
Asset retirement obligations	251	245
Regulatory liabilities	1,024	1,033
Price risk management liabilities	36	32
Other deferred credits and noncurrent liabilities	240	238
Total Deferred Credits and Other Noncurrent Liabilities	<u>2,825</u>	<u>2,800</u>
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	<u>4,200</u>	<u>4,150</u>
Total Liabilities and Equity	<u>\$ 12,371</u>	<u>\$ 12,350</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Member's Equity
December 31, 2013	\$ 4,150
Net income	115
Contributions from member	40
Distributions to member	(104)
Other comprehensive income (loss)	(1)
March 31, 2014	\$ 4,200
December 31, 2012	\$ 3,786
Net income	96
Contributions from member	75
Distributions to member	(4)
Other comprehensive income (loss)	(1)
March 31, 2013	\$ 3,952

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Operating Revenues		
Retail and wholesale	\$ 442	\$ 369
Electric revenue from affiliate	37	21
Total Operating Revenues	479	390
Operating Expenses		
Operation		
Fuel	117	96
Energy purchases	118	80
Energy purchases from affiliate	6	1
Other operation and maintenance	98	91
Depreciation	38	36
Taxes, other than income	6	6
Total Operating Expenses	383	310
Operating Income	96	80
Other Income (Expense) - net	(2)	(1)
Interest Expense	12	10
Income Before Income Taxes	82	69
Income Taxes	30	25
Net Income (a)	\$ 52	\$ 44

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 52	\$ 44
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	38	36
Amortization	3	3
Defined benefit plans - expense	2	6
Deferred income taxes and investment tax credits	6	11
Other	(5)	(5)
Change in current assets and current liabilities		
Accounts receivable	(40)	(37)
Accounts payable	14	9
Accounts payable to affiliates	(7)	(7)
Unbilled revenues	22	1
Fuel, materials and supplies	44	37
Taxes	21	17
Other	5	11
Other operating activities		
Defined benefit plans - funding	(9)	(43)
Other liabilities	2	2
Net cash provided by operating activities	<u>148</u>	<u>85</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(116)	(98)
Net (increase) decrease in restricted cash and cash equivalents	1	4
Net cash provided by (used in) investing activities	<u>(115)</u>	<u>(94)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	(5)	15
Payment of common stock dividends to parent	(27)	(19)
Contributions from parent		25
Net cash provided by (used in) financing activities	<u>(32)</u>	<u>21</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1	12
Cash and Cash Equivalents at Beginning of Period	8	22
Cash and Cash Equivalents at End of Period	<u>\$ 9</u>	<u>\$ 34</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 9	\$ 8
Accounts receivable (less reserve: 2014, \$2; 2013, \$2)		
Customer	118	102
Other	8	9
Unbilled revenues	63	85
Accounts receivable from affiliates	23	
Fuel, materials and supplies	110	154
Prepayments	7	7
Regulatory assets	22	17
Other current assets	5	3
Total Current Assets	<u>365</u>	<u>385</u>
Property, Plant and Equipment		
Regulated utility plant	3,475	3,383
Less: accumulated depreciation - regulated utility plant	364	332
Regulated utility plant, net	3,111	3,051
Construction work in progress	680	651
Property, Plant and Equipment, net	<u>3,791</u>	<u>3,702</u>
Other Noncurrent Assets		
Regulatory assets	303	303
Goodwill	389	389
Other intangibles	114	120
Other noncurrent assets	33	35
Total Other Noncurrent Assets	<u>839</u>	<u>847</u>
Total Assets	<u>\$ 4,995</u>	<u>\$ 4,934</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 15	\$ 20
Accounts payable	189	166
Accounts payable to affiliates	17	24
Customer deposits	24	24
Taxes	32	11
Price risk management liabilities	4	4
Regulatory liabilities	9	9
Interest	15	6
Other current liabilities	26	32
Total Current Liabilities	<u>331</u>	<u>296</u>
Long-term Debt	<u>1,353</u>	<u>1,353</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	590	582
Investment tax credits	38	38
Accrued pension obligations	10	19
Asset retirement obligations	70	68
Regulatory liabilities	477	482
Price risk management liabilities	36	32
Other deferred credits and noncurrent liabilities	105	104
Total Deferred Credits and Other Noncurrent Liabilities	<u>1,326</u>	<u>1,325</u>
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,364	1,364
Earnings reinvested	197	172
Total Equity	<u>1,985</u>	<u>1,960</u>
Total Liabilities and Equity	<u>\$ 4,995</u>	<u>\$ 4,934</u>

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at March 31, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2013	21,294	\$ 424	\$ 1,364	\$ 172	\$ 1,960
Net income				52	52
Cash dividends declared on common stock				(27)	(27)
March 31, 2014	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,364</u>	<u>\$ 197</u>	<u>\$ 1,985</u>
December 31, 2012	21,294	\$ 424	\$ 1,278	\$ 108	\$ 1,810
Net income				44	44
Capital contributions from LKE			25		25
Cash dividends declared on common stock				(19)	(19)
March 31, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,303</u>	<u>\$ 133</u>	<u>\$ 1,860</u>

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Operating Revenues		
Retail and wholesale	\$ 492	\$ 431
Electric revenue from affiliate	6	1
Total Operating Revenues	498	432
Operating Expenses		
Operation		
Fuel	160	135
Energy purchases	6	6
Energy purchases from affiliate	37	21
Other operation and maintenance	98	97
Depreciation	48	46
Taxes, other than income	7	6
Total Operating Expenses	356	311
Operating Income	142	121
Other Income (Expense) - net		(1)
Interest Expense	19	17
Income Before Income Taxes	123	103
Income Taxes	46	39
Net Income (a)	<u>\$ 77</u>	<u>\$ 64</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 77	\$ 64
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	48	46
Amortization	3	4
Defined benefit plans - expense	2	5
Deferred income taxes and investment tax credits	34	35
Other	2	9
Change in current assets and current liabilities		
Accounts receivable	(24)	(31)
Accounts payable	15	32
Accounts payable to affiliates	16	8
Unbilled revenues	14	(1)
Fuel, materials and supplies	9	10
Taxes	(12)	(17)
Accrued interest	18	15
Other	(9)	(20)
Other operating activities		
Defined benefit plans - funding	(3)	(60)
Other assets	1	1
Other liabilities	1	(15)
Net cash provided by operating activities	<u>191</u>	<u>85</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(154)	(172)
Net cash provided by (used in) investing activities	<u>(154)</u>	<u>(172)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	(40)	45
Payment of common stock dividends to parent	(37)	(13)
Contributions from parent	40	50
Net cash provided by (used in) financing activities	<u>(37)</u>	<u>82</u>
Net Increase (Decrease) in Cash and Cash Equivalents		(5)
Cash and Cash Equivalents at Beginning of Period	21	21
Cash and Cash Equivalents at End of Period	<u>\$ 21</u>	<u>\$ 16</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 21	\$ 21
Accounts receivable (less reserve: 2014, \$4; 2013, \$4)		
Customer	147	122
Other	7	9
Unbilled revenues	81	95
Fuel, materials and supplies	115	124
Prepayments	5	4
Regulatory assets	9	10
Other current assets	12	6
Total Current Assets	<u>397</u>	<u>391</u>
Property, Plant and Equipment		
Regulated utility plant	5,208	5,143
Less: accumulated depreciation - regulated utility plant	485	446
Regulated utility plant, net	<u>4,723</u>	<u>4,697</u>
Other, net	1	1
Construction work in progress	1,185	1,139
Property, Plant and Equipment, net	<u>5,909</u>	<u>5,837</u>
Other Noncurrent Assets		
Regulatory assets	172	171
Goodwill	607	607
Other intangibles	95	101
Other noncurrent assets	56	56
Total Other Noncurrent Assets	<u>930</u>	<u>935</u>
Total Assets	<u>\$ 7,236</u>	<u>\$ 7,163</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 110	\$ 150
Accounts payable	140	159
Accounts payable to affiliates	41	25
Customer deposits	26	26
Taxes	21	33
Regulatory liabilities	3	5
Interest	29	11
Other current liabilities	30	36
Total Current Liabilities	400	445
Long-term Debt	2,091	2,091
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	699	658
Investment tax credits	96	97
Accrued pension obligations	9	11
Asset retirement obligations	181	177
Regulatory liabilities	547	551
Other deferred credits and noncurrent liabilities	90	89
Total Deferred Credits and Other Noncurrent Liabilities	1,622	1,583
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,545	2,505
Accumulated other comprehensive income		1
Earnings reinvested	270	230
Total Equity	3,123	3,044
Total Liabilities and Equity	\$ 7,236	\$ 7,163

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at March 31, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2013	37,818	\$ 308	\$ 2,505	\$ 230	\$ 1	\$ 3,044
Net income				77		77
Capital contributions from LKE			40			40
Cash dividends declared on common stock				(37)		(37)
Other comprehensive income (loss)					(1)	(1)
March 31, 2014	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,545</u>	<u>\$ 270</u>	<u>\$ 1</u>	<u>\$ 3,123</u>
December 31, 2012	37,818	\$ 308	\$ 2,348	\$ 126	\$ 1	\$ 2,783
Net income				64		64
Capital contributions from LKE			50			50
Cash dividends declared on common stock				(13)		(13)
March 31, 2013	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,398</u>	<u>\$ 177</u>	<u>\$ 1</u>	<u>\$ 2,884</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for their related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2013 is derived from that Registrant's 2013 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2013 Form 10-K. The results of operations for the three months ended March 31, 2014, are not necessarily indicative of the results to be expected for the full year ending December 31, 2014, or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the March 31, 2014 financial statements.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2013 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable *(PPL, PPL Energy Supply and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three months ended March 31, 2014, PPL Electric purchased \$362 million of accounts receivable from unaffiliated third parties and \$105 million from PPL EnergyPlus. During the three months ended March 31, 2013, PPL Electric purchased \$259 million of accounts receivable from unaffiliated third parties and \$77 million from PPL EnergyPlus.

New Accounting Guidance Adopted *(All Registrants)*

Accounting for Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Registrants retrospectively adopted accounting guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements when the amount of the obligation is fixed at the reporting date. If the obligation is determined to be in the scope of this guidance, it will be measured as the sum of the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires additional disclosures for these obligations.

The adoption of this guidance did not have a significant impact on the Registrants.

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Effective January 1, 2014, PPL prospectively adopted accounting guidance that requires a cumulative translation adjustment to be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For the step acquisition of previously held equity method investments that are foreign entities, this guidance clarifies that the amount of accumulated other comprehensive income that is reclassified and included in the calculation of a gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

The initial adoption of this guidance did not have a significant impact on PPL; however, the impact in future periods could be material. _

Presentation of Unrecognized Tax Benefits When Net Operating Loss Carryforwards, Similar Tax Losses, or Tax Credit Carryforwards Exist

Effective January 1, 2014, the Registrants prospectively adopted accounting guidance that requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

The adoption of this guidance did not have a significant impact on the Registrants.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2013 Form 10-K for a discussion of reportable segments and related information.

Financial data for the segments and reconciliation to PPL's consolidated results for the periods ended March 31 are:

	Three Months	
	2014	2013
Income Statement Data		
Revenues from external customers		
U.K. Regulated	\$ 648	\$ 648
Kentucky Regulated	934	800
Pennsylvania Regulated	591	512
Supply (a)	(953)	494
Corporate and Other	3	3
Total	<u>\$ 1,223</u>	<u>\$ 2,457</u>
Intersegment electric revenues		
Supply	\$ 27	\$ 14
Net Income Attributable to PPL Shareowners		
U.K. Regulated	\$ 206	\$ 313
Kentucky Regulated	107	85
Pennsylvania Regulated	85	64
Supply (a)	(75)	(46)
Corporate and Other	(7)	(3)
Total	<u>\$ 316</u>	<u>\$ 413</u>

	March 31, 2014	December 31, 2013
Balance Sheet Data		
Assets		
U.K. Regulated	\$ 16,535	\$ 15,895
Kentucky Regulated	12,037	12,016
Pennsylvania Regulated	7,022	6,846
Supply	12,237	11,408
Corporate and Other (b)	142	94
Total assets	<u>\$ 47,973</u>	<u>\$ 46,259</u>

- (a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.
(b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock method or the If-Converted Method, as applicable. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended March 31 used in the EPS calculation are:

	Three Months	
	2014	2013
Income (Numerator)		
Net income attributable to PPL shareowners	\$ 316	\$ 413
Less amounts allocated to participating securities	2	2
Net income available to PPL common shareowners - Basic	314	411
Plus interest charges (net of tax) related to Equity Units (a)	9	15
Net income available to PPL common shareowners - Diluted	<u>\$ 323</u>	<u>\$ 426</u>
Shares of Common Stock (Denominator)		
Weighted-average shares - Basic EPS	630,749	582,640
Add incremental non-participating securities:		
Share-based payment awards	1,511	810
Equity Units (a)	31,679	71,990
Forward sale agreements		1,580
Weighted-average shares - Diluted EPS	<u>663,939</u>	<u>657,020</u>
Basic EPS		
Net Income Available to PPL common shareowners	<u>\$ 0.50</u>	<u>\$ 0.70</u>
Diluted EPS		
Net Income Available to PPL common shareowners	<u>\$ 0.49</u>	<u>\$ 0.65</u>

- (a) The If-Converted Method has been applied to the Equity Units prior to settlement. See Note 7 for additional information on the 2011 Equity Units, including the issuance of PPL common stock on May 1, 2014 to settle the 2011 Purchase Contracts.

For the periods ended March 31, PPL issued common stock related to stock-based compensation plans, ESOP and DRIP as follows (in thousands):

	Three Months	
	2014	2013
Stock-based compensation plans (a)	1,096	446
ESOP		275
DRIP		549

- (a) Includes stock options exercised, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

For the periods ended March 31, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months	
	2014	2013
Stock options	2,540	6,589
Performance units		206
Restricted stock units	123	116

5. Income Taxes

Reconciliations of income taxes for the periods ended March 31 are:

(PPL)

	Three Months	
	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 150	\$ 197
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	2	3
Impact of lower U.K. income tax rates	(45)	(38)
U.S. income tax on foreign earnings - net of foreign tax credit	11	2
Federal income tax credits, excluding foreign tax credit	(1)	(4)
Amortization of investment tax credit	(2)	(3)
Depreciation not normalized	(2)	(3)
Other	(1)	(3)
Total increase (decrease)	(38)	(46)
Total income taxes	\$ 112	\$ 151

(PPL Energy Supply)

	Three Months	
	2014	2013
Federal income tax on Income (Loss) Before Income Taxes at statutory tax rate - 35%	\$ (40)	\$ (26)
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	(9)	(6)
Federal income tax credits	(1)	(3)
Other	1	
Total increase (decrease)	(9)	(9)
Total income taxes	\$ (49)	\$ (35)

(PPL Electric)

	Three Months	
	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 48	\$ 34
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	8	5
Federal and state tax reserve adjustments		(2)
Depreciation not normalized	(2)	(3)
Other	(1)	(1)
Total increase (decrease)	5	(1)
Total income taxes	\$ 53	\$ 33

(LKE)

	Three Months	
	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 64	\$ 54
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	7	5
Other	(2)	(2)
Total increase (decrease)	5	3
Total income taxes	\$ 69	\$ 57

(LG&E)

	Three Months	
	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 29	\$ 24
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	3	3
Other	(2)	(2)
Total increase (decrease)	1	1
Total income taxes	\$ 30	\$ 25

(KU)

	Three Months	
	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 43	\$ 36
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	4	4
Other	(1)	(1)
Total increase (decrease)	3	3
Total income taxes	\$ 46	\$ 39

6. Utility Rate Regulation

(All Registrants except PPL Energy Supply)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Current Regulatory Assets:				
Environmental cost recovery		\$ 7		
Gas supply clause	\$ 19	10		
Fuel adjustment clause	10	2		
Demand side management	1	8		
Other	2	6	\$ 1	\$ 6
Total current regulatory assets	\$ 32	\$ 33	\$ 1	\$ 6
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 503	\$ 509	\$ 255	\$ 257
Taxes recoverable through future rates	307	306	307	306
Storm costs	141	147	51	53
Unamortized loss on debt	82	85	54	57
Interest rate swaps	48	44		
Accumulated cost of removal of utility plant	101	98	101	98
AROs	51	44		
Other	12	13	2	1
Total noncurrent regulatory assets	\$ 1,245	\$ 1,246	\$ 770	\$ 772
Current Regulatory Liabilities:				
Generation supply charge	\$ 25	\$ 23	\$ 25	\$ 23
Environmental cost recovery	3			
Gas supply clause	2	3		
Transmission service charge	10	8	10	8
Fuel adjustment clause		4		
Transmission formula rate	27	20	27	20
Universal service rider	5	10	5	10
Storm damage expense		14		14
Gas line tracker	7	6		
Other	1	2	1	1
Total current regulatory liabilities	\$ 80	\$ 90	\$ 68	\$ 76

	PPL		PPL Electric	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 692	\$ 688		
Coal contracts (a)	88	98		
Power purchase agreement - OVEC (a)	98	100		
Net deferred tax assets	30	30		
Act 129 compliance rider	13	15	\$ 13	\$ 15
Defined benefit plans	26	26		
Interest rate swaps	86	86		
Other	4	5		
Total noncurrent regulatory liabilities	\$ 1,037	\$ 1,048	\$ 13	\$ 15

	LKE		LG&E		KU	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Current Regulatory Assets:						
Environmental cost recovery		\$ 7		\$ 2		\$ 5
Gas supply clause	\$ 19	10	\$ 19	10		
Fuel adjustment clause	10	2	2	2	\$ 8	
Demand side management	1	8	1	3		5
Other	1				1	
Total current regulatory assets	\$ 31	\$ 27	\$ 22	\$ 17	\$ 9	\$ 10
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 248	\$ 252	\$ 161	\$ 164	\$ 87	\$ 88
Storm costs	90	94	49	51	41	43
Unamortized loss on debt	28	28	18	18	10	10
Interest rate swaps	48	44	48	44		
AROs	51	44	23	21	28	23
Other	10	12	4	5	6	7
Total noncurrent regulatory assets	\$ 475	\$ 474	\$ 303	\$ 303	\$ 172	\$ 171

Current Regulatory Liabilities:						
Environmental cost recovery	\$ 3				\$ 3	
Gas supply clause	2	\$ 3	\$ 2	\$ 3		
Fuel adjustment clause		4				\$ 4
Gas line tracker	7	6	7	6		
Other		1				1
Total current regulatory liabilities	\$ 12	\$ 14	\$ 9	\$ 9	\$ 3	\$ 5

Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 692	\$ 688	\$ 301	\$ 299	\$ 391	\$ 389
Coal contracts (a)	88	98	38	43	50	55
Power purchase agreement - OVEC (a)	98	100	68	69	30	31
Net deferred tax assets	30	30	25	26	5	4
Defined benefit plans	26	26			26	26
Interest rate swaps	86	86	43	43	43	43
Other	4	5	2	2	2	3
Total noncurrent regulatory liabilities	\$ 1,024	\$ 1,033	\$ 477	\$ 482	\$ 547	\$ 551

(a) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

U.K. Activities (PPL)

Ofgem Review of Line Loss Calculation

In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, WPD increased its existing liability by \$65 million for over-recovery of line losses with a reduction to "Utility" revenue on the Statement of Income. The total recorded liability at March 31, 2014 was \$115 million, nearly all of which will be refunded to customers from April 1, 2015 through March 31, 2019. The recorded liability at December 31, 2013 was \$74 million. Other activity impacting the liability included reductions in the liability that have been included in tariffs during the

first quarter of 2014 and foreign exchange movements. PPL is considering what, if any, recourse may be available to seek review of the final decision.

Kentucky Activities (PPL, LKE, LG&E and KU)

CPCN Filings

In January 2014, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to build a NGCC generating unit at KU's Green River generating site and a solar generating facility at the E. W. Brown generating site. The proceeding is currently in the discovery phase and a hearing is scheduled for July 2014. In April 2014, LG&E and KU filed a motion to hold further proceedings in abeyance for up to 90 days in order to allow the companies to assess the potential impact of certain events on their future capacity needs, including the recent receipt of termination notices to be generally effective in 2019 from certain KU municipal wholesale customers. See "Federal Matters - FERC Formula Rates" below for additional information relating to the municipal wholesale customers.

Pennsylvania Activities (PPL and PPL Electric)

Storm Damage Expense Rider

In its December 28, 2012 final rate case order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider (SDER). In March 2013, PPL Electric filed its proposed SDER with the PUC and, as part of that filing, requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy. PPL Electric proposed that the SDER become effective January 1, 2013 at a zero rate with qualifying storm costs incurred in 2013 and the 2012 Hurricane Sandy costs included in rates effective January 1, 2014. As of December 31, 2013, PPL Electric had a \$14 million regulatory liability balance for amounts expected to be refunded to customers for revenues collected to cover storm costs in excess of actual storm costs incurred during 2013. On April 3, 2014, the PUC issued a final order approving the SDER. The SDER will be effective January 1, 2015 and will initially include actual storm costs compared to collections from December 2013 through November 2014. As a result of the order, PPL Electric reduced its regulatory liability by \$12 million. Also, as part of the order, PPL Electric can recover Hurricane Sandy storm damage costs through the SDER over a three-year period beginning January 2015. See "Storm Costs" below for additional information on Hurricane Sandy costs.

Storm Costs

In February 2013, PPL Electric received an order from the PUC granting permission to defer qualifying costs in excess of insurance recoveries associated with Hurricane Sandy. At March 31, 2014 and December 31, 2013, \$29 million was included on the Balance Sheets as a regulatory asset.

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are subject to significant penalties.

Under Act 129, EDCs must file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. EDCs are able to recover the costs (capped at 2.0% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's Phase I EE&C Plan ending May 31, 2013.

Phase I of Act 129 required EDCs to reduce overall electricity consumption by 1.0% by May 2011 and by 3.0% by May 2013, and reduce peak demand by 4.5% by May 2013. The overall consumption reduction is measured against PUC-forecasted consumption for the twelve months ended May 31, 2010. The peak demand reduction was required to occur for the 100 hours of highest demand, which is determined by actual demand reduction during the June 2012 through September 2012 period. The PUC issued an Order on March 20, 2014 determining that PPL Electric met all of its Phase I EE&C compliance requirements.

Under Act 129 the PUC was required to evaluate the costs and benefits of the EE&C program by November 30, 2013 and adopt additional reductions if the benefits of the program exceed the costs. In August 2012, after receiving input from stakeholders, the PUC issued a Final Implementation Order establishing a three-year Phase II program, ending May 31, 2016, with individual consumption reduction targets for each EDC. PPL Electric's Phase II reduction target is 2.1% of the total energy consumption forecasted by the PUC for the twelve months ended May 31, 2010. The PUC did not establish demand

reduction targets for the Phase II program. PPL Electric began its PUC-approved Phase II Plan implementation on June 1, 2013. In November 2013, PPL Electric filed 40 modifications to its Phase II Plan which contains programs designed to meet PPL Electric's target of reducing total energy consumption by 2.1%. On March 6, 2014, the PUC issued an order approving the revised EE&C Plan with minor modifications related to training.

Act 129 also requires Default Service Providers (DSP) to provide electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

In January 2013, the PUC approved PPL Electric's DSP procurement plan for the period June 1, 2013 through May 31, 2015. On April 18, 2014, PPL Electric filed a new DSP procurement plan with the PUC for the period June 1, 2015 through May 31, 2017. This filing is pending before the PUC.

Smart Meter Rider

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric continues to conduct pilot projects to evaluate additional applications of its current advanced metering technology pursuant to the requirements of Act 129. PPL Electric recovers the cost of its pilot projects through a cost recovery mechanism, the Smart Meter Rider (SMR). In August 2013, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter Plan during 2013 and its planned actions for 2014. PPL Electric also submitted revised SMR charges that became effective January 1, 2014. PPL Electric will submit its final Smart Meter Plan by June 30, 2014.

Distribution System Improvement Charge

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIIP as a prerequisite to filing for recovery through the DSIC. The LTIIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC.

In September 2012, PPL Electric filed its LTIIP describing projects eligible for inclusion in the DSIC and in an order entered on May 23, 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four technical recovery calculation issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. The case remains pending before the PUC.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form 1 filed under the FERC's Uniform System of Accounts.

PPL Electric initiated its formula rate 2012, 2011 and 2010 Annual Updates. Each update was subsequently challenged by a group of municipal customers, whose challenges were opposed by PPL Electric. Between 2011 and 2013, numerous hearings before the FERC and settlement conferences were convened in an attempt to resolve these matters. Beginning in the second half of 2013, PPL Electric and the group of municipal customers exchanged confidential settlement proposals. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings, which remain pending before the FERC.

FERC Formula Rates (LKE and KU)

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Certain elements, including the new formula rate, became effective April 23, 2014 subject to refund. In April 2014, FERC accepted a motion filed by KU requesting a delay until mid-June of the effectiveness of other elements, including updated termination notice periods, new credit and uncollectible charge provisions. Also in April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts, such terminations to be effective in 2019, except in the case of one municipality with a conditional 2017 effective date. The parties are continuing settlement negotiations. KU cannot currently predict the outcome of the proceeding or related matters.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Energy Supply, PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	Expiration Date	March 31, 2014				December 31, 2013	
		Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
PPL							
U.K.							
PPL WW Syndicated Credit Facility	Dec. 2016	£ 210	£ 98		£ 112	£ 103	
WPD (South West) Syndicated Credit Facility	Jan. 2017	245			245		
WPD (East Midlands) Syndicated Credit Facility	Apr. 2016	300			300		
WPD (West Midlands) Syndicated Credit Facility	Apr. 2016	300			300		
Uncommitted Credit Facilities		88		£ 5	83		£ 5
Total U.K. Credit Facilities (a)		£ 1,143	£ 98	£ 5	£ 1,040	£ 103	£ 5
U.S.							
PPL Capital Funding							
Syndicated Credit Facility (b)	Nov. 2018	\$ 300	\$ 185		\$ 115	\$ 270	
Bilateral Credit Facility	Mar. 2015	150			150		
Total PPL Capital Funding Credit Facilities		\$ 450	\$ 185		\$ 265	\$ 270	
PPL Energy Supply							
Syndicated Credit Facility (b)	Nov. 2017	\$ 3,000	\$ 350	\$ 730	\$ 1,920		\$ 29
Letter of Credit Facility	Mar. 2015	150		91	59		138
Uncommitted Credit Facilities		175		77	98		77
Total PPL Energy Supply Credit Facilities		\$ 3,325	\$ 350	\$ 898	\$ 2,077		\$ 244
PPL Electric							
Syndicated Credit Facility	Oct. 2017	\$ 300		\$ 61	\$ 239		\$ 21
LKE							
Syndicated Credit Facility (b)	Oct. 2018	\$ 75	\$ 75			\$ 75	
LG&E							
Syndicated Credit Facility	Nov. 2017	\$ 500		\$ 15	\$ 485		\$ 20

	March 31, 2014				December 31, 2013		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
KU							
Syndicated Credit Facility	Nov. 2017	\$ 400		\$ 110	\$ 290		\$ 150
Letter of Credit Facility	May 2016	198		198			198
Total KU Credit Facilities		\$ 598		\$ 308	\$ 290		\$ 348

- (a) PPL WW's amounts borrowed at March 31, 2014 and December 31, 2013 were USD-denominated borrowings of \$164 million and \$166 million, which equated to £98 million and £103 million at the time of borrowings and bore interest at 1.86% and 1.87%. At March 31, 2014, the unused capacity under the U.K. credit facilities was \$1.7 billion.
- (b) At March 31, 2014, interest rates on outstanding borrowings were 1.79% for PPL Capital Funding and 1.66% for PPL Energy Supply and LKE. At December 31, 2013, interest rates on outstanding borrowings were 1.79% for PPL Capital Funding and 1.67% for LKE.

PPL Energy Supply, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	March 31, 2014				December 31, 2013		
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances	
PPL Energy Supply	0.48%	\$ 750	\$ 620	\$ 130			
PPL Electric	0.33%	300	60	240	0.23%	\$ 20	
LG&E	0.27%	350	15	335	0.29%	20	
KU	0.29%	350	110	240	0.32%	150	
Total		\$ 1,750	\$ 805	\$ 945		\$ 190	

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, that provides PPL Energy Supply the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At March 31, 2014, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an \$800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2018, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at March 31, 2014.

(PPL Electric and LKE)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt and Equity Securities *(PPL)*

2011 Equity Units

In March 2014, PPL Capital Funding remarketed \$978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired \$228 million of the 4.32% Junior Subordinated Notes due 2019 and issued \$350 million of 2.189% Junior Subordinated Notes due 2017 and \$400 million of 3.184% Junior Subordinated Notes due 2019. Simultaneously, the newly issued notes were exchanged for \$350 million of 3.95% Senior Notes due 2024 and \$400 million of 5.00% Senior Notes due 2044. The transaction was accounted for as a debt extinguishment, resulting in a \$(9) million gain (loss) on extinguishment of the Junior Subordinated Notes, recorded to "Interest Expense" on the Statement of Income. Except for the \$228 million

retirement of the 4.32% Junior Subordinated Notes and fees related to the transactions, the activity was non-cash and was excluded from the Statement of Cash Flows for the three months ended March 31, 2014. Additionally, on May 1, 2014, PPL issued 31.7 million shares of common stock at \$30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of \$978 million, which will be used to repay short-term debt and for general corporate purposes.

Distributions (PPL)

In February 2014, PPL declared its quarterly common stock dividend, payable April 1, 2014, at 37.25 cents per share (equivalent to \$1.49 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See Note 8 in the 2013 Form 10-K for additional information.

Development

Hydroelectric Expansion Project (PPL and PPL Energy Supply)

In January 2014, the U.S. Department of Treasury awarded \$56 million for Specified Energy Property in Lieu of Tax Credits for the Rainbow hydroelectric redevelopment project in Great Falls, Montana. PPL Energy Supply accepted and accounted for the receipt of the grant in 2014. PPL Energy Supply was required to recapture \$60 million of investment tax credits previously recorded related to the Rainbow project as a result of the grant receipt. The impact on the financial statements of accounting for the grant receipt and recapture of investment tax credits was not significant for the three months ended March 31, 2014, and will not be significant in future periods.

Regional Transmission Line Expansion Plan (PPL and PPL Electric)

Susquehanna-Roseland Project

PPL Electric's construction activities have been underway on the 101-mile Pennsylvania transmission line project since 2012. The line is expected to be completed before the peak summer demand period of 2015. At March 31, 2014, PPL Electric's estimate of the project costs was \$630 million. At March 31, 2014 and December 31, 2013, \$458 million and \$377 million of costs were capitalized and are included on the Balance Sheets primarily in "Construction work in progress."

Other (PPL and PPL Energy Supply)

Montana Hydro Sale Agreement

In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern its hydroelectric generating facilities located in Montana (with a generation capacity of 633 MW) for \$900 million in cash, subject to certain adjustments. The sale, which is not expected to close before the second half of 2014, includes 11 hydroelectric power facilities and related assets. In April 2014, the U.S. Department of Justice and Federal Trade Commission granted early termination of PPL Montana's and NorthWestern's notifications under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The sale remains subject to closing conditions, including receipt of regulatory approvals by the FERC and the Montana Public Service Commission and certain third-party consents. Due to the uncertainties related to certain of these conditions as of March 31, 2014, the sale did not meet the applicable accounting criteria for the assets and liabilities included in the transaction to be classified as held for sale on the balance sheet.

9. Defined Benefits

(All Registrants except PPL Electric and KU)

Certain net periodic defined benefit costs are applied to accounts that are further distributed between capital and expense, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the

net periodic defined benefit costs (credits) of the plans sponsored by PPL, PPL Energy Supply, LKE and LG&E for the periods ended March 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2014	2013
	2014	2013	2014	2013		
PPL						
Service cost	\$ 26	\$ 31	\$ 18	\$ 18	\$ 3	\$ 4
Interest cost	59	54	88	81	8	7
Expected return on plan assets	(74)	(74)	(130)	(118)	(6)	(6)
Amortization of:						
Prior service cost	5	6				
Actuarial (gain) loss	7	20	33	38		1
Net periodic defined benefit costs (credits)	\$ 23	\$ 37	\$ 9	\$ 19	\$ 5	\$ 6
PPL Energy Supply						
Service cost	\$ 1	\$ 2				
Interest cost	2	2				
Expected return on plan assets	(2)	(3)				
Amortization of:						
Actuarial (gain) loss		1				
Net periodic defined benefit costs (credits)	\$ 1	\$ 2				
LKE						
Service cost	\$ 6	\$ 7			\$ 1	\$ 1
Interest cost	17	16			2	2
Expected return on plan assets	(20)	(21)			(1)	(1)
Amortization of:						
Prior service cost	1	1			1	1
Actuarial (gain) loss	3	8				
Net periodic defined benefit costs (credits)	\$ 7	\$ 11			\$ 3	\$ 3
LG&E						
Service cost		\$ 1				
Interest cost	\$ 4	3				
Expected return on plan assets	(5)	(5)				
Amortization of:						
Prior service cost	1	1				
Actuarial (gain) loss	1	3				
Net periodic defined benefit costs (credits)	\$ 1	\$ 3				

(All Registrants except PPL)

In addition to the specific plans they sponsor, PPL Energy Supply subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services, and LG&E is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services, and KU is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. For the periods ended March 31, PPL Services allocated the following net periodic defined benefit costs to PPL Energy Supply subsidiaries and PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU.

	Three Months	
	2014	2013
PPL Energy Supply	\$ 7	\$ 11
PPL Electric	5	9
LG&E	2	3
KU	3	4

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL Electric)

See Note 11 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification (PPL and LKE)

See footnote (h) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(PPL and PPL Energy Supply)

Sierra Club Litigation

On March 6, 2013, the Sierra Club and the Montana Environmental Information Center (MEIC) filed a complaint in the U.S. District Court, District of Montana, Billings Division against PPL Montana and the other Colstrip Steam Electric Station (Colstrip) co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, Northwestern Energy and Pacific Corp. PPL Montana operates Colstrip on behalf of the co-owners. The suit alleges certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements and listed 39 separate claims for relief. The complaint requests injunctive relief and civil penalties on average of \$36,000 per day per violation, including a request that the owners remediate environmental damage and that \$100,000 of the civil penalties be used for beneficial mitigation projects.

On July 27, 2013, the Sierra Club and MEIC filed an additional Notice, identifying additional plant projects that are alleged not to be in compliance with the Clean Air Act. On September 27, 2013, the plaintiffs filed an amended complaint. This amended complaint drops all claims regarding pre-2001 plant projects, as well as the plaintiffs' Title V and opacity claims. It does, however, add claims with respect to a number of post-2000 plant projects, which effectively increased the number of projects subject to the litigation by about 40. PPL Montana and the other Colstrip Owners filed a motion to dismiss the amended complaint on October 11, 2013. The court has not yet ruled on this motion. In April 2014, trial as to liability in this matter was re-scheduled to June 2015. A trial date with respect to remedies, if there is a finding of liability, has not been scheduled. PPL Montana believes it and the other co-owners have numerous defenses to the allegations set forth in this complaint and will vigorously assert the same. PPL Montana cannot predict the ultimate outcome of this matter at this time.

(PPL, LKE and LG&E)

Cane Run Environmental Claims

On December 16, 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass, and negligence. These plaintiffs seek injunctive relief and civil penalties that would accrue to governmental agencies, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. During 2014, PPL, LKE and LG&E have filed certain motions to dismiss that are pending before the court. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on operations of the Cane Run plant. LG&E has previously announced that it anticipates retiring the coal-fired units at Cane Run before the end of 2015.

Mill Creek Environmental Claims

In March 2014, LG&E received a notice of intent from the Sierra Club informing various federal and state agencies of its intent to file a citizen suit for alleged violations of the Clean Water Act. The claimants allege that various discharges at the Mill Creek plant constitute permit violations and state that it will seek civil penalties, injunctive relief and attorney's fees. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on the operations of the Mill Creek plant.

Regulatory Issues

(All Registrants except PPL Energy Supply)

See Note 6 for information on regulatory matters related to utility rate regulation.

(PPL, PPL Energy Supply and PPL Electric)

New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC (the Act). To create incentives for the development of new, in-state electricity generation facilities, the Act implements a long-term capacity agreement pilot program (LCAPP). The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In February 2011, PPL and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution and requesting declaratory and injunctive relief barring implementation of the Act by the BPU Commissioners. In October 2013, the U.S. District Court in New Jersey issued a decision finding the Act unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision has been appealed to the U.S. Court of Appeals for the Third Circuit by CPV Power Development, Inc., Hess Newark, LLC and the State of New Jersey and oral argument was held on March 27, 2014. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electricity generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution, and requested declaratory and injunctive relief barring implementation of the order by the MD PSC Commissioners. In September 2013, the U.S. District Court in Maryland issued a decision finding the MD PSC order unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision has been appealed to the U.S. Court of Appeals for the Fourth Circuit by CPV Power Development, Inc. and the State of Maryland. Oral argument has been scheduled for May 13, 2014. PPL, PPL Energy Supply, and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Pacific Northwest Markets *(PPL and PPL Energy Supply)*

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence. In July 2012, PPL Montana and the City of Tacoma, one of the two parties claiming refunds at FERC, reached a settlement whereby PPL Montana paid \$75 thousand to resolve the City of Tacoma's \$23 million claim. The settlement does not resolve the

remaining claim outstanding at March 31, 2014 by the City of Seattle for approximately \$50 million. Hearings before a FERC Administrative Law Judge regarding the City of Seattle's refund claims were completed in October 2013 and briefing was completed in January 2014. On March 28, 2014, the Administrative Law Judge issued an extensive opinion denying the City of Seattle's complaint against PPL Montana. The Administrative Law Judge's opinion will be reviewed by FERC.

Although PPL and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

(All Registrants)

FERC Market-Based Rate Authority

In 1998, the FERC authorized LG&E, KU and PPL EnergyPlus to make wholesale sales of electricity and related products at market-based rates. In those orders, the FERC directed LG&E, KU and PPL EnergyPlus, respectively, to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by LG&E, KU, PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. In December 2013, PPL and these subsidiaries filed market-based rate updates for the Eastern and Western regions. PPL cannot predict the ultimate outcome of these update filings at this time.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

As previously reported, in October 2012, the FERC initiated its consideration of proposed changes to Reliability Standards to address the impacts of Geomagnetic Disturbances on the reliable operation of the bulk-power system, which might, among other things, lead to a requirement to install equipment that blocks geomagnetically induced currents on implicated transformers. On May 16, 2013, FERC issued Order No. 779, requiring NERC to submit two types of Reliability Standards for FERC's approval. The first type would require certain owners and operators of the nation's electricity infrastructure, such as the Registrants, to develop and implement operational procedures to mitigate the effects of Geomagnetic Disturbances on the bulk-power system. This NERC proposed standard was filed by NERC with FERC for approval in January 2014, with a comment due date of March 24, 2014. The second type is to require owners and operators of the bulk-power system to assess certain Geomagnetic Disturbance events and develop and implement plans to protect the bulk-power system from those events and must be filed by NERC with FERC for approval by January 22, 2015. The Registrants may be required to make significant expenditures in new equipment or modifications to their facilities to comply with the new requirements. The Registrants are unable to predict the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for Geomagnetic Disturbances.

Environmental Matters - Domestic

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which are applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to related environmental compliance costs is reduced. As PPL Energy Supply is not a rate-regulated entity, it cannot seek to recover environmental compliance costs through the mechanism of rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

(All Registrants except PPL Electric)

Air

CSAPR (formerly Clean Air Transport Rule) and CAIR

In July 2011, the EPA adopted the CSAPR. The CSAPR replaced the EPA's previous CAIR which was invalidated in July 2008 by the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court). CAIR subsequently was effectively reinstated by the D.C. Circuit Court in December 2008, pending finalization of the CSAPR. Like CAIR, CSAPR targeted sources in the eastern U.S. and would have required reductions in sulfur dioxide and nitrogen oxides in two phases (2012 and 2014).

In December 2011, the D.C. Circuit Court stayed implementation of the CSAPR and left CAIR in effect pending a final decision on the validity of the rule. In August 2012, the D.C. Circuit Court issued a ruling invalidating CSAPR, remanding the rule to the EPA for further action, and leaving CAIR in place during the interim. In June 2013, the U.S. Supreme Court granted the EPA's petition for review of the D.C. Circuit Court's August 2012 decision. On April 29, 2014, the U.S. Supreme Court reversed and remanded the D.C. Circuit Court's August 2012 decision which may result in new or revised emission reduction requirements, including the possible replacement of the CAIR program with CSAPR, depending on future determinations by the EPA and the courts. PPL, PPL Energy Supply, LKE, LG&E and KU cannot currently predict the outcome of further regulatory and legal proceedings.

The Kentucky fossil-fueled generating plants meet the CAIR sulfur dioxide emission requirements by utilizing sulfur dioxide allowances (including banked allowances and optimizing existing controls). To meet the CAIR standards for nitrogen oxide under the CAIR, the Kentucky companies will need to buy allowances and/or make operational changes. LG&E and KU do not currently anticipate that the costs of meeting these reinstated CAIR standards will be significant.

PPL Energy Supply's Pennsylvania fossil-fueled generating plants meet the CAIR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet the CAIR standards for nitrogen oxides, PPL Energy Supply will need to buy allowances and/or make operational changes, the costs of which are not anticipated to be significant.

National Ambient Air Quality Standards

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result of EPA's new ozone standard, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies. The PADEP has issued a draft rule requiring reasonable reductions. However, the proposal is being challenged as too lenient by other OTR states and environmental groups. The PADEP may impose more stringent emission limits than those set forth in the proposed rule which could have a significant impact on PPL Energy Supply's Pennsylvania coal plants.

In December 2012, the EPA issued final rules that strengthen the fine particulate standards. Under the final rules, states and the EPA have until 2015 to identify non-attainment areas, and states have until 2020 to achieve attainment for those areas.

In 2010, the EPA finalized a new one-hour standard for sulfur dioxide and required states to identify areas that meet those standards and areas that are in non-attainment. In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Yellowstone County in Montana (Billings area) and part of Jefferson County in Kentucky. Attainment must be achieved by 2018. States are working on designations for other areas. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR, or the MATS, or the Regional Haze requirements (as discussed below), such as upgraded or new sulfur dioxide scrubbers at certain plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment (as noted above) is not expected to be significant, as PPL Energy Supply previously announced its intent to place the plant in long-term reserve status beginning in April 2015.

Until final non-attainment designations and consequent compliance plans for sulfur dioxide and particulate matter are developed by the EPA and state or local agencies, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the impact of the new standards.

MATS

In May 2011, the EPA published a proposed regulation requiring stringent reductions of mercury and other hazardous air pollutants from power plants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 2012. The rule, which was challenged by industry groups and states, was upheld by the D.C. Circuit Court in April 2014. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. LG&E, KU and PPL Energy Supply have received compliance extensions for certain plants and are considering extension requests for other plants as well.

At the time the MATS rule was proposed, LG&E and KU filed requests with the KPSC for environmental cost recovery based on their expected need to install environmental controls including chemical additive and fabric-filter baghouses to remove air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. LG&E's and KU's anticipated retirement of certain coal-fired electricity generating units located at Cane Run and Green River is in response to MATS and other environmental regulations. LG&E and KU are continuing to assess whether any revisions of their approved compliance plans will be necessary.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that installation of chemical additive systems may be necessary at certain coal-fired plants, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact of MATS on operating costs. With respect to PPL Energy Supply's Montana plants, modifications to the air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. For the Corette plant, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant was determined to be impaired in December 2013. See Note 18 in PPL's and PPL Energy Supply's 2013 Form 10-K for additional information.

PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below.

Regional Haze and Visibility

The EPA's regional haze programs were developed under the Clean Air Act to eliminate man-made visibility degradation by 2064. Under the programs, states are required to make reasonable progress every decade, through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977.

The primary power plant emissions affecting visibility are sulfur dioxide, nitrogen oxides and particulates. To date, the focus of regional haze activity has been the western U.S. because the EPA had determined that the regional trading program in the eastern U.S. under CSAPR satisfies BART requirements to reduce sulfur dioxide and nitrogen oxides. Although the D.C. Circuit Court's August 2012 decision to vacate and remand CSAPR has been reversed by the U.S. Supreme Court, future decisions by EPA and the courts will determine whether power plants located in the eastern U.S., including PPL's plants in Pennsylvania and Kentucky, will be subject to additional reductions in sulfur dioxide and nitrogen oxides as required by BART. In addition, LG&E's Mill Creek Units 3 and 4 are required to reduce sulfuric acid mist emissions because they were determined to have a significant regional haze impact. These reductions are required in the regional haze state

implementation plan that the Kentucky Division for Air Quality submitted to the EPA. LG&E is currently installing sorbent injection technology to comply with these reductions, the costs of which are not expected to be significant.

In Montana, the EPA Region 8 developed the regional haze plan as the MDEQ declined to develop a BART state implementation plan. The EPA finalized the Federal Implementation Plan (FIP) for Montana in September 2012. The final FIP assumed no additional controls for Corette or Colstrip Units 3 and 4, but proposed tighter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply expects to meet these tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above). Under the final FIP, Colstrip Units 1 and 2 may require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxides and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit.

New Source Review (NSR)

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants, and PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL, PPL Energy Supply and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during a Spring 2012 maintenance outage at Colstrip Unit 1. In September 2012, PPL Montana received an information request from the MDEQ regarding Colstrip Unit 1 and other projects. These matters remain open. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In August 2007, LG&E received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. See "Legal Matters" above for information on a lawsuit filed by environmental groups in March 2013 against PPL Montana and other owners of Colstrip.

If PPL subsidiaries are found to have violated NSR regulations by significantly increasing pollutants through a major plant modification, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet stringent permit limits reflecting Best Available Control Technology (BACT) for pollutants meeting the National Ambient Air Quality Standards (NAAQS) in the area and reflecting Lowest Achievable Emission Rates for pollutants not meeting the NAAQS in the area. The costs to meet such limits, including installation of technology at certain units, could be significant.

TC2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload coal-fired generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which, in January 2010, were incorporated into a final revised permit issued by the Kentucky Department for Air Quality. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on plant operations, including increased capital costs, if any.

(All Registrants)

Climate Change

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that applied beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of GHG emissions from stationary sources under the NSR and Title V

operating permit provisions of the Clean Air Act. As a result, any new sources or major modifications to existing GHG sources causing a net significant emissions increase now require adherence to the BACT permit limits for GHGs. The rules were challenged and, in June 2012, the D.C. Circuit Court upheld the EPA's regulations. In December 2012, the D.C. Circuit Court denied petitions for rehearing pertaining to its June 2012 opinion. On October 15, 2013, the U.S. Supreme Court granted certiorari for several petitions to decide whether the NSR provisions of the Clean Air Act require the EPA to regulate GHG emissions from stationary sources, such as power plants. The oral argument was held on February 24, 2014, and the decision is pending.

In June 2013, President Obama released his Climate Action Plan that reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum, the EPA was directed to issue a revised proposal for new power plants (a prior proposal was issued in 2012) by September 20, 2013, with a final rule in a timely fashion thereafter, and to issue proposed standards for existing plants by June 1, 2014 with a final rule to be issued by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016. Regulation of GHG emissions from existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and the state implementation plans. The Administration's increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may also lead to more costly regulatory requirements; the White House Office of Management and Budget has opened this issue for public comment. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect PPL and others in the industry as modifications to electricity delivery systems to improve the ability to withstand major storms may be needed in order to meet those requirements.

The EPA issued its revised proposal for new sources on September 20, 2013 as directed by the White House. This proposal was published in the Federal Register on January 8, 2014. The comment period on the proposal closes on May 9, 2014. Unlike the EPA's prior proposal, the EPA's revised proposal established separate emission standards for coal and gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially available, the revised proposal effectively precludes the construction of new coal plants. The standard for NGCC power plants is the same as the EPA proposed in 2012 and is not continuously achievable.

At the regional level, ten northeastern states have been participating in a cap-and-trade program called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and covers electric power plants greater than 25 MW. The program calls for a 10% reduction in carbon dioxide emissions from these plants by 2019 compared to 2005 levels. Pennsylvania has not stated an intention to join the RGGI, but enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2013, the Advisory Committee issued an updated Climate Change Action Report and identified specific actions that could result in reducing GHG emissions by 30% by 2020. The report recognized some legislative initiatives that were enacted since 2009 that facilitated reductions in GHG emissions and made a number of legislative recommendations that include amending the PA AEPS Act to include additional waste-to-energy facilities, providing incentives for coal mine methane usage, providing incentives for alternative fuel vehicles and addressing the long-term viability issues of carbon capture and sequestration.

The PADEP submitted to the EPA a GHG white paper on April 10, 2014 regarding the regulation of carbon dioxide emissions under Section 111(d) of the Clean Air Act. The PADEP expects to achieve reductions required under the EPA's expected rules by increasing efficiency at existing plants and/or reducing generation. The PADEP specifically excludes energy efficiency projects not associated with existing sources (such as DSM and Act 129 programs) from consideration for crediting toward the program. The PADEP also suggests an exemption for burning waste coal and coal bed methane.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. In November 2011, the Council issued a final report to the Secretary of Kentucky's Energy and Environment Cabinet for his consideration. The final report acknowledged that the recommendations would require additional review and analysis prior to implementation, and that many of the recommendations would likely require, in part, further legislative or regulatory actions. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained claims brought on

the basis of these theories of liability, the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the Second Circuit and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in *Comer v. Murphy Oil* (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal district court granted defendants' motions to dismiss the state common law claims. Plaintiffs appealed to the U.S. Court of Appeals for the Fifth Circuit, and in May 2013, the Fifth Circuit affirmed the district court's dismissal of the case. Additional litigation in federal and state courts over such issues is continuing. PPL, LKE and KU cannot predict the outcome of these lawsuits or estimate a range of reasonably possible losses, if any.

Renewable Energy Legislation

There has been interest in renewable energy legislation at both the state and federal levels. Federal legislation on renewable energy is not expected to be enacted this year. In Pennsylvania, bills were introduced calling for an increase in Alternative Energy Portfolio Standard (AEPS) Tier 1 obligations and to create a \$25 million permanent funding program for solar generation. Bills (SB 1171 and HB 100) were also introduced to add natural gas as a qualified AEPS resource, and another bill (HB 1912) would repeal the AEPS Act entirely. All these bills remain in committee and are unlikely to advance. A bill adding new hydropower to Montana's renewable portfolio standard was enacted with an effective date of October 1, 2013. An interim legislative committee in Montana is reviewing the state's Renewable Portfolio Standard (RPS). PPL and PPL Energy Supply cannot predict at this time whether the committee will recommend any changes to existing laws. In Maryland, bills have been introduced in the 2014 session to double the state's RPS requirement from 20% to 40% and provide exceptions for specific types of energy sources. In New Jersey, a bill (S-1475) has been introduced to increase the current RPS standard to 30% from Class I sources by 2020. PPL and PPL Energy Supply are unable to predict the outcome of this legislation at this time.

The Registrants believe there are financial, regulatory and logistical uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply and downward pressure on energy prices that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their competitive plants' future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (All Registrants except PPL Electric)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the RCRA. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. Regulating CCRs as a hazardous waste under Subtitle C of the RCRA would materially increase costs and result in early retirements of many coal-fired plants, as it would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through generation, transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The EPA's proposed approach to regulate CCRs as non-hazardous waste under Subtitle D of the RCRA would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the EPA's proposed non-hazardous waste regulations, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management

practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented or is implementing certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) requesting comments on selected documents it received during the comment period for the proposed regulations. On September 20, 2013, in response to the proposed Effluent Limitation Guidelines, PPL submitted comments on the proposed CCR regulations. Also, on September 3, 2013, PPL commented on a second CCR NODA seeking comment on additional information related to the EPA's proposal.

A coalition of environmental groups and two CCR recycling companies have filed lawsuits against the EPA seeking a deadline for final rulemaking and, in settlement of that litigation, the EPA has agreed to issue its final rulemaking on the Subtitle D option addressed above by the end of 2014.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from issuing final CCR regulations and would set non-hazardous CCR standards under RCRA and authorize state permit programs. It remains uncertain whether similar legislation will be passed by the U.S. Senate. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the financial and operational impact is expected to be material if CCRs are regulated as hazardous waste and significant if regulated as non-hazardous.

Trimble County Landfill Permit (PPL, LKE, LG&E and KU)

In May 2011, LG&E submitted an application for a special waste landfill permit to handle coal combustion residuals generated at the Trimble County plant. After extensive review of the permit application in May 2013, the Kentucky Division of Waste Management denied the permit application on the grounds that the proposed facility would violate the Kentucky Cave Protection Act because it would eliminate an on-site karst feature considered to be a cave. After assessing additional options for managing coal combustion residuals, in January 2014, LG&E submitted to the Kentucky Division of Waste Management a landfill permit application for an alternate site adjacent to the plant. PPL, LKE, LG&E and KU are unable to determine the potential impact of this matter until a landfill permit is issued and any resulting legal challenges are concluded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(All Registrants except PPL Electric)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to respond to notices of violations and implement assessment or abatement measures, where required or applicable. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years, PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER) on behalf of the Sierra Club, the MEIC, and the National Wildlife Federation. In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County. This matter was stayed in December 2012. In April 2014, Earthjustice filed a motion for leave to amend the petition for review and to lift the stay.

(All Registrants except PPL Electric)

Clean Water Act

The EPA published its proposed rule under 316(b) for existing facilities in April 2011. The EPA has been evaluating the comments it received to the proposed rule and meeting with industry groups to discuss options. The proposed rule contains two requirements to reduce impact to aquatic organisms at cooling water intake structures. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens (impingement) regardless of the levels of mortality actually occurring or the cost to achieve the standards. The second requirement is to determine and install the best technology available to reduce mortality of aquatic organisms pulled through a plant's cooling water system (entrainment). A form of cost-benefit analysis is allowed for this second requirement involving a site-specific evaluation based on nine factors, including impacts to energy delivery reliability and the remaining useful life of the plant. The final rule is expected by May 16, 2014. Until the final rule is issued, PPL, PPL Energy Supply, LKE, LG&E and KU cannot estimate a range of reasonably possible costs, if any, that would be required to comply with such a regulation.

Effluent Limitations Guidelines (ELGs) and Standards

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations contain requirements that would affect the inspection and operation of CCR facilities, if finalized. The EPA has indicated that it will coordinate these regulations with the regulation of CCRs discussed above. The proposal contains alternative approaches, some of which could significantly impact PPL's coal-fired plants. PPL, PPL Energy Supply, LKE, LG&E and KU worked with industry groups to comment on the proposed regulation on September 20, 2013. The EPA has agreed to a new deadline for the final rule of September 30, 2015. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant. Pending finalization of the ELGs, certain states (including Pennsylvania and Kentucky) and environmental groups are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines.

Other Issues

(All Registrants)

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all or some PCB-containing equipment. The EPA is planning to propose the revised regulations in November 2014. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

On April 21, 2014, the EPA and the U.S. Army Corps of Engineers (Army Corps) published the proposed rule defining waters of the United States (WOTUS) that could significantly expand the federal government's interpretation of what constitutes WOTUS subject to regulation under the Clean Water Act. The comment deadline is July 21, 2014. If the definition is expanded as proposed by the EPA and the Army Corps, permits and other regulatory requirements may be imposed for many matters presently not covered (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands), the implications of which could be significant. Any eventual expansion of this interpretation cannot reliably be estimated at this time but would not be expected to have a material financial impact on the registrants.

(PPL and PPL Energy Supply)

A subsidiary of PPL Energy Supply has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant. In June 2012, a Consent Order and Agreement (COA) was signed allowing the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. The COA required a retrofit of impingement control technology at the intakes to the cooling towers, at a cost that would have been significant. Based on the results of the first year of study, the PADEP has suggested closing the COA and writing a new COA to resolve the issue. PPL is in negotiations with the agency at this time. PPL and PPL Energy Supply cannot predict at this time the outcome of the proposed new COA and what impact, if any, it would have on their facilities, but the costs could be significant.

(PPL, LKE, LG&E and KU)

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. In September 2013, the court reversed the Cabinet order upholding the permit and remanded the permit to the agency for further proceedings. In October 2013, LG&E filed a notice of appeal with the Kentucky Court of Appeals. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

Superfund and Other Remediation *(All Registrants)*

PPL Electric is potentially responsible for costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase substantially more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL Energy Supply, PPL Electric, LG&E and KU undertake remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on these Registrants' operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for the Registrants.

Environmental Matters - WPD *(PPL)*

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

Other

Nuclear Insurance *(PPL and PPL Energy Supply)*

The Price-Anderson Act is a United States Federal law which governs liability-related issues and ensures the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities. It also seeks to limit the

liability of nuclear reactor owners for such claims from any single incident. Effective September 10, 2013, the liability limit per incident is \$13.6 billion for such claims which is funded by insurance coverage from American Nuclear Insurers and an industry assessment program.

Under the industry assessment program, in the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act as amended, PPL Susquehanna could be assessed up to \$255 million per incident, payable at \$38 million per year.

Additionally, PPL Susquehanna purchases property insurance programs from NEIL, an industry mutual insurance company of which PPL Susquehanna is a member. Effective April 1, 2014, facilities at the Susquehanna plant are insured against property damage losses up to \$2.0 billion. PPL Susquehanna also purchases an insurance program that provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the NEIL property and replacement power insurance programs, PPL Susquehanna could be assessed retrospective premiums in the event of the insurers' adverse loss experience. This maximum assessment is \$46 million.

Pennsylvania Coal Plants (PPL and PPL Energy Supply)

PPL Energy Supply believes its competitive coal-fired generation assets in Pennsylvania are well positioned to meet current environmental requirements based on prior and planned investments. However, the current levels of energy and capacity prices in PJM, as well as management's forward view of these prices using its fundamental pricing models, continue to challenge the recoverability of PPL Energy Supply's investment in its Pennsylvania coal-fired generation assets. In the fourth quarter of 2013, management tested the Brunner Island and Montour plants for impairment and concluded neither was impaired as of December 31, 2013. The recoverability test was very sensitive to forward energy and capacity price assumptions, as well as forecasted operation and maintenance and capital spending. Therefore, a further decline in forecasted long-term energy or capacity prices or changes in environmental laws requiring additional capital or operation and maintenance expenditures, could negatively impact PPL Energy Supply's operations of these facilities and potentially result in future impairment charges for some or all of the carrying value of these plants. There were no events or changes in circumstances that indicated a recoverability test was required in the first quarter of 2014. However, PPL Energy Supply will be closely monitoring the PJM capacity auction results in May 2014, which could require a recoverability test to be performed in the second quarter of 2014. The carrying value of the Pennsylvania coal-fired generation assets was \$2.6 billion as of March 31, 2014 (\$1.4 billion for Brunner Island and \$1.2 billion for Montour).

Labor Unions (PPL, PPL Energy Supply and PPL Electric)

On May 11, 2014, PPL's, PPL Energy Supply's and PPL Electric's bargaining agreement with its largest IBEW local expires. The agreement covers approximately 20% of PPL's, 24% of PPL Energy Supply's and 63% of PPL Electric's total workforce. Negotiations on a new agreement commenced in January 2014 and are continuing. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of these negotiations. If there were to be a work stoppage, a significant disruption of operations could occur which could have an adverse financial impact. To help mitigate such risks, PPL, PPL Energy Supply and PPL Electric have been making preparations to maintain critical services.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of March 31, 2014. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at

March 31, 2014 and December 31, 2013, was \$26 million for PPL and \$19 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at March 31, 2014	Expiration Date
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 12 (b)	2017 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	128 (c)	
<u>PPL Energy Supply</u>		
Letters of credit issued on behalf of affiliates	30 (d)	2014 - 2015
Indemnifications for sales of assets	250 (e)	2025
Guarantee of a portion of a divested unconsolidated entity's debt	22 (f)	2018
<u>PPL Electric</u>		
Guarantee of inventory value	32 (g)	2017
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301 (h)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(i)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At March 31, 2014, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- (d) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.
- (e) Indemnifications are governed by the specific sales agreement and include breach of the representations, warranties and covenants, and liabilities for certain other matters. PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration date noted is based on those cases in which the agreements provide for specific limits.
- (f) Relates to a guarantee of one-third of the divested entity's debt. The purchaser provided a cross-indemnity, secured by a lien on the purchaser's stock of the divested entity. The exposure noted reflects principal only.
- (g) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
- (h) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing the December 2012 order of the Henderson Circuit Court, confirming the arbitration award. A decision in the appellate matter may occur during 2014. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.

- (i) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts currently included within a demand charge designed and currently expected to cover these costs over the term of the contract. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" and "Guarantees and Other Assurances" in Note 15 in PPL's, LKE's, LG&E's and KU's 2013 Form 10-K for additional information on the OVEC power purchase contract.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable (PPL Energy Supply and PPL Electric)

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. The sales and purchases between PPL EnergyPlus and PPL Electric are included in the Statements of Income as "Unregulated wholesale energy to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Default Service Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, PPL EnergyPlus' credit limit was \$20 million at March 31, 2014. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At March 31, 2014, PPL Energy Supply had a net credit exposure of \$29 million from PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Support Costs (All Registrants except PPL)

Both PPL Services and LKS provide the respective PPL and LKE subsidiaries with administrative, management and support services. Where applicable, the costs of these services are charged to the respective subsidiaries as direct support costs. General costs that cannot be directly attributed to a specific subsidiary are allocated and charged to the respective subsidiaries as indirect support costs. PPL Services uses a three-factor methodology that includes the subsidiaries' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services and LKS charged the following amounts for the periods ended March 31, and believe these amounts are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

	Three Months	
	2014	2013
PPL Energy Supply from PPL Services	\$ 58	\$ 57
PPL Electric from PPL Services	41	38
LKE from PPL Services	4	4
LG&E from LKS	48	39
KU from LKS	53	66

LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Electric)

A PPL Electric subsidiary periodically holds revolving demand notes from certain affiliates. At March 31, 2014, there was no balance outstanding. At December 31, 2013, \$150 million was outstanding and was reflected in "Notes receivable from affiliate" on the Balance Sheet. The interest rates on borrowings are equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at December 31, 2013, was 1.92%. Interest earned on these revolving facilities was not significant for the three months ended March 31, 2014 and 2013.

(LKE)

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rate on borrowings is equal to one-month LIBOR plus a spread. There were no balances outstanding at March 31, 2014 and December 31, 2013.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. At March 31, 2014 and December 31, 2013, \$4 million and \$70 million were outstanding and were reflected in "Notes receivable from affiliates" on the Balance Sheets. The interest rate on the loan based on the PPL affiliate's credit rating is currently equal to one-month LIBOR plus a spread. The interest rates on the outstanding borrowing at March 31, 2014 and December 31, 2013 were 2.16% and 2.17%. Interest income on this note was not significant for the three months ended March 31, 2014 and 2013.

Other (All Registrants except PPL and LKE)

See Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

(All Registrants)

The breakdown of "Other Income (Expense) - net" for the periods ended March 31 was:

	Three Months	
	2014	2013
PPL		
Other Income		
Earnings on securities in NDT funds	\$ 6	\$ 5
Interest income	1	1
AFUDC - equity component	3	3
Miscellaneous - Domestic	2	2
Miscellaneous - U.K.		1
Total Other Income	12	12
Other Expense		
Economic foreign currency exchange contracts (Note 14)	24	(119)
Charitable contributions	7	4
Miscellaneous - Domestic	3	4
Miscellaneous - U.K.	1	1
Total Other Expense	35	(110)
Other Income (Expense) - net	\$ (23)	\$ 122

The components of "Other Income (Expense) - net" for the three months ended March 31, 2014 and 2013 for PPL Energy Supply, PPL Electric, LKE, LG&E and KU were not significant.

13. Fair Value Measurements and Credit Concentration

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are

predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three months ended March 31, 2014 and 2013, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2013 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	March 31, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 1,256	\$ 1,256			\$ 1,102	\$ 1,102		
Restricted cash and cash equivalents (a)	491	491			156	156		
Price risk management assets:								
Energy commodities	1,417	2	\$ 1,330	\$ 85	1,188	3	\$ 1,123	\$ 62
Interest rate swaps	9		9		91		91	
Foreign currency contracts	5		5					
Total price risk management assets	1,431	2	1,344	85	1,279	3	1,214	62
NDT funds:								
Cash and cash equivalents	13	13			14	14		
Equity securities								
U.S. large-cap	556	415	141		547	409	138	
U.S. mid/small-cap	83	34	49		81	33	48	
Debt securities								
U.S. Treasury	95	95			95	95		
U.S. government sponsored agency	6		6		6		6	
Municipality	80		80		77		77	
Investment-grade corporate	41		41		38		38	
Other	4		4		5		5	
Receivables (payables), net	1	(1)	2		1	(1)	2	
Total NDT funds	879	556	323		864	550	314	
Auction rate securities (b)	16			16	19			19
Total assets	\$ 4,073	\$ 2,305	\$ 1,667	\$ 101	\$ 3,420	\$ 1,811	\$ 1,528	\$ 81
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,527	\$ 1	\$ 1,458	\$ 68	\$ 1,070	\$ 4	\$ 1,028	\$ 38
Interest rate swaps	47		47		36		36	
Foreign currency contracts	123		123		106		106	
Cross-currency swaps	55		55		32		32	
Total price risk management liabilities	\$ 1,752	\$ 1	\$ 1,683	\$ 68	\$ 1,244	\$ 4	\$ 1,202	\$ 38
PPL Energy Supply								
Assets								
Cash and cash equivalents	\$ 441	\$ 441			\$ 239	\$ 239		
Restricted cash and cash equivalents (a)	429	429			85	85		
Price risk management assets:								
Energy commodities	1,417	2	\$ 1,330	\$ 85	1,188	3	\$ 1,123	\$ 62
Total price risk management assets	1,417	2	1,330	85	1,188	3	1,123	62
NDT funds:								
Cash and cash equivalents	13	13			14	14		
Equity securities								
U.S. large-cap	556	415	141		547	409	138	
U.S. mid/small-cap	83	34	49		81	33	48	
Debt securities								
U.S. Treasury	95	95			95	95		
U.S. government sponsored agency	6		6		6		6	
Municipality	80		80		77		77	
Investment-grade corporate	41		41		38		38	
Other	4		4		5		5	
Receivables (payables), net	1	(1)	2		1	(1)	2	
Total NDT funds	879	556	323		864	550	314	
Auction rate securities (b)	13			13	16			16
Total assets	\$ 3,179	\$ 1,428	\$ 1,653	\$ 98	\$ 2,392	\$ 877	\$ 1,437	\$ 78

	March 31, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,527	\$ 1	\$ 1,458	\$ 68	\$ 1,070	\$ 4	\$ 1,028	\$ 38
Total price risk management liabilities	\$ 1,527	\$ 1	\$ 1,458	\$ 68	\$ 1,070	\$ 4	\$ 1,028	\$ 38

PPL Electric

Assets								
Cash and cash equivalents	\$ 42	\$ 42			\$ 25	\$ 25		
Restricted cash and cash equivalents (c)	1	1			12	12		
Total assets	\$ 43	\$ 43			\$ 37	\$ 37		

LKE

Assets								
Cash and cash equivalents	\$ 30	\$ 30			\$ 35	\$ 35		
Restricted cash and cash equivalents (d)	21	21			22	22		
Total assets	\$ 51	\$ 51			\$ 57	\$ 57		

Liabilities

Price risk management liabilities:								
Interest rate swaps	\$ 40		\$ 40		\$ 36		\$ 36	
Total price risk management liabilities	\$ 40		\$ 40		\$ 36		\$ 36	

LG&E

Assets								
Cash and cash equivalents	\$ 9	\$ 9			\$ 8	\$ 8		
Restricted cash and cash equivalents (d)	21	21			22	22		
Total assets	\$ 30	\$ 30			\$ 30	\$ 30		

Liabilities

Price risk management liabilities:								
Interest rate swaps	\$ 40		\$ 40		\$ 36		\$ 36	
Total price risk management liabilities	\$ 40		\$ 40		\$ 36		\$ 36	

KU

Assets								
Cash and cash equivalents	\$ 21	\$ 21			\$ 21	\$ 21		
Total assets	\$ 21	\$ 21			\$ 21	\$ 21		

- (a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Included in "Other noncurrent assets" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the three months ended March 31 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	2014			2013				
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
Balance at beginning of period	\$ 24	\$ 19		\$ 43	\$ 22	\$ 16	\$ 1	\$ 39
Total realized/unrealized gains (losses)								
Included in earnings	(135)			(135)	(8)			(8)
Included in OCI (a)			\$ (1)	(1)			3	3
Sales		(3)		(3)				
Settlements	128			128	(1)			(1)
Transfers into Level 3					1			1
Transfers out of Level 3			1	1			(4)	(4)
Balance at end of period	\$ 17	\$ 16	\$ 1	\$ 33	\$ 14	\$ 16	\$ (4)	\$ 30

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	2014				2013			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL Energy Supply								
Balance at beginning of period	\$ 24	\$ 16		\$ 40	\$ 22	\$ 13		\$ 35
Total realized/unrealized gains (losses)								
Included in earnings	(135)			(135)	(8)			(8)
Sales		(3)		(3)				
Settlements	128			128	(1)			(1)
Transfers into Level 3					1			1
Balance at end of period	\$ 17	\$ 13		\$ 30	\$ 14	\$ 13		\$ 27

(a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in and quantitative information about the fair value measurement of assets and liabilities classified as Level 3 are as follows:

	March 31, 2014			
	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Natural gas contracts (b)	\$ 13	Discounted cash flow	Proprietary model used to calculate forward prices	11% - 100% (73%)
Power sales contracts (c)	(43)	Discounted cash flow	Proprietary model used to calculate forward prices	11% - 100% (83%)
FTR purchase contracts (d)	3	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Heat rate options (e)	44	Discounted cash flow	Proprietary model used to calculate forward prices	23% - 59% (44%)
Auction rate securities (f)	16	Discounted cash flow	Modeled from SIFMA Index	61% - 78% (70%)
PPL Energy Supply				
Energy commodities				
Natural gas contracts (b)	\$ 13	Discounted cash flow	Proprietary model used to calculate forward prices	11% - 100% (73%)
Power sales contracts (c)	(43)	Discounted cash flow	Proprietary model used to calculate forward prices	11% - 100% (83%)
FTR purchase contracts (d)	3	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Heat rate options (e)	44	Discounted cash flow	Proprietary model used to calculate forward prices	23% - 59% (44%)
Auction rate securities (f)	13	Discounted cash flow	Modeled from SIFMA Index	63% - 78% (71%)

December 31, 2013

	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Natural gas contracts (b)	\$ 36	Discounted cash flow	Proprietary model used to calculate forward prices	10% - 100% (86%)
Power sales contracts (c)	(12)	Discounted cash flow	Proprietary model used to calculate forward prices	100% (100%)
Auction rate securities (f)	19	Discounted cash flow	Modeled from SIFMA Index	10% - 80% (63%)

PPL Energy Supply

Energy commodities				
Natural gas contracts (b)	\$ 36	Discounted cash flow	Proprietary model used to calculate forward prices	10% - 100% (86%)
Power sales contracts (c)	(12)	Discounted cash flow	Proprietary model used to calculate forward prices	100% (100%)
Auction rate securities (f)	16	Discounted cash flow	Modeled from SIFMA Index	10% - 80% (63%)

- (a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs.
- (b) As the forward price of natural gas increases/(decreases), the fair value of the contracts (decreases)/increases.
- (c) As forward market prices increase/(decrease), the fair value of contracts (decreases)/increases. As volumetric assumptions for contracts in a gain position increase/(decrease), the fair value of contracts increases/(decreases). As volumetric assumptions for contracts in a loss position increase/(decrease), the fair value of the contracts (decreases)/increases.
- (d) As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).
- (e) The proprietary model used to calculate fair value incorporates market heat rates, correlations and volatilities. As the market implied heat rate increases/(decreases), the fair value of the contracts increases/(decreases).
- (f) The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the periods ended March 31 are reported in the Statements of Income as follows:

	Three Months					
	Energy Commodities, net					
	Unregulated Wholesale Energy		Unregulated Retail Energy		Energy Purchases	
	2014	2013	2014	2013	2014	2013
PPL and PPL Energy Supply						
Total gains (losses) included in earnings	\$ (89)	\$ (2)	\$ (63)	\$ (7)	\$ 17	\$ 1
Change in unrealized gains (losses) relating to positions still held at the reporting date	(13)	(2)	(33)	(7)	1	1

Price Risk Management Assets/Liabilities - Energy Commodities (PPL and PPL Energy Supply)

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative contracts, which are valued using the market approach and are classified as Level 1. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. Energy commodity contracts include forwards, futures, swaps, options and structured transactions and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and standard industry models. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Level 3 contracts are valued using PPL proprietary models which may include significant unobservable inputs such as delivery at a location where pricing is unobservable, delivery dates that are beyond the dates for which independent quotes are available, volumetric assumptions, implied volatilities, implied correlations and market implied heat rates. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to

the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2013 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practically be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. For PPL, the primary reason for the transfers during 2014 and 2013 was the change in the significance of the credit valuation adjustment. Cross-currency swaps classified as Level 3 are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

(PPL and PPL Energy Supply)

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets.
- The fair value measurements of investments in commingled equity funds are classified as Level 2. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as monthly payment data, future predicted cash flows, collateral performance and new issue data.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The probability of realizing losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3.

Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

Nonrecurring Fair Value Measurements (PPL and PPL Energy Supply)

The following nonrecurring fair value measurement occurred during the three months ended March 31, 2014, resulting in an asset impairment:

	Carrying Amount (a)		Fair Value Measurement Using Level 3		Loss (b)
PPL and PPL Energy Supply					
Kerr Dam Project	\$ 47	\$	29	\$	18

(a) Represents carrying value before fair value measurement.

(b) The loss on the Kerr Dam Project was recorded in the Supply segment and included in "Other operation and maintenance" on PPL's and PPL Energy Supply's Statement of Income.

The significant unobservable inputs used in and the quantitative information about the nonrecurring fair value measurement of assets and liabilities classified as Level 3 are as follows:

	Fair Value, net Asset (Liability)	Valuation Technique	Significant Unobservable Input(s)	Range (Weighted Average)(a)
PPL and PPL Energy Supply				
Kerr Dam Project				
March 31, 2014	\$ 29	Discounted cash flow	Proprietary model used to calculate plant value	38% (38%)

(a) The range and weighted average represent the percentage of fair value derived from the unobservable inputs.

Kerr Dam Project

As disclosed in Note 11 in PPL's and PPL Energy Supply's 2013 Form 10-K, PPL Montana holds a joint operating license issued for the Kerr Dam Project. The license extends until 2035 and, between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase, hold and operate the Kerr Dam Project. The parties submitted the issue of the appropriate amount of the conveyance price to arbitration in February 2013. In March 2014, the arbitration panel issued its final decision holding that the conveyance price payable by the Tribes to PPL Montana is \$18 million. As a result of the decision, PPL Energy Supply performed a recoverability test on the Kerr Dam Project and recorded an impairment charge. PPL Energy Supply performed an internal analysis using an income approach based on discounted cash flows (a proprietary PPL model) to assess the fair value of the Kerr Dam Project. Assumptions used in the PPL proprietary model were the conveyance price, forward energy price curves, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the business planning process and a market participant discount rate. Through this analysis, PPL Energy Supply determined the fair value of the Kerr Dam Project to be \$29 million.

The assets were valued by the PPL Energy Supply Financial Department, which reports to the President of PPL Energy Supply. Accounting personnel, who report to the CFO interpreted the analysis to appropriately classify the assets in the fair value hierarchy.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of contract adjustment payments related to the 2011 Purchase Contract component of the 2011 Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	\$ 11	\$ 11	\$ 21	\$ 22
Long-term debt	20,818	22,350	20,907	22,177
PPL Energy Supply				
Long-term debt	2,524	2,680	2,525	2,658
PPL Electric				
Long-term debt	2,306	2,555	2,315	2,483
LKE				
Long-term debt	4,565	4,807	4,565	4,672
LG&E				
Long-term debt	1,353	1,413	1,353	1,372
KU				
Long-term debt	2,091	2,238	2,091	2,155

(a) Included in "Other current liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, approximates fair value due to the variable interest rates associated with the short-term debt and is classified as Level 2.

Credit Concentration Associated with Financial Instruments

(All Registrants)

Contracts are entered into with many entities for the purchase and sale of energy. When NPNS is elected, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

(PPL and PPL Energy Supply)

At March 31, 2014, PPL and PPL Energy Supply had credit exposure of \$997 million from energy trading partners, excluding exposure from related parties (PPL Energy Supply only) and the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, PPL's credit exposure was reduced to \$372 million and PPL Energy Supply's credit exposure was reduced to \$371 million. The top ten counterparties accounted for \$212 million, or 57%, of these exposures. Nine of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 94% of the top ten exposures. The remaining counterparty has not been rated by S&P or Moody's, but is current on its obligations. See Note 11 for information regarding PPL Energy Supply's related party credit exposure.

(PPL Electric)

PPL Electric is exposed to credit risk under energy supply contracts (including its supply contracts with PPL EnergyPlus); however, its PUC-approved recovery mechanism is anticipated to substantially eliminate this exposure.

(LKE, LG&E and KU)

At March 31, 2014, LKE's, LG&E's and KU's credit exposure was not significant.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market

prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value, and other risk management metrics.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The table below summarizes the market risks that affect PPL and its Subsidiary Registrants.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Commodity price risk (including basis and volumetric risk)	X	X	M	M	M	M
Interest rate risk:						
Debt issuances	X	X	M	M	M	M
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Equity securities price risk:						
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Future stock transactions	X					
Foreign currency risk - WPD investment and earnings	X					

X = PPL and PPL Energy Supply actively mitigate market risks through their risk management programs described above.

M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

Commodity price risk

- PPL is exposed to commodity price risk through its domestic subsidiaries as described below. Volumetric risk is significantly mitigated at WPD as a result of the method of regulation in the U.K.
- PPL Energy Supply is exposed to commodity price risk for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities.
- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. WPD holds over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt and LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances. This risk for PPL Electric, LG&E and KU is significantly mitigated due to recovery mechanisms in place.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with defined benefit plans. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL Energy Supply is exposed to equity securities price risk in the NDT funds.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments and earnings in U.K. affiliates.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL Energy Supply is exposed to credit risk from "in-the-money" commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers, financial institutions, other wholesale customers and retail customers.

The majority of PPL and PPL Energy Supply's credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with energy trading partners.

Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was \$10 million and \$9 million at March 31, 2014 and December 31, 2013.

PPL Electric, LKE and LG&E had no obligation to return cash collateral under master netting arrangements at March 31, 2014 and December 31, 2013.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of \$21 million and \$22 million at March 31, 2014 and December 31, 2013.

PPL Energy Supply, PPL Electric and KU had not posted any cash collateral under master netting arrangements at March 31, 2014 and December 31, 2013.

See "Offsetting Derivative Investments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

Commodity price risk, including basis and volumetric risk, is among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its unregulated wholesale and unregulated retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 7,369 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,309 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts are non-derivatives or NPNS is elected and therefore they are not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their non-trading activities into two categories: cash flow hedges and economic activity as discussed below.

Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. There were no active cash flow hedges during the three months ended March 31, 2014. At March 31, 2014, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$24 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. There were no such reclassifications for the three months ended March 31, 2014 and 2013.

For the three months ended March 31, 2014 and 2013, there was no hedge ineffectiveness associated with energy derivatives.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or because hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity also includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at March 31, 2014 range in maturity through 2019.

Examples of economic activity may include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally capped at the price at

which the generating unit would be dispatched and therefore does not expose PPL Energy Supply to uncovered market price risk.

The unrealized gains (losses) for economic activity for the periods ended March 31 were as follows.

	Three Months	
	2014	2013
Operating Revenues		
Unregulated wholesale energy	\$ (789)	\$ (822)
Unregulated retail energy	(26)	(8)
Operating Expenses		
Fuel	(1)	(1)
Energy purchases	580	634

Commodity Price Risk (Trading)

PPL Energy Supply has a proprietary trading strategy which is utilized to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in losses if prices do not move in the manner or direction anticipated. Net energy trading margins, which are included in "Unregulated wholesale energy" on the Statements of Income, were insignificant for the three months ended March 31, 2014 and 2013.

Commodity Volumes

At March 31, 2014, the net volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

Commodity	Unit of Measure	Volumes (a)			
		2014 (b)	2015	2016	Thereafter
Power	MWh	(27,112,584)	(28,794,377)	3,496,447	14,130,735
Capacity	MW-Month	(14,918)	(5,120)	501	9
Gas	MMBtu	63,248,020	14,120,116	57,884,707	25,814,197
Coal	Tons	25,000			
FTRs	MW-Month	4,734	1,705		
Oil	Barrels	156,000	436,233	331,258	279,060

(a) Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

(b) Represents balance of the current year.

Interest Rate Risk

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates.

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At March 31, 2014, outstanding interest rate swap contracts range in maturity through 2025 for PPL's domestic interest rate swaps. These swaps had an aggregate notional value of \$500 million at March 31, 2014.

At March 31, 2014, PPL held a notional position in cross-currency interest rate swaps totaling \$1.3 billion that range in maturity through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three months ended March 31, 2014 and 2013, hedge ineffectiveness associated with interest rate derivatives was insignificant.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL had an insignificant amount reclassified for the three months ended March 31, 2014 associated with discontinued cash flow hedges and no such reclassifications for the three months ended March 31, 2013.

At March 31, 2014, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were \$(12) million. Amounts are reclassified as the hedged interest payments are made.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the underlying interest expense is recorded. At March 31, 2014, LG&E held contracts with a notional amount of \$179 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at March 31, 2014 had a notional amount of £345 million (approximately \$549 million based on contracted rates). The settlement dates of these contracts range from May 2014 through December 2015.

Additionally, a PPL Global subsidiary that has a U.S. dollar functional currency entered into GBP intercompany loans payable with PPL WEM subsidiaries that have GBP functional currency. The loans qualify as a net investment hedge for the PPL Global subsidiary. As such, the foreign currency gains and losses on the intercompany loans for the PPL Global subsidiary are recorded to the foreign currency translation adjustment component of OCI. At March 31, 2014, the outstanding balances of the intercompany loans were £40 million (approximately \$67 million based on spot rates). For the three months ended March 31, 2014 and 2013, PPL recognized an insignificant amount and \$5 million of net investment hedge gains (losses) on the intercompany loans in the foreign currency translation adjustment component of OCI.

At March 31, 2014, PPL had \$(5) million of accumulated net investment hedge after-tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI, compared to an insignificant amount at December 31, 2013.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At March 31, 2014, the total exposure hedged by PPL was approximately £1.8 billion (approximately \$3.0 billion based on contracted rates). These contracts had termination dates ranging from April 2014 through October 2016.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Energy Supply include certain full-requirement sales contracts, other physical purchase and sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized currently in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at March 31, 2014 and December 31, 2013. PPL and PPL Energy Supply have many physical and financial commodity purchases and sales contracts that economically hedge commodity price risk but do not receive hedge accounting treatment. As such, realized and unrealized gains (losses) on these contracts are recorded currently in earnings. Generally each contract is considered a unit of account and PPL and PPL Energy Supply present gains (losses) on physical and financial commodity sales contracts in "Unregulated wholesale energy" or "Unregulated retail energy" and (gains) losses on physical and financial commodity purchase contracts in "Fuel" or "Energy purchases" on the Statements of Income. Certain of the economic hedging strategies employed by PPL Energy Supply utilize a combination of financial purchases and sales contracts which are similarly reported gross as an expense and revenue, respectively, on the Statements of Income. PPL Energy Supply records realized hourly net sales or purchases of physical power with PJM in its Statements of Income as "Unregulated wholesale energy" if in a net sales position and "Energy purchases" if in a net purchase position.

See Notes 1 and 19 in each Registrant's 2013 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2014				December 31, 2013			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ 7	\$ 3	\$ 4	\$ 4	\$ 82	\$ 4	\$ 82	\$ 4
Cross-currency swaps (b)		4				4		
Foreign currency contracts		18		62		16		55
Commodity contracts			\$ 1,080	1,211			\$ 860	750
Total current	7	25	1,080	1,277	82	20	860	809
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	2	4		36	9			32
Cross-currency swaps (b)		51				28		
Foreign currency contracts		6	5	37		4		31
Commodity contracts			337	316			328	320
Total noncurrent	2	61	342	389	9	32	328	383
Total derivatives	\$ 9	\$ 86	\$ 1,422	\$ 1,666	\$ 91	\$ 52	\$ 1,188	\$ 1,192

(a) Represents the location on the Balance Sheets.

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the three months ended March 31.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	2014		2013	
	2014	2013		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ (46)	\$ 9	Interest expense	\$ (5)	\$ 2	\$ (5)	
Cross-currency swaps	(25)	73	Other income (expense) - net	(29)		69	
Commodity contracts			Unregulated wholesale energy	1		67	\$ 1
			Energy purchases	7		(16)	
			Depreciation	1			
Total	\$ (71)	\$ 82		\$ (25)	\$ 2	\$ 115	\$ 1

Net Investment Hedges:

Foreign currency contracts	\$ (4)	\$ 16
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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2014	2013
Foreign currency contracts	Other income (expense) - net	\$ (24)	\$ 119
Interest rate swaps	Interest expense	(2)	(2)
Commodity contracts	Unregulated wholesale energy (a)	(3,044)	(706)
	Unregulated retail energy	(64)	(7)
	Fuel	(1)	1
	Energy purchases (b)	2,364	586
	Total	\$ (771)	\$ (9)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2014	2013
Interest rate swaps	Regulatory assets - noncurrent	\$ (4)	\$ 4

Derivatives Designated as Cash Flow Hedges	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2014	2013
Interest rate swaps	Regulatory liabilities - noncurrent		\$ 10

- (a) 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather.
(b) 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather.

(PPL Energy Supply)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2014		December 31, 2013	
	Derivatives not designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Commodity contracts	\$ 1,080	\$ 1,211	\$ 860	\$ 750
Total current	1,080	1,211	860	750
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Commodity contracts	337	316	328	320
Total noncurrent	337	316	328	320
Total derivatives	\$ 1,417	\$ 1,527	\$ 1,188	\$ 1,070

- (a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the three months ended March 31.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income on Derivative	2014		2013	
	2014	2013		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
	Cash Flow Hedges:						
Commodity contracts			Unregulated				
			wholesale energy	\$ 1		\$ 67	\$ 1
			Energy purchases	7		(16)	
			Depreciation	1			
Total				\$ 9		\$ 51	\$ 1

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	2014	2013
Commodity contracts	Unregulated wholesale energy (a)	\$ (3,044)	\$ (706)
	Unregulated retail energy	(64)	(7)
	Fuel	(1)	1
	Energy purchases (b)	2,364	586
	Total	\$ (745)	\$ (126)

- (a) 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather.
(b) 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather.

(LKE)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the three months ended March 31.

Derivatives Instruments	Location of Gain (Loss)	2014	2013
Interest rate swaps	Regulatory liabilities - noncurrent		\$ 10

(LG&E)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the three months ended March 31.

Derivative Instruments	Location of Gain (Loss)	2014	2013
Interest rate swaps	Regulatory liabilities - noncurrent		\$ 5

(KU)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the three months ended March 31.

Derivative Instruments	Location of Gain (Loss)	2014	2013
Interest rate swaps	Regulatory liabilities - noncurrent		\$ 5

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	March 31, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		\$ 4		\$ 4
Total current		4		4
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		36		32
Total noncurrent		36		32
Total derivatives		\$ 40		\$ 36

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the three months ended March 31.

Derivative Instruments	Location of Gain (Loss)	2014	2013
Interest rate swaps	Interest expense	\$ (2)	\$ (2)

Derivative Instruments	Location of Gain (Loss)	2014	2013
Interest rate swaps	Regulatory assets - noncurrent	\$ (4)	\$ 4

(All Registrants except PPL Electric and KU)

Offsetting Derivative Instruments

PPL, PPL Energy Supply, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements or similar agreements in place including derivative clearing agreements with futures commission merchants (FCMs) to permit the trading of cleared derivative products on one or more futures exchanges. The clearing arrangements permit an FCM to use and apply any property in its possession as a set off to pay amounts or discharge obligations owed by a customer upon default of the customer and typically do not place any restrictions on the FCM's use of collateral posted by the customer. PPL, PPL Energy Supply, LKE, LG&E and KU and their subsidiaries also enter into agreements pursuant to which they trade certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to setoff amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, PPL Energy Supply, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net
		Derivative Instruments	Cash Collateral Received			Derivative Instruments	Cash Collateral Pledged	
March 31, 2014								
PPL								
Energy Commodities	\$ 1,417	\$ 1,268	\$ 8	\$ 141	\$ 1,527	\$ 1,268	\$ 94	\$ 165
Treasury Derivatives	14	14			225	14	24	187
Total	\$ 1,431	\$ 1,282	\$ 8	\$ 141	\$ 1,752	\$ 1,282	\$ 118	\$ 352

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
PPL Energy Supply								
Energy Commodities	\$ 1,417	\$ 1,268	\$ 8	\$ 141	\$ 1,527	\$ 1,268	\$ 94	\$ 165
LKE								
Treasury Derivatives					\$ 40		\$ 20	\$ 20
LG&E								
Treasury Derivatives					\$ 40		\$ 20	\$ 20
December 31, 2013								
PPL								
Energy Commodities	\$ 1,188	\$ 912	\$ 7	\$ 269	\$ 1,070	\$ 912	\$ 1	\$ 157
Treasury Derivatives	91	61		30	174	61	23	90
Total	\$ 1,279	\$ 973	\$ 7	\$ 299	\$ 1,244	\$ 973	\$ 24	\$ 247
PPL Energy Supply								
Energy Commodities	\$ 1,188	\$ 912	\$ 7	\$ 269	\$ 1,070	\$ 912	\$ 1	\$ 157
LKE								
Treasury Derivatives					\$ 36		\$ 20	\$ 16
LG&E								
Treasury Derivatives					\$ 36		\$ 20	\$ 16

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

At March 31, 2014, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit risk-related contingent features and were in a net liability position is summarized as follows:

	PPL	PPL Energy Supply	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 339	\$ 168	\$ 27	\$ 27
Aggregate fair value of collateral posted on these derivative instruments	57	36	21	21
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	363	209	7	7

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15. Goodwill

(PPL)

The change in the carrying amount of goodwill for the three months ended March 31, 2014 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

16. Asset Retirement Obligations

(All Registrants except PPL Electric)

The changes in the carrying amounts of AROs were as follows.

	PPL	PPL Energy Supply	LKE	LG&E	KU
Balance at December 31, 2013	\$ 705	\$ 404	\$ 252	\$ 74	\$ 178
Accretion expense	11	8	3	1	2
Changes in estimated cash flow or settlement date	4		4	1	3
Effect of foreign currency exchange rates	1				
Obligations settled	(3)	(2)	(1)	(1)	
Balance at March 31, 2014	<u>\$ 718</u>	<u>\$ 410</u>	<u>\$ 258</u>	<u>\$ 75</u>	<u>\$ 183</u>

Substantially all of the ARO balances are classified as noncurrent at March 31, 2014 and December 31, 2013.

(PPL and PPL Energy Supply)

The most significant ARO recorded by PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. Assets in the NDT funds are legally restricted for purposes of settling this ARO. See Notes 13 and 17 for additional information on these assets.

(PPL, LKE, LG&E and KU)

LG&E's and KU's accretion and depreciation expense are recorded as a regulatory asset, such that there is no net earnings impact.

17. Available-for-Sale Securities

(PPL and PPL Energy Supply)

Securities held by the NDT funds and auction rate securities are classified as available-for-sale. Available-for-sale securities are carried on the Balance Sheets at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI and the fair value of available-for-sale securities.

	March 31, 2014				December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
NDT funds:								
PPL and PPL Energy Supply								
Cash and cash equivalents	\$ 13			\$ 13	\$ 14			\$ 14
Equity securities	271	\$ 368		639	265	\$ 363		628
Debt securities	218	9	\$ 1	226	217	7	\$ 3	221
Receivables/payables, net	1			1	1			1
Total NDT funds	<u>\$ 503</u>	<u>\$ 377</u>	<u>\$ 1</u>	<u>\$ 879</u>	<u>\$ 497</u>	<u>\$ 370</u>	<u>\$ 3</u>	<u>\$ 864</u>
Auction rate securities:								
PPL	\$ 17		\$ 1	\$ 16	\$ 20		\$ 1	\$ 19
PPL Energy Supply	14		1	13	17		1	16

See Note 13 for details on the securities held by the NDT funds.

There were no securities with credit losses at March 31, 2014 and December 31, 2013.

The following table shows the scheduled maturity dates of debt securities held at March 31, 2014.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 6-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	\$ 11	\$ 88	\$ 57	\$ 79	\$ 235
Fair value	11	90	59	82	242
PPL Energy Supply					
Amortized cost	\$ 11	\$ 88	\$ 57	\$ 76	\$ 232
Fair value	11	90	59	79	239

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended March 31.

	Three Months	
	2014	2013
PPL and PPL Energy Supply		
Proceeds from sales of NDT securities (a)	\$ 27	\$ 24
Other proceeds from sales	3	
Gross realized gains (b)	3	4
Gross realized losses (b)	1	2

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.

(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

18. Accumulated Other Comprehensive Income (Loss)

(PPL and PPL Energy Supply)

The after-tax changes in AOCI by component for the three months ended March 31 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans			Total
		Available- for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	Transition asset (obligation)	
PPL								
December 31, 2012	\$ (149)	\$ 112	\$ 132	\$ 1	\$ (14)	\$ (2,023)	\$ 1	\$ (1,940)
Amounts arising during the period	(245)	23	62					(160)
Reclassifications from AOCI		(1)	(80)		1	34		(46)
Net OCI during the period	(245)	22	(18)		1	34		(206)
March 31, 2013	\$ (394)	\$ 134	\$ 114	\$ 1	\$ (13)	\$ (1,989)	\$ 1	\$ (2,146)
PPL Energy Supply								
December 31, 2013	\$ (11)	\$ 173	\$ 94	\$ 1	\$ (6)	\$ (1,817)	\$ 1	\$ (1,565)
Amounts arising during the period	131	5	(46)					90
Reclassifications from AOCI		(1)	19		1	27		46
Net OCI during the period	131	4	(27)		1	27		136
March 31, 2014	\$ 120	\$ 177	\$ 67	\$ 1	\$ (5)	\$ (1,790)	\$ 1	\$ (1,429)
PPL Energy Supply								
December 31, 2012		\$ 112	\$ 211		\$ (10)	\$ (265)		\$ 48
Amounts arising during the period		23						23
Reclassifications from AOCI		(1)	(30)		1	4		(26)
Net OCI during the period		22	(30)		1	4		(3)
March 31, 2013		\$ 134	\$ 181		\$ (9)	\$ (261)		\$ 45
PPL Energy Supply								
December 31, 2013		\$ 173	\$ 88		\$ (4)	\$ (180)		\$ 77
Amounts arising during the period		5						5
Reclassifications from AOCI		(1)	(5)		1	1		(4)
Net OCI during the period		4	(5)		1	1		1
March 31, 2014		\$ 177	\$ 83		\$ (3)	\$ (179)		\$ 78

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the three months ended March 31. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income during the period; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 9 for additional information.

2014								
Affected Line Item on the Statements of Income								
Details about AOCI	Unregulated Wholesale energy	Energy purchases	Interest Expense	Other Income (Expense), net	Other	Total Pre-tax	Income Taxes	Total After-tax
PPL								
Available-for-sale securities				\$ 2		\$ 2	\$ (1)	\$ 1
Qualifying derivatives								
Interest rate swaps			\$ (3)			(3)	2	(1)
Cross-currency swaps				(29)		(29)	6	(23)
Energy Commodities	\$ 1	\$ 7			\$ 1	9	(4)	5
Total	\$ 1	\$ 7	\$ (3)	\$ (29)	\$ 1	(23)	4	(19)
Defined benefit plans								
Prior service costs						(2)	1	(1)
Net actuarial loss						(36)	9	(27)
Total						\$ (38)	\$ 10	(28)
Total reclassifications								\$ (46)
PPL Energy Supply								
Available-for-sale securities				\$ 2		\$ 2	\$ (1)	\$ 1
Qualifying derivatives								
Energy Commodities	\$ 1	\$ 7			\$ 1	9	(4)	5
Defined benefit plans								
Prior service costs						(2)	1	(1)
Net actuarial loss						(2)	1	(1)
Total						\$ (4)	\$ 2	(2)
Total reclassifications								\$ 4
2013								
Affected Line Item on the Statements of Income								
Details about AOCI	Unregulated Wholesale energy	Energy purchases	Interest Expense	Other Income (Expense), net	Other	Total Pre-tax	Income Taxes	Total After-tax
PPL								
Available-for-sale securities				\$ 2		\$ 2	\$ (1)	\$ 1
Qualifying derivatives								
Interest rate swaps			\$ (5)			(5)	2	(3)
Cross-currency swaps				69		69	(17)	52
Energy Commodities	\$ 67	\$ (16)				51	(20)	31
Total	\$ 67	\$ (16)	\$ (5)	\$ 69		115	(35)	80
Defined benefit plans								
Prior service costs						(2)	1	(1)
Net actuarial loss						(47)	13	(34)
Total						\$ (49)	\$ 14	(35)
Total reclassifications								\$ 46
PPL Energy Supply								
Available-for-sale securities				\$ 2		\$ 2	\$ (1)	\$ 1
Qualifying derivatives								
Energy Commodities	\$ 67	\$ (16)				51	(21)	30
Defined benefit plans								
Prior service costs						(2)	1	(1)
Net actuarial loss						(6)	2	(4)
Total						\$ (8)	\$ 3	(5)
Total reclassifications								\$ 26

19. New Accounting Guidance Pending Adoption

(All Registrants)

Reporting of Discontinued Operations

In April 2014, the Financial Accounting Standards Board issued accounting guidance that changes the criteria for determining what should be classified as a discontinued operation and also changes the related presentation and disclosure requirements. A discontinued operation may include a component of an entity or a group of components of an entity, or a business activity.

A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results when any of the following occurs: (1) The components of an entity or group of components of an entity meets the criteria to be classified as held for sale, (2) The component of an entity or group of components of an entity is disposed of by sale, or (3) The component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff).

For public business entities, this guidance should be applied prospectively to all disposals (or classifications as held for sale) of components of an entity that occur within the annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted.

The Registrants are assessing in which period they will adopt this new guidance. The new guidance will impact the amounts presented as discontinued operations on the Statements of Income and will enhance the related disclosure requirements.

Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This Item 2. "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL Corporation and each of its Subsidiary Registrants. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2013 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy, a summary of PPL's earnings, a description of key factors expected to impact future earnings and a discussion of important financial and operational developments.
- "Results of Operations" for PPL provides a more detailed analysis of earnings by segment, and for the Subsidiary Registrants includes a summary of earnings. For all Registrants, "Margins" provides explanations of non-GAAP financial measures and "Statement of Income Analysis" addresses significant changes in principal items on the Statements of Income, comparing the three months ended March 31, 2014 with 2013.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

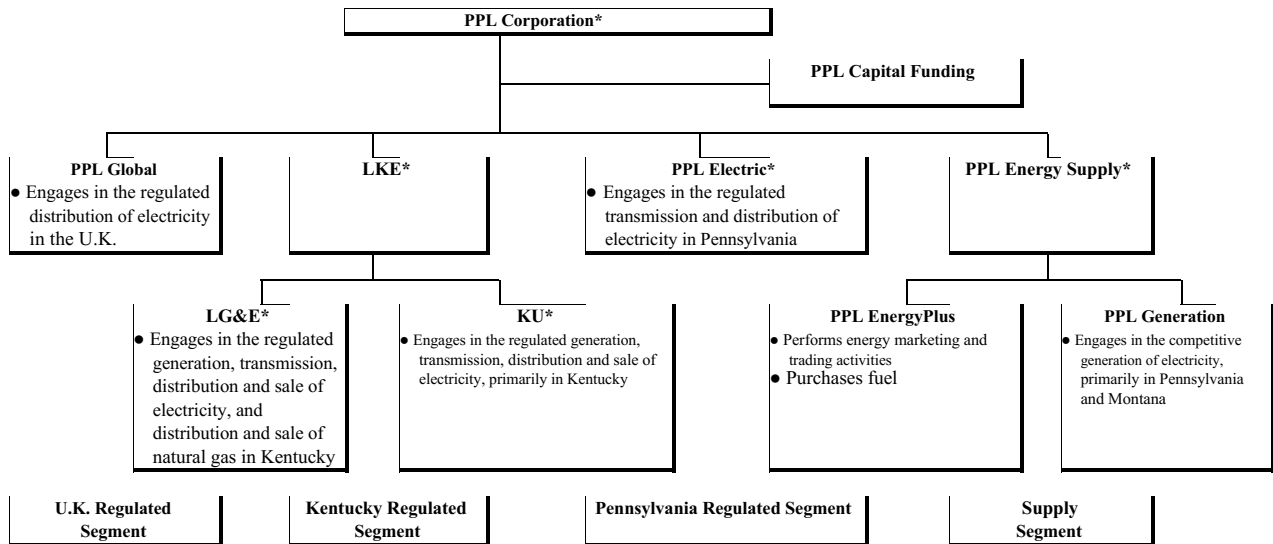
Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is an energy and utility holding company. Through subsidiaries, PPL delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; generates electricity from power plants in the northeastern, northwestern and southeastern U.S.; and markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S.

PPL's principal subsidiaries are shown below (* denotes an SEC registrant):



PPL's reportable segments' results primarily represent the results of its related Subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable Subsidiary Registrants. The U.K. Regulated segment does not have a related Subsidiary Registrant.

(PPL Energy Supply)

PPL Energy Supply, headquartered in Allentown, Pennsylvania, is an indirect wholly owned subsidiary of PPL and is an energy company that through its principal subsidiaries is primarily engaged in the competitive generation and marketing of electricity in two key markets: the northeastern and northwestern U.S. PPL Energy Supply's principal subsidiaries are PPL EnergyPlus, its marketing and trading subsidiary, and PPL Generation, the owner of its generating facilities in Pennsylvania and Montana.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is a direct wholly owned subsidiary of PPL and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is

subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act.

(KU)

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as a public utility by the KPSC, the VSCC and the TRA, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

Business Strategy

(All Registrants except PPL Energy Supply)

The strategy for the regulated businesses of WPD, PPL Electric, LKE, LG&E and KU is to provide efficient, reliable and safe operations and strong customer service, maintain constructive regulatory relationships and achieve timely recovery of costs. These regulated businesses also focus on providing competitively priced energy to customers and achieving stable, long-term growth in earnings and rate base, or RAV, as applicable. Both rate base and RAV are expected to grow for the foreseeable future as a result of significant capital expenditure programs to maintain existing assets and to improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to electricity generation facilities. Future RAV for WPD will also be affected by RIIO-ED1, effective April 1, 2015, as the recovery period for assets placed in service after that date will be extended from 20 to 45 years. See "Other Financial and Operational Developments - RIIO-ED1 - Fast Tracking" below for additional information.

Recovery of capital project costs is attained through various rate-making mechanisms, including periodic base rate case proceedings, FERC formula rate mechanisms, and other regulatory agency-approved recovery mechanisms. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that reduce regulatory lag and provide for timely recovery of prudently incurred costs. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of prudently incurred costs. See "Item 1. Business - Segment Information - U.K. Regulated Segment - Revenues and Regulation" in PPL's 2013 Form 10-K for changes to the regulatory framework in the U.K. applicable to WPD beginning in April 2015.

(PPL and PPL Energy Supply)

The strategy for PPL Energy Supply is to optimize the value from its competitive generation asset and marketing portfolios while mitigating near-term volatility in both cash flows and earnings. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. PPL Energy Supply is focused on maintaining profitability during the current and projected period of low energy and capacity prices. See "Financial and Operational Developments - Economic and Market Conditions" below for additional information.

(PPL)

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent they have U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

(All Registrants)

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain targeted credit profiles and liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to, as applicable, changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of generating units. To manage these risks, PPL generally uses contracts such as forwards, options and swaps.

Financial and Operational Developments

Earnings (PPL)

PPL's earnings by reportable segment for the period ended March 31 were as follows.

	Three Months		
	2014	2013	% Change
U.K. Regulated	\$ 206	\$ 313	(34)
Kentucky Regulated	107	85	26
Pennsylvania Regulated	85	64	33
Supply	(75)	(46)	63
Corporate and Other (a)	(7)	(3)	133
Net Income Attributable to PPL Shareowners	<u>\$ 316</u>	<u>\$ 413</u>	(23)
EPS - basic	\$ 0.50	\$ 0.70	(29)
EPS - diluted (b)	\$ 0.49	\$ 0.65	(25)

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results.

(b) See "2011 Equity Units" below and Note 4 to the Financial Statements for information on the Equity Units' impact on the calculation of diluted EPS.

The following after-tax gains (losses), in total, which management considers special items, impacted PPL's reportable segments' results for the period ended March 31. See PPL's "Results of Operations - Segment Earnings" for details of these special items.

	Three Months	
	2014	2013
U.K. Regulated	\$ (58)	\$ 75
Kentucky Regulated		1
Supply	(149)	(117)
Total PPL	<u>\$ (207)</u>	<u>\$ (41)</u>

The changes in PPL's reportable segments results for the three months ended March 31, 2014 compared with 2013, excluding the impact of special items, were due to the following factors (on an after-tax basis):

- Increase at the U.K. Regulated segment primarily due to higher utility revenues driven by an April 1, 2013 price increase, and lower pension expense, partially offset by lower sales volumes due to weather, and higher depreciation.
- Increase at the Kentucky Regulated segment primarily due to higher sales volumes due to unusually cold weather and returns from additional environmental capital investments, partially offset by higher operation and maintenance expense.
- Increase at the Pennsylvania Regulated segment primarily due to higher transmission margins from additional capital investments, higher distribution margins due to unusually cold weather, and a benefit from a change in estimate of a regulatory liability.
- Relatively flat at the Supply segment primarily due to higher capacity prices, net benefits from unusually cold weather and lower interest expense, offset by lower baseload energy prices and the timing of a planned outage at the Susquehanna nuclear power plant.

See "Results of Operations" below for further discussion of PPL's reportable segments and analysis of results of operations.

2014 Outlook

(PPL)

Excluding special items, lower earnings are expected in 2014 compared with 2013. The factors underlying these projections by segment and Subsidiary Registrant are discussed below (on an after-tax basis).

(PPL's U.K. Regulated Segment)

Excluding special items, higher earnings are projected in 2014 compared with 2013, primarily driven by higher electricity delivery revenue and lower pension expense, partially offset by higher income taxes, higher depreciation and higher financing costs.

(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Excluding special items, lower earnings are projected in 2014 compared with 2013, primarily driven by higher operation and maintenance expense, higher depreciation and higher financing costs, partially offset by returns on additional environmental capital investments and increased sales volumes.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Excluding special items, higher earnings are projected in 2014 compared with 2013, primarily driven by higher transmission margins and returns on distribution improvement capital spending, partially offset by higher financing costs and higher income taxes.

(PPL's Supply Segment and PPL Energy Supply)

Excluding special items, lower earnings are projected in 2014 compared with 2013, primarily driven by lower energy and capacity prices, partially offset by the net realized benefits from unusually cold winter weather, lower financing costs and lower income taxes.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2013 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Other Financial and Operational Developments

Economic and Market Conditions

(PPL and PPL Energy Supply)

Over the last few years, depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development and additional renewable energy sources. During the first quarter of 2014, the PJM region experienced unusually cold weather conditions, higher demand and congestion patterns that increased natural gas and electricity prices in spot and near-term forward markets.

See "Margins - Changes in Non-GAAP Financial Measures - Unregulated Gross Energy Margins" below for additional information on energy margins. Full year 2014 energy margins are still projected to be lower compared with 2013 due to a higher average hedge price in 2013, partially offset by higher pricing on unhedged generation. PPL Energy Supply continues to review its business and operational plans, including capital and operation and maintenance expenditures, its hedging strategies and potential plant modifications to burn lower cost fuels.

(All Registrants except PPL Electric)

The businesses of PPL Energy Supply, LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to coal combustion residuals, GHG, effluent limitation guidelines and MATS. See "Financial Condition - Environmental Matters" below for additional information on these requirements. These and other stringent environmental requirements, combined with low energy margins for competitive generation, have led several energy companies, including PPL, PPL Energy Supply, LKE, LG&E and KU, to announce plans to either temporarily or permanently close, or place in long-term reserve status, and/or impair certain of their coal-fired generating plants during 2012 and 2013.

(PPL and PPL Energy Supply)

In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern 633 MW of hydroelectric generation facilities located in Montana for \$900 million in cash, subject to certain adjustments. In April 2014, the U.S. Department of Justice and Federal Trade Commission granted early termination of PPL Montana's and NorthWestern's notifications under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The sale remains subject to closing

conditions, including receipt of regulatory approvals by the FERC and the Montana Public Service Commission and certain third-party consents. The sale is not expected to close before the second half of 2014.

PPL Energy Supply believes its competitive coal-fired generation assets in Pennsylvania are well positioned to meet current environmental requirements based on prior and planned investments. However, the current levels of energy and capacity prices in PJM, as well as management's forward view of these prices using its fundamental pricing models, continue to challenge the recoverability of PPL Energy Supply's investment in its Pennsylvania coal-fired generation assets. In the fourth quarter of 2013, management tested the Brunner Island and Montour plants for impairment and concluded neither was impaired as of December 31, 2013. The recoverability test was very sensitive to forward energy and capacity price assumptions, as well as forecasted operation and maintenance and capital spending. Therefore, a further decline in forecasted long-term energy or capacity prices or changes in environmental laws requiring additional capital or operation and maintenance expenditures, could negatively impact PPL Energy Supply's operations of these facilities and potentially result in future impairment charges for some or all of the carrying value of these plants. There were no events or changes in circumstances that indicated a recoverability test was required in the first quarter of 2014. However, PPL Energy Supply will be closely monitoring the PJM capacity auction results in May 2014, which could require a recoverability test to be performed in the second quarter of 2014. The carrying value of the Pennsylvania coal-fired generation assets was \$2.6 billion as of March 31, 2014 (\$1.4 billion for Brunner Island and \$1.2 billion for Montour).

(All Registrants)

The Registrants cannot predict the impact that future economic and market conditions and regulatory requirements may have on their financial condition or results of operations.

(PPL)

Ofgem Review of Line Loss Calculation

In March 2014, Ofgem issued its final decision on the methodology to be used by all network operators to calculate the final line loss incentives and penalties for the DPCR4, which ended in March 2010. As a result, WPD recorded an increase of \$65 million to its existing liability with a reduction to "Utility" revenue on the Statement of Income. WPD's total recorded liability at March 31, 2014 was \$115 million, nearly all of which will be refunded to customers beginning April 1, 2015 through March 31, 2019. See Note 6 to the Financial Statements for additional information.

RIIO-ED1 - Fast Tracking

In February 2014, WPD elected to accept the decision of Ofgem to set the real cost of equity to be used during the RIIO-ED1 period at 6.4% compared to 6.7% proposed by WPD, and remain in the fast-track process. The change in the cost of equity is not expected to have a significant impact on the results of operations for PPL. Also, in February 2014, Ofgem published formal confirmation that WPD's Business Plans submitted by its four DNOs have been accepted as submitted, or "fast-tracked," for the 8-year price control period starting April 1, 2015. Fast tracking affords several benefits to the WPD DNOs including the ability to collect additional revenue equivalent to 2.5% of total annual expenditure during the 8-year price control period, or approximately \$35 million annually, greater revenue certainty and a higher level of cost savings retention. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2013 Form 10-K for additional information on RIIO-ED1.

2011 Equity Units

In March 2014, PPL Capital Funding remarketed \$978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired \$228 million of the 4.32% Junior Subordinated Notes due 2019 and issued \$350 million of 2.189% Junior Subordinated Notes due 2017 and \$400 million 3.184% of Junior Subordinated Notes due 2019. Simultaneously the newly issued notes were exchanged for \$350 million of 3.95% Senior Notes due 2024 and \$400 million of 5.00% Senior Notes due 2044. Additionally, on May 1, 2014, PPL issued 31.7 million shares of common stock at \$30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of \$978 million, which will be used to repay short-term debt and for general corporate purposes.

Kerr Dam Project Arbitration Decision and Impairment (PPL Energy Supply)

PPL Montana holds a joint operating license issued for the Kerr Dam Project. The license extends until 2035 and, between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase,

hold and operate the Kerr Dam Project. The parties submitted the issue of the appropriate amount of the conveyance price to arbitration in February 2013. In March 2014, the arbitration panel issued its final decision holding that the conveyance price payable by the Tribes to PPL Montana is \$18 million. As a result of the decision, PPL Energy Supply performed a recoverability test on the Kerr Dam Project and recorded an impairment charge of \$18 million (\$10 million after-tax) to reduce the carrying amount to its fair value of \$29 million. See Note 13 to the Financial Statements for additional information.

Susquehanna Turbine Blade Inspection (PPL and PPL Energy Supply)

PPL Susquehanna continues to make modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant that was first identified in 2011. In March 2014, Unit 2 completed its planned turbine inspection outage to replace blades. Unit 1 began its planned refueling and turbine inspection outage in April 2014. Similar blade replacements are planned and modifications will also be implemented to reduce the likelihood of blade cracking, including the installation of shorter last stage blades on one of the LP turbines. PPL Susquehanna will continue to monitor blade performance and work with the turbine manufacturer to identify and resolve the issues causing the blade cracking.

Storm Damage Expense Rider (SDER) (PPL Electric)

In its December 28, 2012 final rate case order, the PUC directed PPL Electric to file a proposed SDER. In March 2013, PPL Electric filed its proposed SDER with the PUC and, as part of that filing, requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy. On April 3, 2014, the PUC issued a final order approving the SDER. The SDER will be effective January 1, 2015 and will initially include actual storm costs compared to collections from December 2013 through November 2014. As a result of the order, PPL Electric reduced its regulatory liability by \$12 million related to collections in excess of costs incurred from January 1, 2013 to November 30, 2013 that are not required to be refunded to customers. Also, as part of the order, PPL Electric can recover Hurricane Sandy storm damage costs through the SDER over a three-year period beginning January 2015. See "Pennsylvania Activities - Storm Damage Expense Rider" in Note 6 to the Financial Statements for additional information.

FERC Formula Rates (LKE and KU)

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Certain elements, including the new formula rate, became effective April 23, 2014 subject to refund. In April 2014, FERC accepted a motion filed by KU requesting a delay until mid-June of the effectiveness of other elements, including updated termination notice periods, new credit and uncollectible charge provisions. Also in April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts, such terminations to be effective in 2019, except in the case of one municipality with a conditional 2017 effective date. The parties are continuing settlement negotiations. KU cannot currently predict the outcome of the proceeding or related matters.

Results of Operations

(PPL)

The discussion for PPL provides a review of results by reportable segment. The "Margins" discussion provides explanations of non-GAAP financial measures (Kentucky Gross Margins, Pennsylvania Gross Delivery Margins and Unregulated Gross Energy Margins) and a reconciliation of non-GAAP financial measures to "Operating Income." The "Statement of Income Analysis" discussion addresses significant changes in principal line items on PPL's Statements of Income, comparing the three months ended March 31, 2014 with 2013. "Segment Earnings, Margins and Statement of Income Analysis" is presented separately for PPL.

Tables analyzing changes in amounts between periods within "Segment Earnings" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average U.K. foreign currency exchange rate.

(Subsidiary Registrants)

The discussion for each of PPL Energy Supply, PPL Electric, LKE, LG&E and KU provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income" and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income comparing the three months ended March 31, 2014 with 2013. "Earnings, Margins and Statement of Income Analysis" are presented separately for PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL Segment Earnings, Margins and Statement of Income Analysis

Segment Earnings

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global which primarily includes WPD's regulated electricity distribution operations and certain costs, such as U.S. income taxes, administrative costs and allocated financing costs. The U.K. Regulated segment represents 65% of Net Income Attributable to PPL Shareowners for the three months ended March 31, 2014 and 34% of PPL's assets at March 31, 2014.

Net Income Attributable to PPL Shareowners for the periods ended March 31 includes the following results:

	Three Months		
	2014	2013	% Change
Utility revenues	\$ 637	\$ 638	
Energy-related businesses	11	10	10
Total operating revenues	648	648	
Other operation and maintenance	108	117	(8)
Depreciation	83	74	12
Taxes, other than income	38	37	3
Energy-related businesses	7	7	
Total operating expenses	236	235	
Other Income (Expense) - net	(24)	120	(120)
Interest Expense	122	107	14
Income Taxes	60	113	(47)
Net Income Attributable to PPL Shareowners	\$ 206	\$ 313	(34)

The changes in the results of the U.K. Regulated segment between these periods were due to the factors set forth below, which reflect certain items that management considers special and effects of foreign currency exchange on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of the special items.

	Three Months
U.K.	
Utility revenues	\$ 40
Other operation and maintenance	7
Depreciation	(6)
Interest expense	(4)
Other	(3)
Income taxes	(3)
U.S.	
Interest expense and other	(3)
Income taxes	(4)
Foreign currency exchange, after-tax	2
Special items, after-tax	(133)
Total	\$ (107)

U.K.

- Higher utility revenues were primarily due to a \$68 million impact from the April 1, 2013 price increase, partially offset by \$24 million of lower volume due primarily to weather.
- Lower other operation and maintenance was primarily due to \$9 million of lower pension expense and \$6 million of lower engineering management expense, partially offset by \$9 million of higher network maintenance expense.
- Higher depreciation expense was primarily due to PP&E additions.

The following after-tax gains (losses), which management considers special items, also impacted the U.K. Regulated segment's results during the periods ended March 31.

	Income Statement Line Item	Three Months	
		2014	2013
Foreign currency-related economic hedges, net of tax of \$3, (\$42) (a)	Other Income (Expense) - net	\$ (6)	\$ 78
WPD Midlands acquisition-related adjustments:			
Separation benefits, net of tax of \$0, \$1	Other operation and maintenance		(1)
Other acquisition-related adjustments, net of tax of \$0, \$0	Other operation and maintenance		(2)
Other:			
Change in WPD line loss accrual, net of tax of \$13, \$0 (b)	Utility	(52)	
Total		\$ (58)	\$ 75

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.

(b) In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, WPD increased its existing liability by \$65 million for over-recovery of line losses. See Note 6 to the Financial Statements for additional information.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas in Kentucky. In addition, certain financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 34% of Net Income Attributable to PPL Shareowners for the three months ended March 31, 2014 and 25% of PPL's assets at March 31, 2014.

Net Income Attributable to PPL Shareowners for the periods ended March 31 includes the following results:

	Three Months		
	2014	2013	% Change
Utility revenues	\$ 934	\$ 800	17
Fuel	277	231	20
Energy purchases	124	86	44
Other operation and maintenance	206	197	5
Depreciation	86	82	5
Taxes, other than income	13	12	8
Total operating expenses	706	608	16
Other Income (Expense) - net	(2)	(2)	
Interest Expense	55	55	
Income Taxes	64	50	28
Net Income Attributable to PPL Shareowners	\$ 107	\$ 85	26

The changes in the results of the Kentucky Regulated segment between these periods were due to the factors set forth below, which reflect amounts classified as Kentucky Gross Margins and a certain item that management considers special on separate lines within the table and not in their respective Statement of Income line items.

	Three Months
Kentucky Gross Margins	\$ 50
Other operation and maintenance	(11)
Depreciation	(2)
Taxes, other than income	(1)
Other Income (Expense) - net	1
Income Taxes	(14)
Special item - EEI adjustments, after-tax	(1)
Total	<u>\$ 22</u>

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Kentucky Gross Margins.
- Higher other operation and maintenance primarily due to \$5 million of higher costs due to the timing and scope of scheduled coal plant maintenance outages and \$5 million of higher storm expenses.
- Higher income taxes primarily due to higher pre-tax income.
- During the three months ended March 31, 2013, the Kentucky Regulated segment classified an after-tax gain related to its EEI investment that was recorded in "Other Income (Expense) - net" on the Statement of Income as a special item.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain financing costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 27% of Net Income Attributable to PPL Shareowners for the three months ended March 31, 2014 and 15% of PPL's assets at March 31, 2014.

Net Income Attributable to PPL Shareowners for the periods ended March 31 includes the following results:

	Three Months		
	2014	2013	% Change
Utility revenues	\$ 592	\$ 513	15
Energy purchases			
External	189	172	10
Intersegment	27	14	93
Other operation and maintenance	134	133	1
Depreciation	45	43	5
Taxes, other than income	32	30	7
Total operating expenses	427	392	9
Other Income (Expense) - net	2	1	100
Interest Expense	29	25	16
Income Taxes	53	33	61
Net Income Attributable to PPL Shareowners	<u>\$ 85</u>	<u>\$ 64</u>	33

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as Pennsylvania Gross Delivery Margins on a separate line and not in their respective Statement of Income line items.

	Three Months
Pennsylvania Gross Delivery Margins	\$ 45
Depreciation	(2)
Interest Expense	(4)
Other	1
Income Taxes	(19)
Total	<u>\$ 21</u>

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Higher interest expense due to a debt issuance in July 2013.
- Higher income taxes primarily due to higher pre-tax income.

Supply Segment

The Supply segment primarily consists of PPL Energy Supply's wholesale, retail, marketing and trading activities, as well as its competitive generation operations. In addition, certain financing and other costs are allocated to the Supply segment. The Supply segment represents negative 24% of Net Income Attributable to PPL Shareowners for the three months ended March 31, 2014 and 26% of PPL's assets at March 31, 2014.

Net Income Attributable to PPL Shareowners for the periods ended March 31 includes the following results:

	Three Months		
	2014	2013	% Change
Energy revenues			
External (a) (b)	\$ (1,078)	\$ 381	(383)
Intersegment	27	14	93
Energy-related businesses	125	113	11
Total operating revenues	(926)	508	(282)
Fuel (a)	482	298	62
Energy purchases (a) (c)	(1,804)	(199)	807
Other operation and maintenance	258	235	10
Depreciation	80	78	3
Taxes, other than income	21	17	24
Energy-related businesses	124	110	13
Total operating expenses	(839)	539	(256)
Other Income (Expense) - net	6	4	50
Interest Expense	48	60	(20)
Income Taxes	(54)	(41)	32
Net Income Attributable to PPL Shareowners	\$ (75)	\$ (46)	63

- (a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.
- (b) 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather.
- (c) 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather.

The changes in the results of the Supply segment between these periods were due to the factors set forth below, which reflect amounts classified as Unregulated Gross Energy Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of the special items.

	Three Months
Unregulated Gross Energy Margins	\$ 7
Other operation and maintenance	(3)
Depreciation	(2)
Interest Expense	12
Income Taxes	(11)
Special items, after-tax	(32)
Total	\$ (29)

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Lower interest expense primarily due to the retirement of debt in December 2013.
- Higher income taxes primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted the Supply segment's results during the periods ended March 31.

	Income Statement Line Item	Three Months	
		2014	2013
Adjusted energy-related economic activity, net, net of tax of \$95, \$79	(a)	\$ (139)	\$ (117)
Kerr Dam Project impairment, net of tax of \$8, \$0 (b)	Other operation and maintenance	(10)	
Total		\$ (149)	\$ (117)

- (a) Represents unrealized gains (losses), after-tax, on economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information. Amounts have been adjusted for option premiums of \$2 million and \$1 million.

(b) See Note 13 to the Financial Statements for additional information.

Margins

Non-GAAP Financial Measures

Management utilizes the following non-GAAP financial measures as indicators of performance for its businesses.

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's, LKE's, LG&E's and KU's electricity generation, transmission and distribution operations as well as LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded as "Other operation and maintenance" on the Statements of Income) are deducted from revenues. In addition, certain other expenses, recorded as "Other operation and maintenance" and "Depreciation" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from the electricity and gas operations.
- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Energy purchases from affiliate" in PPL Electric's reconciliation table). As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.
- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's and PPL Energy Supply's competitive energy activities, which are managed on a geographic basis. In calculating this measure, energy revenues, including operating revenues associated with certain businesses classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, recorded in "Taxes, other than income," and operating expenses associated with certain businesses classified as discontinued operations. This performance measure is relevant due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Unregulated wholesale energy", "Unregulated retail energy" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Unregulated wholesale energy to affiliate" in PPL Energy Supply's reconciliation table). "Unregulated Gross Energy Margins" excludes adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of the competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Adjusted energy-related economic activity includes the ineffective portion of qualifying cash flow hedges and premium amortization associated with options. This economic activity is deferred and included in "Unregulated Gross Energy Margins" over the delivery period that was hedged or upon realization.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of their operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage the operations, analyze actual results compared with budget and, in certain cases, to measure certain corporate financial goals used to determine variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following table contains the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended March 31.

	2014 Three Months					2013 Three Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins		Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins		Operating Income (b)
			Other (a)					Other (a)		
Operating Revenues										
Utility	\$ 934	\$ 592		\$ 636 (c)	\$ 2,162	\$ 800	\$ 513		\$ 637 (c)	\$ 1,950
PLR intersegment utility revenue (expense) (d)		(27)	\$ 27				(14)	\$ 14		
Unregulated wholesale energy			(637)	(792) (e)	(1,429)			966	(823) (e)	143
Unregulated retail energy			378	(29) (e)	349			246	(9) (e)	237
Energy-related businesses				141	141				127	127
Total Operating Revenues	934	565	(232)	(44)	1,223	800	499	1,226	(68)	2,457
Operating Expenses										
Fuel	277		481		758	231		297	1 (e)	529
Energy purchases	124	189	(1,219)	(588) (e)	(1,494)	86	172	437	(638) (e)	57
Other operation and maintenance	23	25	7	642	697	25	22	5	624	676
Depreciation	2			303	305				284	284
Taxes, other than income		29	13	62	104		28	8	60	96
Energy-related businesses			2	136	138			2	120	122
Total Operating Expenses	426	243	(716)	555	508	342	222	749	451	1,764
Total	\$ 508	\$ 322	\$ 484	\$ (599)	\$ 715	\$ 458	\$ 277	\$ 477	\$ (519)	\$ 693

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Primarily represents WPD's utility revenue.

(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.

(e) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements.

Changes in Non-GAAP Financial Measures

The following table shows the non-GAAP financial measures by PPL's reportable segment and by component, as applicable, for the periods ended March 31 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months		
	2014	2013	Change
Kentucky Regulated			
Kentucky Gross Margins			
LG&E	\$ 226	\$ 202	\$ 24
KU	282	256	26
LKE	\$ 508	\$ 458	\$ 50
Pennsylvania Regulated			
Pennsylvania Gross Delivery Margins			
Distribution	\$ 249	\$ 224	\$ 25
Transmission	73	53	20
Total	\$ 322	\$ 277	\$ 45
Supply			
Unregulated Gross Energy Margins			
Eastern U.S.	\$ 435	\$ 420	\$ 15
Western U.S.	49	57	(8)
Total	\$ 484	\$ 477	\$ 7

Kentucky Gross Margins

Kentucky Gross Margins increased primarily due to higher volumes of \$20 million (\$5 million at LG&E and \$15 million at KU), returns from additional environmental capital investments of \$13 million (\$5 million at LG&E and \$8 million at KU), higher demand revenue of \$8 million (\$4 million at both LG&E and KU) and higher off-system sales at LG&E of \$7 million. The change in volumes was primarily attributable to unusually cold weather conditions.

Pennsylvania Gross Delivery Margins

Distribution

Distribution margins increased primarily due to a \$12 million favorable effect of unusually cold weather in 2014 and a \$12 million effect due to a change in estimate of a regulatory liability. See "Pennsylvania Activities - Storm Damage Expense Rider" in Note 6 to the Financial Statements for additional information.

Transmission

Transmission margins increased primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

Unregulated Gross Energy Margins

Eastern U.S.

During the first quarter of 2014, the PJM region experienced unusually cold weather conditions, higher demand and congestion patterns that increased natural gas and electricity prices in spot and near-term forward markets. Due to these market conditions, PPL Energy Supply captured opportunities on unhedged generation, which were primarily offset by under hedged full-requirement sales contracts and retail electric. The net benefit of \$38 million due to the aforementioned weather and related market dynamics along with \$74 million of higher capacity prices was offset by \$82 million from lower hedge prices on baseload energy and \$32 million driven by lower output from PPL Susquehanna due to the timing of outages.

Western U.S.

Western margins decreased primarily due to lower availability of coal and hydroelectric units.

Statement of Income Analysis --

Utility Revenues

The increase (decrease) in utility revenues for the period ended March 31, 2014 compared with 2013 was due to:

	<u>Three Months</u>
Domestic:	
PPL Electric (a)	\$ 79
LKE (b)	134
Total Domestic	<u>213</u>
U.K.:	
Price (c)	68
Foreign currency exchange rates	26
Volume (d)	(24)
Line loss accrual adjustments (e)	(65)
Other	(6)
Total U.K.	<u>(1)</u>
Total	<u>\$ 212</u>

- (a) See "Pennsylvania Gross Delivery Margins" for further information.
- (b) See "Kentucky Gross Margins" for further information.
- (c) Due to price increases effective April 1, 2013.
- (d) The decrease was primarily due to the unfavorable effect of weather.
- (e) Adjustments in 2014 based on Ofgem's final decision on the DPCR4 line loss incentives and penalties.

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the period ended March 31, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	<u>Three Months</u>
Unregulated wholesale energy (a)	\$ (1,572)
Unregulated retail energy	112
Fuel	229
Energy purchases (b)	(1,551)

- (a) 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather.
(b) 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2014 compared with 2013 was due to:

	<u>Three Months</u>
Domestic:	
PPL Energy Supply fossil and hydroelectric plants (a)	\$ 20
PPL Electric PUC-reportable storms	9
PPL Susquehanna	7
LKE coal plants	5
LKE storm expenses	5
LKE adjustments to regulatory assets and liabilities	(4)
PPL Electric Act 129	(4)
Other	(8)
U.K.:	
Network maintenance (b)	9
Foreign currency exchange rates	4
Pension	(9)
Engineering management	(6)
Separation benefits	(3)
Other	(4)
Total	<u>\$ 21</u>

- (a) During 2014, PPL Montana determined the Kerr Dam Project was impaired and recorded a charge of \$18 million. See Note 13 to the Financial Statements for additional information.
(b) The increase was primarily due to vegetation management and fault repair due to increased 2014 storm activity.

Depreciation

The increase (decrease) in depreciation for the period ended March 31, 2014 compared with 2013 was due to:

	<u>Three Months</u>
Additions to PP&E, net	\$ 18
Other	3
Total	<u>\$ 21</u>

Taxes, Other Than Income

Taxes, other than income increased by \$8 million for the three months ended March 31, 2014 compared with 2013, primarily due to higher Pennsylvania gross receipts tax expense as a result of an increase in retail electric revenues. This tax is included in "Unregulated Gross Energy Margins" and "Pennsylvania Gross Delivery Margins."

Other Income (Expense) - net

The \$145 million decrease in other income (expense) - net for the three months ended March 31, 2014 compared with 2013 was primarily due to an increase of \$143 million from realized and unrealized losses on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

See Note 12 to the Financial Statements for additional information.

Interest Expense

The increase (decrease) in interest expense for the period ended March 31, 2014 compared with 2013 was due to:

	<u>Three Months</u>
Loss on extinguishment of debt (a)	\$ 9
Capitalized interest (b)	5
Other	(1)
Total	<u>\$ 13</u>

(a) In March 2014, PPL Capital Funding remarketed and exchanged junior subordinated notes that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. See Note 7 to the Financial Statements for additional information.

(b) Includes interest on the debt component of AFUDC.

Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2014 compared with 2013 was due to:

	<u>Three Months</u>
Change in pre-tax income at current period tax rates	\$ (57)
Federal income tax credits, excluding foreign tax credit	3
U.S. income tax on foreign earnings net of foreign tax credit	9
Other	6
Total	<u>\$ (39)</u>

See Note 5 to the Financial Statements for additional information.

PPL Energy Supply: Earnings, Margins and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2014</u>	<u>2013</u>
Net Income (Loss) Attributable to PPL Energy Supply Member	\$ (66)	\$ (38)
Special items, gains (losses), after-tax	(149)	(117)

Excluding special items, pre-tax earnings for the three-month period in 2014 compared with 2013 were relatively flat, primarily due to higher capacity prices, net benefits from unusually cold weather and lower interest expense, offset by lower baseload energy prices and the timing of a planned outage at the Susquehanna nuclear power plant.

The table below quantifies the changes in the components of Net Income (Loss) Attributable to PPL Energy Supply Member between these periods, which reflect amounts classified as Unregulated Gross Energy Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Supply Segment" for the details of special items.

	<u>Three Months</u>
Unregulated Gross Energy Margins	\$ 7
Other operation and maintenance	(3)
Depreciation	(2)
Interest Expense	12
Income Taxes	(10)
Special items, after-tax	(32)
Total	<u>\$ (28)</u>

Margins

"Unregulated Gross Energy Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following table contains the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2014 Three Months			2013 Three Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Unregulated wholesale energy	\$ (637)	\$ (792) (c)	\$ (1,429)	\$ 966	\$ (823) (c)	\$ 143
Unregulated wholesale energy to affiliate	27		27	14		14
Unregulated retail energy	378	(27) (c)	351	246	(8) (c)	238
Energy-related businesses		125	125		113	113
Total Operating Revenues	(232)	(694)	(926)	1,226	(718)	508
Operating Expenses						
Fuel	481	1 (c)	482	297	1 (c)	298
Energy purchases	(1,219)	(585) (c)	(1,804)	437	(636) (c)	(199)
Other operation and maintenance	7	251	258	5	230	235
Depreciation		80	80		78	78
Taxes, other than income	13	8	21	8	9	17
Energy-related businesses	2	122	124	2	108	110
Total Operating Expenses	(716)	(123)	(839)	749	(210)	539
Total	\$ 484	\$ (571)	\$ (87)	\$ 477	\$ (508)	\$ (31)

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Unregulated Gross Energy Margins"

The following Statement of Income line items and their related increase (decrease) during the period ended March 31, 2014 compared with 2013 are included above within "Unregulated Gross Energy Margins" and are not discussed separately.

	Three Months
Unregulated wholesale energy (a)	\$ (1,572)
Unregulated wholesale energy to affiliate	13
Unregulated retail energy	113
Fuel	184
Energy purchases (b)	(1,605)

(a) 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather.

(b) 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2014 compared with 2013 was due to:

	Three Months
Fossil and hydroelectric plants (a)	\$ 20
PPL Susquehanna	7
Other	(4)
Total	\$ 23

(a) During 2014, PPL Montana determined the Kerr Dam was impaired and recorded a charge of \$18 million. See Note 13 for further information.

Taxes, Other Than Income

Taxes, other than income increased by \$4 million for the three months ended March 31, 2014 compared with 2013, primarily due to higher Pennsylvania gross receipts tax expense as a result of an increase in retail electric revenues. This tax is included in "Unregulated Gross Energy Margins."

Interest Expense

The increase (decrease) in interest expense for the period ended March 31, 2014 compared with 2013 was due to:

	<u>Three Months</u>	
Long-term debt interest expense (a)	\$	(14)
Other		2
Total	\$	<u>(12)</u>

(a) The decrease was due to debt maturities in July and December 2013.

Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2014 compared with 2013 was due to:

	<u>Three Months</u>	
Change in pre-tax income at current period tax rates	\$	(18)
Federal income tax credits		2
Other		2
Total	\$	<u>(14)</u>

See Note 5 to the Financial Statements for additional information.

PPL Electric: Earnings, Margins and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2014</u>	<u>2013</u>
Net Income	\$ 85	\$ 64

Pre-tax earnings for the three-month period in 2014 compared with 2013 increased primarily due to higher transmission margins from additional capital investments, higher distribution margins due to unusually cold weather, and a benefit from a change in estimate of a regulatory liability.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Pennsylvania Gross Delivery Margins on a separate line within the table and not in their respective Statement of Income line items.

	<u>Three Months</u>	
Pennsylvania Gross Delivery Margins	\$	45
Depreciation		(2)
Interest Expense		(4)
Other		1
Income Taxes		(19)
Total	\$	<u>21</u>

Margins

"Pennsylvania Gross Delivery Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following table contains the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2014 Three Months			2013 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 592		\$ 592	\$ 513		\$ 513
Operating Expenses						
Energy purchases	189		189	172		172
Energy purchases from affiliate	27		27	14		14
Other operation and maintenance	25	\$ 109	134	22	\$ 111	133
Depreciation		45	45		43	43
Taxes, other than income	29	3	32	28	2	30
Total Operating Expenses	270	157	427	236	156	392
Total	\$ 322	\$ (157)	\$ 165	\$ 277	\$ (156)	\$ 121

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Pennsylvania Gross Delivery Margins"

The following Statement of Income line items and their related increase (decrease) during the period ended March 31, 2014 compared with 2013 are included above within "Pennsylvania Gross Delivery Margins" and are not discussed separately.

	Three Months
Operating revenues	\$ 79
Energy purchases	17
Energy purchases from affiliate	13

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2014 compared with 2013 was due to:

	Three Months
PUC-reportable storms	\$ 9
Vegetation management	3
Act 129	(4)
Payroll-related costs	(3)
Other	(4)
Total	\$ 1

Interest Expense

Interest expense increased by \$4 million for the three months ended March 31, 2014, compared with 2013, primarily due to a debt issuance in July 2013.

Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2014 compared with 2013 was due to:

	Three Months
Change in pre-tax income at current period tax rates	\$ 17
Other	3
Total	\$ 20

See Note 5 to the Financial Statements for additional information.

LKE: Earnings, Margins and Statement of Income Analysis

Earnings

	Three Months Ended March 31,	
	2014	2013
Net Income	\$ 115	\$ 96
Special items, gains (losses), after-tax		1

Excluding special items, earnings for the three-month period in 2014 compared with 2013 increased primarily due to higher volumes, returns from additional environmental capital investments, demand revenue and off-system sales. The change in volumes was primarily attributable to unusually cold weather conditions.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and a certain item that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated segment" for details of the special item.

	Three Months
Margins	\$ 50
Other operation and maintenance	(11)
Depreciation	(2)
Taxes, other than income	(1)
Other Income (Expense) - net	1
Interest Expense	(5)
Income Taxes	(12)
Special item - EEI adjustments, after-tax	(1)
Total	\$ 19

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, LKE's Margins are referred to as "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2014 Three Months			2013 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 934		\$ 934	\$ 800		\$ 800
Operating Expenses						
Fuel	277		277	231		231
Energy purchases	124		124	86		86
Other operation and maintenance	23	\$ 183	206	25	\$ 172	197
Depreciation	2	84	86		82	82
Taxes, other than income		13	13		12	12
Total Operating Expenses	426	280	706	342	266	608
Total	\$ 508	\$ (280)	\$ 228	\$ 458	\$ (266)	\$ 192

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the period ended March 31, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	<u>Three Months</u>	
Operating Revenues	\$	134
Fuel		46
Energy purchases		38

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the period ended March 31, 2014 compared with 2013 was due to:

	<u>Three Months</u>	
Coal plants	\$	5
Storm expenses		5
Adjustments to regulatory assets and liabilities		(4)
Bad debt expense		3
Total	\$	<u>9</u>

Interest Expense

The increase (decrease) in interest expense for the period ended March 31, 2014, compared with 2013, was due to:

	<u>Three Months</u>	
Issuance of \$500 million First Mortgage Bonds during the fourth quarter of 2013	\$	6
Other		(1)
Total	\$	<u>5</u>

Income Taxes

Income taxes increased by \$12 million for the three months ended March 31, 2014 compared with 2013 primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information.

LG&E: Earnings, Margins and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2014</u>	<u>2013</u>
Net Income	\$ 52	\$ 44

Earnings for the three-month period in 2014 compared with 2013 increased primarily due to higher volumes, returns from additional environmental capital investments, demand revenue and off-system sales. The change in volumes was primarily attributable to unusually cold weather conditions.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line within the table and not in their respective Statement of Income line items.

	<u>Three Months</u>	
Margins	\$	24
Other operation and maintenance		(7)
Depreciation		(1)
Other Income (Expense) - net		(1)
Interest Expense		(2)
Income Taxes		(5)
Total	\$	<u>8</u>

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, LG&E's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2014 Three Months			2013 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 479		\$ 479	\$ 390		\$ 390
Operating Expenses						
Fuel	117		117	96		96
Energy purchases, including affiliate	124		124	81		81
Other operation and maintenance	11	\$ 87	98	11	\$ 80	91
Depreciation	1	37	38		36	36
Taxes, other than income		6	6		6	6
Total Operating Expenses	253	130	383	188	122	310
Total	\$ 226	\$ (130)	\$ 96	\$ 202	\$ (122)	\$ 80

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the period ended March 31, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	Three Months
Retail and wholesale	\$ 73
Electric revenue from affiliate	16
Fuel	21
Energy purchases	38
Energy purchases from affiliate	5

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the period ended March 31, 2014 compared with 2013 was due to:

	Three Months
Coal plants	\$ 2
Storm expenses	4
Other	1
Total	\$ 7

Income Taxes

Income taxes increased by \$5 million for the three months ended March 31, 2014 compared with 2013 primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information.

KU: Earnings, Margins and Statement of Income Analysis

Earnings

	Three Months Ended March 31,	
	2014	2013
Net Income	\$ 77	\$ 64
Special items, gains (losses), after-tax		1

Excluding special items, earnings for the three-month period in 2014 compared with 2013 increased primarily due to higher volumes, returns from additional environmental capital investments and demand revenue. The change in volumes was primarily attributable to unusually cold weather conditions.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and a certain item that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated segment" for details of the special item.

	Three Months
Margins	\$ 26
Other operation and maintenance	(3)
Depreciation	(1)
Taxes, other than income	(1)
Other Income (Expense) - net	2
Interest Expense	(2)
Income Taxes	(7)
Special item - EEI adjustments, after-tax	(1)
Total	\$ 13

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, KU's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2014 Three Months			2013 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 498		\$ 498	\$ 432		\$ 432
Operating Expenses						
Fuel	160		160	135		135
Energy purchases, including affiliate	43		43	27		27
Other operation and maintenance	12	\$ 86	98	14	\$ 83	97
Depreciation	1	47	48		46	46
Taxes, other than income		7	7		6	6
Total Operating Expenses	216	140	356	176	135	311
Total	\$ 282	\$ (140)	\$ 142	\$ 256	\$ (135)	\$ 121

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the period ended March 31, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	<u>Three Months</u>
Retail and wholesale	\$ 61
Electric revenue from affiliate	5
Fuel	25
Energy purchases from affiliate	16

Income Taxes

Income taxes increased by \$7 million for the three months ended March 31, 2014 compared with 2013 primarily due to higher pre-tax income.

See Note 5 to the Financial Statements for additional information.

Financial Condition

The remainder of this Item 2 in this Form 10-Q is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	<u>PPL</u>					
	<u>PPL (a)</u>	<u>Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
<u>March 31, 2014</u>						
Cash and cash equivalents	\$ 1,256	\$ 441	\$ 42	\$ 30	\$ 9	\$ 21
Notes receivable from affiliates				4		
Short-term debt	1,579	970	60	200	15	110
<u>December 31, 2013</u>						
Cash and cash equivalents	\$ 1,102	\$ 239	\$ 25	\$ 35	\$ 8	\$ 21
Notes receivable from affiliates			150	70		
Short-term debt	701		20	245	20	150

(a) At March 31, 2014, \$688 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL may be subject to additional U.S. taxes, net of allowable foreign tax credits. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2013 Form 10-K for additional information on undistributed earnings of WPD.

Net cash provided by (used in) operating, investing and financing activities for the three-month periods ended March 31, and the changes between periods were as follows.

	<u>PPL Energy</u>					
	<u>PPL</u>	<u>Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2014						
Operating activities	\$ 931	\$ 276	\$ (4)	\$ 309	\$ 148	\$ 191
Investing activities	(1,183)	(389)	(42)	(205)	(115)	(154)
Financing activities	392	315	63	(109)	(32)	(37)
2013						
Operating activities	\$ 244	\$ 125	\$ (77)	\$ 85	\$ 85	\$ 85
Investing activities	(899)	(195)	(192)	(267)	(94)	(172)
Financing activities	621	(196)	160	191	21	82
Change - Cash Provided (Used):						
Operating activities	\$ 687	\$ 151	\$ 73	\$ 224	\$ 63	\$ 106
Investing activities	(284)	(194)	150	62	(21)	18
Financing activities	(229)	511	(97)	(300)	(53)	(119)

Operating Activities

The components of the change in cash provided by (used in) operating activities for the three months ended March 31, 2014 compared with 2013 were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used):						
Net income	\$ (97)	\$ (28)	\$ 21	\$ 19	\$ 8	\$ 13
Non-cash components	92	(69)	(34)	21	(7)	(10)
Working capital	299	146	8	59	28	31
Defined benefit funding	294	75	69	116	34	57
Other operating activities	99	27	9	9		15
Total	<u>\$ 687</u>	<u>\$ 151</u>	<u>\$ 73</u>	<u>\$ 224</u>	<u>\$ 63</u>	<u>\$ 106</u>

(PPL)

PPL's changes in non-cash components of net income included non-cash hedging losses of \$143 million and a \$65 million charge in 2014 to adjust WPD's line loss accrual. These non-cash charges were partially offset by \$106 million of deferred income tax benefits. The increase in cash from changes in components of working capital was primarily due to an increase of \$231 million in accounts payable (partially due to increases in power swap payables); along with positive changes totaling \$154 million in counterparty collateral, fuel, material and supplies, and prepayments. These positive impacts on cash were partially offset by an increase of \$170 million in unbilled revenue (primarily related to increases in power swap sales).

(PPL Energy Supply)

PPL Energy Supply's changes in non-cash components of net income included \$100 million of deferred income tax benefits. The increase in cash from changes in components of working capital was primarily due to an increase of \$247 million in accounts payable (partially due to increases in power swap payables) and a reduction of \$66 million in returns of counterparty collateral, partially offset by increases of \$215 million in unbilled revenue (primarily related to increases in power swap sales).

(PPL Electric)

PPL Electric's changes in non-cash components of net income included \$20 million of deferred income tax benefits. The small increase in cash from changes in components of working capital was primarily due to an increase of \$56 million in accounts payable, partially offset by an increase of \$33 million in prepayments and a decrease of \$24 million in taxes payable.

(LKE)

LKE's non-cash components of net income included a \$29 million increase in deferred income taxes primarily due to utilization of net operating losses. The increase in cash from changes in components of working capital was driven primarily by the change in accounts receivables and unbilled revenues due to weather and rate changes.

(LG&E)

LG&E's increase in cash from changes in components of working capital was driven primarily by the change in accounts receivables and unbilled revenues due to weather and rate changes and lower fuel inventory and gas storage inventory due to the unusually cold weather in 2014.

(KU)

KU's increase in cash from changes in components of working capital was driven primarily by the change in accounts receivables and unbilled revenues due to weather and rate changes.

(All Registrants)

Investing Activities

Expenditures for Property, Plant and Equipment

The primary use of cash within investing activities is expenditures for PP&E. The change in these expenditures for the three months ended March 31, 2014 compared with 2013 was as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
(Increase) Decrease	\$ (64)	\$ 36	\$ (12)	\$ (1)	\$ (18)	\$ 18

The increase in expenditures for PP&E for PPL was primarily due to system reliability projects at WPD. The decrease in expenditures at PPL Energy Supply was partially due to expenditures made in 2013 for the Holtwood hydroelectric expansion project. The increase in expenditures for LG&E was primarily due to environmental air projects at LG&E's Mill Creek plant and gas service riser projects, partially offset by lower expenditures for the construction of Cane Run Unit 7. The decrease in expenditures for KU was related to lower expenditures for the construction of Cane Run Unit 7 and coal combustion residuals projects at KU's Ghent and E.W. Brown plants.

Other Significant Changes in Components of Investing Activities

For PPL and PPL Energy Supply, the change in cash provided by (used in) investing activities for the three months ended March 31, 2014 compared with 2013 was negatively impacted primarily by increases of \$282 million and \$285 million in restricted cash and cash equivalents. These changes were primarily related to increased cash collateral requirements in 2014 to support PPL Energy Supply's commodity hedging program primarily due to an increase in 2014 in forward prices. PPL Energy Supply's restricted cash and cash equivalents for collateral deposits increased by \$343 million in 2014. To fund these increased collateral requirements, PPL Energy Supply borrowed under its short-term credit facilities.

For PPL Electric, the change in cash provided by (used in) investing activities for the three months ended March 31, 2014 compared with 2013 was positively impacted primarily from a \$150 million repayment in 2014 of notes receivable from affiliates.

For LKE, the change in cash provided by (used in) investing activities for the three months ended March 31, 2014 compared with 2013 was positively impacted primarily from a \$66 million repayment in 2014 of notes receivable from affiliates.

Financing Activities

The components of the change in cash provided by (used in) financing activities for the three months ended March 31, 2014 compared with 2013 was as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used):						
Long-term debt issuances/retirements, net	\$ (681)		\$ (10)			
Dividends	(24)		(7)		\$ (8)	\$ (24)
Capital contributions/distributions, net		\$ (341)	5	\$ (135)	(25)	(10)
Change in short-term debt, net	462	845	(85)	(165)	(20)	(85)
Other financing activities	14	7				
Total	<u>\$ (229)</u>	<u>\$ 511</u>	<u>\$ (97)</u>	<u>\$ (300)</u>	<u>\$ (53)</u>	<u>\$ (119)</u>

The cash provided by changes in short-term debt for PPL and PPL Energy Supply was partially due to borrowings in 2014 by PPL Energy Supply to satisfy cash collateral requirements to support its commodity hedging program (as described in "Investing Activities" above) and \$228 million that funded the principal reduction associated with the remarketing of the 2011 Equity Units. PPL expects to use a portion of the proceeds from the settlement of the 2011 Purchase Contracts to repay outstanding short-term debt in the second quarter of 2014.

See Note 7 to the Financial Statements for information on 2014 short and long-term debt activity, equity transactions and dividends. See the Registrants' 2013 Form 10-K for information on 2013 activity.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At March 31, 2014, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows.

External (All Registrants)

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 450	\$ 185		\$ 265
PPL Energy Supply Credit Facilities	3,150	350	\$ 821	1,979
PPL Electric Credit Facility	300		61	239
LKE Credit Facility	75	75		
LG&E Credit Facility	500		15	485
KU Credit Facilities	598		308	290
Total LKE	1,173	75	323	775
Total U.S. Credit Facilities (a)	\$ 5,073	\$ 610	\$ 1,205	\$ 3,258
Total U.K. Credit Facilities (b)	£ 1,055	£ 98		£ 957

(a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Energy Supply - 10%, PPL Electric - 6%, LKE - 12%, LG&E - 6% and KU - 22%.

(b) The amount borrowed at March 31, 2014 was a USD-denominated borrowing of \$164 million. At March 31, 2014, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.6 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group with no one bank providing more than 13% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (All Registrants except PPL)

	Committed Capacity	Borrowed	Unused Capacity
PPL Energy Supply Credit Facility	\$ 200		\$ 200
PPL Electric Credit Facility	100		100
LKE Credit Facility	225		225
LG&E Money Pool (a)	500		500
KU Money Pool (a)	500		500

(a) LG&E and KU participate in an intercompany agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues.

See Note 11 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

PPL Energy Supply, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund their short-term liquidity needs, as necessary. Commercial paper issuances are supported by the respective Registrant's Syndicated Credit Facility.

Outstanding commercial paper issuances are reflected in "Short-term debt" on the Balance Sheets. At March 31, 2014, the available capacity and the use of that capacity was as follows:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Energy Supply	\$ 750	\$ 620	\$ 130
PPL Electric	300	60	240
LG&E	350	15	335
KU	350	110	240
Total LKE	700	125	575
Total PPL	\$ 1,750	\$ 805	\$ 945

Long-term Debt and Equity Securities (PPL and PPL Electric)

The long-term debt and equity securities activity through March 31, 2014 was:

	Debt		Net Stock Issuances
	Issuances (a)	Retirements	
PPL		\$ 239	\$ 15
PPL Electric		10	
Non-cash Transactions:			
PPL (b)	\$ 750	\$ 750	

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.

(b) Represents the remarketing of Junior Subordinated Notes that were issued as a component of PPL's 2011 Equity Units.

Common Stock Dividends (PPL)

In February 2014, PPL declared its quarterly common stock dividend, payable April 1, 2014, at 37.25 cents per share (equivalent to \$1.49 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

(All Registrants)

Moody's, S&P and Fitch periodically review the credit ratings on the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2014:

(PPL)

In January 2014, Moody's affirmed its ratings and revised its outlook to stable for PPL.

In March 2014, Moody's, S&P and Fitch assigned ratings of Baa3, BBB- and BBB to PPL Capital Funding's \$350 million 3.95% Senior Notes due 2024 and \$400 million 5.00% Senior Notes due 2044. Fitch also assigned a stable outlook to these notes.

In April 2014, Moody's affirmed the following ratings with a stable outlook:

- the long-term issuer ratings for WPD (East Midlands), WPD (West Midlands), PPL WW and WPD (South West);
- the senior unsecured ratings for PPL WEM, WPD (East Midlands), WPD (West Midlands), PPL WW, WPD (South Wales) and WPD (South West);
- the commercial paper rating for WPD (South West); and
- the short-term issuer ratings for WPD (East Midlands) and WPD (South West).

In April 2014, Fitch affirmed the following ratings with a stable outlook:

- the long-term and short-term issuer default ratings for PPL and PPL Capital Funding; and
- the senior unsecured rating and junior subordinated rating for PPL Capital Funding.

(PPL and PPL Energy Supply)

In April 2014, Fitch affirmed its long-term issuer default rating, short-term issuer default rating, senior unsecured rating and commercial paper rating with a negative outlook for PPL Energy Supply.

(PPL and PPL Electric)

In January 2014, Moody's upgraded its long-term issuer rating and senior unsecured rating, from Baa2 to Baa1, and senior secured rating, from A3 to A2, affirmed its commercial paper rating and revised its outlook to stable for PPL Electric.

In April 2014, Fitch affirmed its long-term issuer default rating, short-term issuer default rating, secured rating and commercial paper rating with a stable outlook for PPL Electric.

(PPL, LKE, LG&E and KU)

In January 2014, Moody's affirmed its ratings and revised its outlook to stable for LKE.

In January 2014, Moody's upgraded its long-term issuer ratings and senior unsecured ratings, from Baa1 to A3, and senior secured ratings, from A2 to A1, affirmed its commercial paper ratings and revised its outlook to stable for LG&E and KU.

In February 2014, Moody's affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds.

In April 2014, Fitch affirmed the following ratings with a stable outlook:

- the long-term and short-term issuer default ratings for LKE, LG&E and KU;
- the senior unsecured debt ratings for LKE, LG&E and KU; and
- the secured debt and commercial paper ratings for LG&E and KU.

Ratings Triggers

(All Registrants except PPL Electric)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral, or permit the counterparty to terminate the contract, if PPL's, PPL Energy Supply's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2014.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2013 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 13 and 14 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

(PPL, LKE, LG&E and KU)

LG&E's and KU's retail electric and natural gas rates and municipal wholesale electric rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LG&E and KU sell excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional information.

(PPL and PPL Electric)

PPL Electric is exposed to market price and volumetric risks from its obligation as PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market price risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement energy supply contracts for the majority of its PLR obligations. These supply contracts transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

(PPL and PPL Energy Supply)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following tables sets forth the changes in the net fair value of non-trading commodity derivative contracts for the periods ended March 31. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)	
	Three Months	
	2014	2013
Fair value of contracts outstanding at the beginning of the period	\$ 107	\$ 473
Contracts realized or otherwise settled during the period	505	(137)
Fair value of new contracts entered into during the period (a)	(16)	9
Other changes in fair value	(737)	(116)
Fair value of contracts outstanding at the end of the period	<u>\$ (141)</u>	<u>\$ 229</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at March 31, 2014, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ (103)	\$ (34)	\$ 8	\$ 3	\$ (126)
Prices based on significant unobservable inputs (Level 3)	(30)	12	3		(15)
Fair value of contracts outstanding at the end of the period	<u>\$ (133)</u>	<u>\$ (22)</u>	<u>\$ 11</u>	<u>\$ 3</u>	<u>\$ (141)</u>

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2020. The following table sets forth changes in the net fair value of trading commodity derivative contracts for the periods ended March 31. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)	
	Three Months	
	2014	2013
Fair value of contracts outstanding at the beginning of the period	\$ 11	\$ 29
Contracts realized or otherwise settled during the period		(2)
Fair value of new contracts entered into during the period (a)	(13)	(12)
Other changes in fair value	33	
Fair value of contracts outstanding at the end of the period	<u>\$ 31</u>	<u>\$ 15</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at March 31, 2014, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices quoted in active markets for identical instruments (Level 1)	\$ 1				\$ 1
Prices based on significant observable inputs (Level 2)	(1)	\$ (3)	\$ 1	\$ 1	(2)
Prices based on significant unobservable inputs (Level 3)	3	16	8	5	32
Fair value of contracts outstanding at the end of the period	<u>\$ 3</u>	<u>\$ 13</u>	<u>\$ 9</u>	<u>\$ 6</u>	<u>\$ 31</u>

VaR Models

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the three months ended March 31, 2014 was as follows.

	Trading VaR	Non-Trading VaR
95% Confidence Level, Five-Day Holding Period		
Period End	\$ 8	\$ 8
Average for the Period	8	7
High	9	8
Low	8	5

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at March 31, 2014.

Interest Rate Risk (All Registrants)

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates.

The following interest rate hedges were outstanding at March 31, 2014.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Interest rate swaps (c)	\$ 500	\$ 1	\$ (15)	2025
Cross-currency swaps (d)	1,262	(57)	(179)	2028
Economic hedges				
Interest rate swaps (e)	179	(40)	(3)	2033
LKE and LG&E				
Economic hedges				
Interest rate swaps (e)	179	(40)	(3)	2033

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes foreign currency exchange rates.

(c) Changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or regulatory liabilities, if recoverable through regulated rates and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Cross-currency swaps are utilized to hedge the principal and interest payments of WPD's U.S. dollar-denominated senior notes. Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(e) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates at March 31, 2014 is shown below.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Increase to interest expense of 10% increase in interest rates	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
Increase in fair value of 10% decrease in interest rates	\$ 762	\$ 43	\$ 117	\$ 144	\$ 45	\$ 84

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

The following foreign currency hedges were outstanding at March 31, 2014.

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Net investment hedges (b)	£ 345	\$ (24)	\$ (57)	2015
Economic hedges (c)	1,840	(94)	(291)	2016

- (a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
- (b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP. The positions outstanding exclude the amount of intercompany loans classified as net investment hedges. See Note 14 to the Financial Statements for additional information.
- (c) To economically hedge the translation of expected earnings denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP.

NDT Funds - Securities Price Risk (PPL and PPL Energy Supply)

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At March 31, 2014, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At March 31, 2014, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$67 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk *(All Registrants)*

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Credit Risk" in the Registrants' 2013 Form 10-K for additional information.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation gain of \$135 million for the three months ended March 31, 2014, which primarily reflected a \$334 million increase to PP&E and goodwill offset by an increase of \$199 million to net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$256 million for the three months ended March 31, 2013, which primarily reflected a \$696 million decrease to PP&E and goodwill offset by a decrease of \$440 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 11 to the Financial Statements for additional information on related party transactions for PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures *(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities.

Environmental Matters

(All Registrants)

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services.

The following is a discussion of the more significant environmental matters. See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in the Registrants' 2013 Form 10-K for additional information on environmental matters.

Climate Change

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage, as applicable, to the Registrants' generation assets, electricity transmission and delivery systems, as well as impacts on the Registrants' customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL, PPL Energy Supply, LKE, LG&E and KU have hydroelectric generating facilities or where river water is used to cool their fossil and nuclear (as applicable) powered generators. The Registrants cannot currently predict whether their businesses will experience these potential risks or estimate the cost of their related consequences.

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum, the EPA was directed to issue a revised proposal for new power plants (a prior proposal was issued in 2012) by September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 2016.

The EPA's revised proposal for new sources was published in the Federal Register on January 8, 2014, with comments due on May 9, 2014. The proposed limits for coal plants can only be achieved through capture and sequestration, a technology that is not presently commercially viable and, therefore, effectively preclude the construction of new coal plants. The proposed standards for new gas plants may also not be continuously achievable. Regulation of GHG emissions from existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

The Administration's increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may lead to more costly regulatory requirements. The White House Office of Management and Budget has opened this issue for public comment.

Additionally, the Climate Action Plan goal to prepare the U.S. for the impacts of climate change could affect PPL, PPL Electric, LKE, LG&E and KU and others in the industry as it could result in requirements to modify electricity generating, transmission and delivery systems to improve the ability to withstand major storms and substantial capital investment may be needed to meet those requirements.

(All Registrants except PPL Electric)

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous waste) under RCRA. Under a litigation settlement agreement involving certain environmental groups, the EPA has agreed to issue its final rulemaking by the end of 2014. Regulations could impact handling, disposal and/or beneficial use of CCRs. The financial and operational impact is expected to be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from regulating CCRs under RCRA and set rules governing state programs. It remains uncertain whether similar legislation will be passed by the U.S. Senate. Recent ash spills that have occurred within the utility industry may precipitate more stringent regulation of both active and legacy CCR sites.

Effluent Limitation Guidelines (ELGs)

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized. The proposal contains several alternative approaches, some of which could significantly impact PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's coal-fired plants. The final regulation is expected to be issued in September 2015. At the present time,

PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

Clean Water Act

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: requiring installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment), and imposing standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). The final rule is now expected by May 16, 2014. The proposed regulation would apply to nearly all PPL-owned steam electric generation plants in Pennsylvania, Kentucky, and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

MATS

In February 2012, the EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule, which was challenged by industry groups and states, was upheld by the D.C. Circuit Court in April 2014. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. PPL, PPL Energy Supply, LKE, LG&E and KU are generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls at PPL Energy Supply and approved ECR plans to install additional controls at some of LG&E's and KU's Kentucky plants. Additionally, PPL Energy Supply is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL Energy Supply announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS. The Corette plant asset group was determined to be impaired in December 2013. See "Application of Critical Accounting Policies - Asset Impairment (Excluding Investments)" in PPL's and PPL Energy Supply's 2013 Form 10-K for additional information. Also, LG&E, KU and PPL Energy Supply have received compliance extensions for certain plants in Kentucky and Pennsylvania and are considering extension requests for other plants as well.

LG&E's and KU's anticipated retirements of generating units at the Cane Run and Green River plants are in response to MATS and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrogen oxides and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern U.S. In December 2011, the U.S. District Court for the District of Columbia Circuit (D.C. Circuit Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the D. C. Circuit Court vacated CSAPR and remanded it back to the EPA for further rulemaking, again leaving CAIR in place in the interim. In June 2013, the U.S. Supreme Court granted the EPA's petition for review of the D.C. Circuit Court's decision to vacate CSAPR. On April 29, 2014, the U.S. Supreme Court reversed and remanded the D.C. Circuit Court's August 2012 decision which will likely result in the CSAPR replacing the CAIR program. PPL, PPL Energy Supply, LKE, LG&E and KU do not currently anticipate that the costs of meeting CSAPR requirements will be significant.

PPL, PPL Energy Supply, LKE, LG&E and KU plants in Pennsylvania and Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The D. C. Circuit Court's August 2012 decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions for nitrogen oxides and sulfur dioxide due to regional haze implementation (see "Regional Haze" discussion below), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

Regional Haze

Under the EPA's regional haze programs (developed to eliminate man-made visibility degradation by 2064), states are required to make reasonable progress every decade through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977. For the eastern U.S., the EPA had determined that region-wide reductions under the CSAPR trading program could be utilized by state programs to satisfy BART requirements for sulfur dioxide and nitrogen oxides. However, although the August 2012 decision by the D.C. Circuit Court to vacate and remand CSAPR has been reversed by the U.S. Supreme Court, future decisions by EPA and the courts will determine whether power plants located in the eastern U.S., including PPL Energy Supply's plants in Pennsylvania and LG&E's and KU's plants in Kentucky, will be subject to further reductions in those pollutants in accordance with BART requirements.

The EPA signed its final Federal Implementation Plan (FIP) of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for PPL Energy Supply's Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for PPL Energy Supply's Colstrip Units 3 & 4), and tighter emission limits for PPL Energy Supply's Corette plant (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL Energy Supply expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above). Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit.

National Ambient Air Quality Standards

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result of EPA's new ozone standard, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies. The PADEP has issued a draft rule requiring reasonable reductions. However, the proposal is being challenged as too lenient by other OTR states and environmental groups. The PADEP may impose more stringent emission limits than those set forth in the proposed rule which could have a significant impact on PPL Energy Supply's Pennsylvania coal plants.

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2014. Existing environmental plans for LG&E's and KU's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. However, depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant.

New Accounting Guidance (All Registrants)

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies (All Registrants)

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2013 Form 10-K for a discussion of each critical accounting policy.

	<u>PPL</u>	<u>PPL</u> <u>Energy Supply</u>	<u>PPL</u> <u>Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Defined Benefits	X	X	X	X	X	X
Loss Accruals	X	X	X	X	X	X
Income Taxes	X	X	X	X	X	X
Asset Impairments (Excluding Investments)	X	X		X	X	X
AROs	X	X		X	X	X
Price Risk Management	X	X		X	X	X
Regulatory Assets and Liabilities	X		X	X	X	X
Revenue Recognition - unbilled revenue			X	X	X	X

PPL Corporation
PPL Energy Supply, LLC
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of March 31, 2014, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

- (b) Change in internal controls over financial reporting.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2013 Form 10-K; and
- Notes 6 and 10 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the 2013 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

- 1(a) - Securities Purchase and Registration Rights Agreement, dated March 5, 2014, among PPL Capital Funding, Inc., PPL Corporation, and the several purchasers named in Schedule B thereto (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 4(a) - Supplemental Indenture No. 13, dated as of March 10, 2014, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (formerly known as The Bank of New York), as Trustee (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 4(b) - Supplemental Indenture No. 14, dated as of March 10, 2014, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (formerly known as The Bank of New York), as Trustee (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 10(a) - \$150,000,000 Revolving Credit Agreement, dated as of March 26, 2014, among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as Guarantor and The Bank of Nova Scotia, as Administrative Agent, Issuing Lender and Lender (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 1, 2014)
- 10(b) - Twelfth Amendment, dated as of March 19, 2014, to Reimbursement Agreement, dated as of March 31, 2005, among PPL Energy Supply, LLC and The Bank of Nova Scotia, as Issuer and Administrative Agent (Exhibit 10.2 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 1, 2014)
- [*12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(b\)](#) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(c\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(d\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(f\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2014, filed by the following officers for the following companies:

- [*31\(a\)](#) - PPL Corporation's principal executive officer
- [*31\(b\)](#) - PPL Corporation's principal financial officer
- [*31\(c\)](#) - PPL Energy Supply, LLC's principal executive officer
- [*31\(d\)](#) - PPL Energy Supply, LLC's principal financial officer
- [*31\(e\)](#) - PPL Electric Utilities Corporation's principal executive officer
- [*31\(f\)](#) - PPL Electric Utilities Corporation's principal financial officer
- [*31\(g\)](#) - LG&E and KU Energy LLC's principal executive officer
- [*31\(h\)](#) - LG&E and KU Energy LLC's principal financial officer
- [*31\(i\)](#) - Louisville Gas and Electric Company's principal executive officer
- [*31\(j\)](#) - Louisville Gas and Electric Company's principal financial officer
- [*31\(k\)](#) - Kentucky Utilities Company's principal executive officer
- [*31\(l\)](#) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2014, furnished by the following officers for the following companies:

- [*32\(a\)](#) - PPL Corporation's principal executive officer and principal financial officer
 - [*32\(b\)](#) - PPL Energy Supply, LLC's principal executive officer and principal financial officer
 - [*32\(c\)](#) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
 - [*32\(d\)](#) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
 - [*32\(e\)](#) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
 - [*32\(f\)](#) - Kentucky Utilities Company's principal executive officer and principal financial officer
-
- 101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
 - 101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
 - 101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
 - 101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
 - 101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
 - 101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

PPL Energy Supply, LLC

(Registrant)

Date: May 1, 2014

/s/ Vincent Sorgi

Vincent Sorgi
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: May 1, 2014

/s/ Dennis A. Urban, Jr.

Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal
Accounting Officer)

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: May 1, 2014

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	3 Months Ended March 31,	Years Ended December 31,				
	2014	2013	2012	2011	2010	2009
Earnings, as defined:						
Income from Continuing Operations Before						
Income Taxes (a)	\$ 428	\$ 1,309	\$ 2,082	\$ 2,201	\$ 1,239	\$ 538
Adjustment to reflect earnings from equity method						
investments on a cash basis (b)			34	1	7	1
	<u>428</u>	<u>1,309</u>	<u>2,116</u>	<u>2,202</u>	<u>1,246</u>	<u>539</u>
Total fixed charges as below	277	1,096	1,065	1,022	698	513
Less:						
Capitalized interest	8	47	53	51	30	43
Preferred security distributions of subsidiaries						
on a pre-tax basis			5	23	21	24
Interest expense and fixed charges related to						
discontinued operations				3	12	15
Total fixed charges included in Income from						
Continuing Operations Before Income Taxes	<u>269</u>	<u>1,049</u>	<u>1,007</u>	<u>945</u>	<u>635</u>	<u>431</u>
Total earnings	<u>\$ 697</u>	<u>\$ 2,358</u>	<u>\$ 3,123</u>	<u>\$ 3,147</u>	<u>\$ 1,881</u>	<u>\$ 970</u>
Fixed charges, as defined:						
Interest charges (c)	\$ 274	\$ 1,058	\$ 1,019	\$ 955	\$ 637	\$ 446
Estimated interest component of operating rentals	3	38	41	44	39	42
Preferred security distributions of subsidiaries						
on a pre-tax basis			5	23	21	24
Fixed charges of majority-owned share of 50% or						
less-owned persons					1	1
Total fixed charges (d)	<u>\$ 277</u>	<u>\$ 1,096</u>	<u>\$ 1,065</u>	<u>\$ 1,022</u>	<u>\$ 698</u>	<u>\$ 513</u>
Ratio of earnings to fixed charges	<u>2.5</u>	<u>2.2</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>
Ratio of earnings to combined fixed charges and						
preferred stock dividends (e)	<u>2.5</u>	<u>2.2</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>

- (a) In September 2013, PPL Montana executed a definitive agreement to sell certain hydroelectric generating facilities. The sale is not expected to close before the second half of 2014. To facilitate the sale, in December 2013, PPL Montana terminated a lease agreement which resulted in a \$697 million charge. See Note 8 to the Financial Statements in PPL's 2013 Form 10-K for additional information.
- (b) Includes other-than-temporary impairment loss of \$25 million in 2012.
- (c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
- (d) Interest on unrecognized tax benefits is not included in fixed charges.
- (e) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	3 Months Ended		Years Ended December 31,			
	March 31, 2014	2013	2012	2011	2010	2009
Earnings, as defined:						
Income (Loss) from Continuing Operations Before						
Income Taxes (a)	\$ (115)	\$ (371)	\$ 738	\$ 1,212	\$ 881	\$ (13)
Adjustments to reflect earnings from equity method investments on a cash basis				1	7	1
	(115)	(371)	738	1,213	888	(12)
Total fixed charges as below	42	226	238	259	426	364
Less:						
Capitalized interest	6	36	47	47	33	44
Interest expense and fixed charges related to discontinued operations				3	147	102
Total fixed charges included in Income (Loss) from Continuing Operations Before Income Taxes	36	190	191	209	246	218
Total earnings	\$ (79)	\$ (181)	\$ 929	\$ 1,422	\$ 1,134	\$ 206
Fixed charges, as defined:						
Interest charges (b)	\$ 41	\$ 207	\$ 214	\$ 223	\$ 387	\$ 321
Estimated interest component of operating rentals	1	19	24	36	38	42
Fixed charges of majority-owned share of 50% or less-owned persons					1	1
Total fixed charges (c)	\$ 42	\$ 226	\$ 238	\$ 259	\$ 426	\$ 364
Ratio of earnings to fixed charges (d)	(1.9)	(0.8)	3.9	5.5	2.7	0.6

- (a) In September 2013, PPL Montana executed a definitive agreement to sell certain hydroelectric generating facilities. The sale is not expected to close before the second half of 2014. To facilitate the sale, in December 2013, PPL Montana terminated a lease agreement which resulted in a \$697 million charge. See Note 8 to the Financial Statements in PPL Energy Supply's 2013 Form 10-K for additional information.
- (b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
- (c) Interest on unrecognized tax benefits is not included in fixed charges.
- (d) For the three months ended March 31, 2014, there was less than one-to-one coverage. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was \$121 million.

2013 earnings were lower as a result of the PPL Montana lease termination referred to in (a) above, which resulted in less than one-to-one coverage. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was \$407 million.

As a result of PPL Energy Supply's 2011 distribution of its interest in PPL Global to PPL Energy Funding and related reclassification of PPL Global's operating results as Discontinued Operations, earnings for 2009 were lower, which resulted in less than one-to-one coverage. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was \$158 million.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	3 Months Ended March 31,	Years Ended December 31,				
	2014	2013	2012	2011	2010	2009
Earnings, as defined:						
Income Before Income Taxes	\$ 138	\$ 317	\$ 204	\$ 257	\$ 192	\$ 221
Total fixed charges as below	31	117	107	105	102	121
Total earnings	\$ 169	\$ 434	\$ 311	\$ 362	\$ 294	\$ 342
Fixed charges, as defined:						
Interest charges (a)	\$ 30	\$ 113	\$ 104	\$ 102	\$ 101	\$ 120
Estimated interest component of operating rentals	1	4	3	3	1	1
Total fixed charges (b)	\$ 31	\$ 117	\$ 107	\$ 105	\$ 102	\$ 121
Ratio of earnings to fixed charges	5.5	3.7	2.9	3.4	2.9	2.8
Preferred stock dividend requirements on a pre-tax basis						
			\$ 6	\$ 21	\$ 23	\$ 28
Fixed charges, as above	\$ 31	\$ 117	107	105	102	121
Total fixed charges and preferred stock dividends	\$ 31	\$ 117	\$ 113	\$ 126	\$ 125	\$ 149
Ratio of earnings to combined fixed charges and preferred stock dividends	5.5	3.7	2.8	2.9	2.4	2.3

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)					Predecessor (b)	
	3 Months Ended Mar. 31, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:							
Income from Continuing Operations							
Before Income Taxes	\$ 184	\$ 551	\$ 331	\$ 419	\$ 70	\$ 300	\$ (1,235)
Adjustment to reflect earnings from equity method investments on a cash basis (c)			33	(1)		(4)	11
Loss on impairment of goodwill							1,493
Mark to market impact of derivative instruments					2	(20)	(19)
	<u>184</u>	<u>551</u>	<u>364</u>	<u>418</u>	<u>72</u>	<u>276</u>	<u>250</u>
Total fixed charges as below	<u>43</u>	<u>151</u>	<u>157</u>	<u>153</u>	<u>25</u>	<u>158</u>	<u>186</u>
Total earnings	<u>\$ 227</u>	<u>\$ 702</u>	<u>\$ 521</u>	<u>\$ 571</u>	<u>\$ 97</u>	<u>\$ 434</u>	<u>\$ 436</u>
Fixed charges, as defined:							
Interest charges (d) (e)	\$ 42	\$ 145	\$ 151	\$ 147	\$ 24	\$ 153	\$ 176
Estimated interest component of operating rentals	1	6	6	6	1	5	5
Estimated discontinued operations interest component of rental expense							5
Total fixed charges	<u>\$ 43</u>	<u>\$ 151</u>	<u>\$ 157</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 158</u>	<u>\$ 186</u>
Ratio of earnings to fixed charges	<u>5.3</u>	<u>4.6</u>	<u>3.3</u>	<u>3.7</u>	<u>3.9</u>	<u>2.7</u>	<u>2.3</u>

- (a) Post-acquisition activity covering the time period after October 31, 2010.
(b) Pre-acquisition activity covering the time period prior to November 1, 2010.
(c) Includes other-than-temporary impairment loss of \$25 million in 2012.
(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(e) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)					Predecessor (b)	
	3 Months Ended Mar. 31, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:							
Income Before Income Taxes	\$ 82	\$ 257	\$ 192	\$ 195	\$ 29	\$ 167	\$ 142
Mark to market impact of derivative instruments					1	(20)	(20)
	<u>82</u>	<u>257</u>	<u>192</u>	<u>195</u>	<u>30</u>	<u>147</u>	<u>122</u>
Total fixed charges as below	<u>13</u>	<u>36</u>	<u>44</u>	<u>46</u>	<u>8</u>	<u>40</u>	<u>46</u>
Total earnings	<u>\$ 95</u>	<u>\$ 293</u>	<u>\$ 236</u>	<u>\$ 241</u>	<u>\$ 38</u>	<u>\$ 187</u>	<u>\$ 168</u>
Fixed charges, as defined:							
Interest charges (c) (d)	\$ 12	\$ 34	\$ 42	\$ 44	\$ 8	\$ 38	\$ 44
Estimated interest component of operating rentals	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>		<u>2</u>	<u>2</u>
Total fixed charges	<u>\$ 13</u>	<u>\$ 36</u>	<u>\$ 44</u>	<u>\$ 46</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 46</u>
Ratio of earnings fixed charges	<u>7.3</u>	<u>8.1</u>	<u>5.4</u>	<u>5.2</u>	<u>4.8</u>	<u>4.7</u>	<u>3.7</u>

- (a) Post-acquisition activity covering the time period after October 31, 2010.
(b) Pre-acquisition activity covering the time period prior to November 1, 2010.
(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(d) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)					Predecessor (b)	
	3 Months Ended Mar. 31, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:							
Income Before Income Taxes	\$ 123	\$ 360	\$ 215	\$ 282	\$ 55	\$ 218	\$ 200
Adjustment to reflect earnings from equity method investments on a cash basis (c)			33	(1)		(4)	11
Mark to market impact of derivative instruments							1
	<u>123</u>	<u>360</u>	<u>248</u>	<u>281</u>	<u>55</u>	<u>214</u>	<u>212</u>
Total fixed charges as below	<u>20</u>	<u>73</u>	<u>72</u>	<u>73</u>	<u>11</u>	<u>71</u>	<u>79</u>
Total earnings	<u>\$ 143</u>	<u>\$ 433</u>	<u>\$ 320</u>	<u>\$ 354</u>	<u>\$ 66</u>	<u>\$ 285</u>	<u>\$ 291</u>
Fixed charges, as defined:							
Interest charges (d)	\$ 19	\$ 70	\$ 69	\$ 70	\$ 10	\$ 69	\$ 76
Estimated interest component of operating rentals	<u>1</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>
Total fixed charges	<u>\$ 20</u>	<u>\$ 73</u>	<u>\$ 72</u>	<u>\$ 73</u>	<u>\$ 11</u>	<u>\$ 71</u>	<u>\$ 79</u>
Ratio of earnings to fixed charges	<u>7.2</u>	<u>5.9</u>	<u>4.4</u>	<u>4.8</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>

- (a) Post-acquisition activity covering the time period after October 31, 2010.
(b) Pre-acquisition activity covering the time period prior to November 1, 2010.
(c) Includes other-than-temporary impairment loss of \$25 million in 2012.
(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Paul A. Farr

Paul A. Farr
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)
 PPL Corporation

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ David G. DeCampli
 David G. DeCampli
 President
 (Principal Executive Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Paul A. Farr
 Paul A. Farr
 Executive Vice President
 (Principal Financial Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, DENNIS A. URBAN, JR., certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Dennis A. Urban, Jr.
 Dennis A. Urban, Jr.
 Controller
 (Principal Financial Officer and Principal Accounting Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2014

/s/ William H. Spence
William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, David G. DeCampli, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2014

/s/ David G. DeCampli
David G. DeCampli
President
(Principal Executive Officer)
PPL Energy Supply, LLC

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
(Principal Financial Officer)
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Dennis A. Urban, Jr., the Principal Financial and Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2014

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal Accounting Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2014

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2014

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2014

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Morningstar[®] Document ResearchSM

FORM 10-Q

PPL CORP - PPL

Filed: July 31, 2014 (period: June 30, 2014)

Quarterly report with a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2014
OR
[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	PPL Energy Supply, LLC (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 664,381,143 shares outstanding at July 25, 2014.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 25, 2014.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at July 25, 2014.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at July 25, 2014.

This document is available free of charge at the Investor Center on PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

**PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2014

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Brunner Island - PPL Brunner Island, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Energy Supply, PPL Global and other subsidiaries.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Montour - PPL Montour, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides services to PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, a subsidiary of PPL Generation that owns a nuclear-powered generating station.

PPL WEM - PPL WEM Holdings Limited, an indirect U.K. subsidiary of PPL Global. PPL WEM indirectly owns both WPD (East Midlands) and WPD (West Midlands).

PPL WW - PPL WW Holdings Limited, an indirect U.K. subsidiary of PPL Global. PPL WW Holdings indirectly owns WPD (South Wales) and WPD (South West).

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Subsidiary Registrant(s) - Registrants that are direct or indirect wholly owned subsidiaries of PPL: PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company.

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Purchase Contract(s) - a contract that is a component of a 2010 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to May 1, 2014.

2013 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2013.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and changes to the AEPS.

AEPS - Alternative Energy Portfolio Standard.

AFUDC - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Baseload generation - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

CAIR - the EPA's Clean Air Interstate Rule.

Cane Run Unit 7 - a natural gas combined-cycle unit under construction in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 640 MW (141 MW and 499 MW to LG&E and KU) in 2015.

CCR - Coal Combustion Residuals. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

COBRA - Consolidated Omnibus Budget Reconciliation Act, which provides individuals the option to temporarily continue employer group health insurance coverage after termination of employment.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for the furnishing of utility service to the public.

CSAPR - Cross-State Air Pollution Rule.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

DNO - Distribution Network Operator.

DOJ - U.S. Department of Justice.

DPCR4 - Distribution Price Control Review 4, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2005.

DPCR5 - Distribution Price Control Review 5, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2010.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - the distribution system improvement charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of costs and revenues lost by implementing DSM programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and by-products from the production of energy from coal.

EEL - Electric Energy, Inc., owns and operates a coal-fired plant and a natural gas facility in southern Illinois. KU's 20% ownership interest in EEL is accounted for as an equity method investment.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ERCOT - the Electric Reliability Council of Texas, operator of the electricity transmission network and electricity energy market in most of Texas.

ESOP - Employee Stock Ownership Plan.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

Fitch - Fitch, Inc., a credit rating agency.

FTRs - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations, known as source and sink.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved LG&E's recovery of costs associated with gas service lines, gas risers, leak mitigation, and gas main replacements. Rate recovery became effective on January 1, 2013.

Green River Unit 5 - a natural gas combined-cycle unit proposed to be built in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 700MW (280 MW and 420 MW of LG&E and KU, respectively).

IBEW - International Brotherhood of Electrical Workers.

If-Converted Method - A method applied to calculate diluted EPS for a company with outstanding convertible debt. The method is applied as follows: Interest charges (after tax) applicable to the convertible debt are added back to net income and the convertible debt is assumed to have been converted to equity at the beginning of the period, and the resulting common shares are treated as outstanding shares. Both adjustments are made only for purposes of calculating diluted EPS. This method was applied in 2013 and 2014 to PPL's Equity Units prior to settlement.

Intermediate and peaking generation - includes the output provided by PPL's oil- and natural gas-fired units.

IRS - Internal Revenue Service, a U.S. government agency.

ISO - Independent System Operator.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LIBOR - London Interbank Offered Rate.

LTIP - Long Term Infrastructure Improvement Plan.

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MPSC - Montana Public Service Commission.

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle generating plant.

NorthWestern - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

NRC - Nuclear Regulatory Commission, the U.S. federal agency that regulates nuclear power facilities.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

Opacity - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity of power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined summer rating capacities of 2,120 MW.

PADEP - the Pennsylvania Department of Environmental Protection, a state government agency.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts, which are components of the 2010 and 2011 Equity Units.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index in order to allow for the effects of inflation. Since the beginning of DPCR5 in April 2010, RAV additions have been based on a percentage of annual total expenditures.

RCRA - Resource Conservation and Recovery Act of 1976.

RECs - renewable energy credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies changes and additions to the grid necessary to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects assigned to them by the PJM Board.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RIIO-EDI - RIIO represents "Revenues = Incentive + Innovation + Outputs - Electricity Distribution." RIIO-ED1 refers to the initial eight-year rate review period applicable to WPD commencing April 1, 2015.

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and ultimate parent company of the entities that own the electricity generating assets to be contributed to Talen Energy other than those assets to be contributed by virtue of the spinoff of PPL Energy Supply.

RJS Power - RJS Power Holdings LLC, a Delaware limited liability company controlled by Riverstone, currently expected to hold the competitive generation assets to be contributed to Talen Energy other than those assets to be contributed by virtue of the spinoff of PPL Energy Supply.

RMC - Risk Management Committee.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

SNCR - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

Spark Spread - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

Talen Energy - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2 or 549 MW of the capacity.

Tolling agreement - agreement whereby the owner of an electricity generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

TRA - Tennessee Regulatory Authority, the state agency that has jurisdiction over the regulation of rates and service of utilities in Tennessee.

Treasury Stock Method - A method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

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FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2013 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical, nuclear decommissioning liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery or revenue filings by PPL Electric, LG&E, KU or WPD;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions, including the PPL Energy Supply spinoff transaction with Riverstone and the anticipated formation of Talen Energy and our ability to realize expected benefits from such business transactions.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Revenues				
Utility	\$ 1,830	\$ 1,655	\$ 3,992	\$ 3,605
Unregulated wholesale energy	591	1,401	(838)	1,544
Unregulated retail energy	280	257	629	494
Energy-related businesses	173	137	314	264
Total Operating Revenues	<u>2,874</u>	<u>3,450</u>	<u>4,097</u>	<u>5,907</u>
Operating Expenses				
Operation				
Fuel	491	441	1,249	970
Energy purchases	351	1,051	(1,143)	1,108
Other operation and maintenance	741	698	1,438	1,374
Depreciation	312	286	617	570
Taxes, other than income	93	86	197	182
Energy-related businesses	168	130	306	252
Total Operating Expenses	<u>2,156</u>	<u>2,692</u>	<u>2,664</u>	<u>4,456</u>
Operating Income	718	758	1,433	1,451
Other Income (Expense) - net	(82)	13	(105)	135
Interest Expense	<u>258</u>	<u>258</u>	<u>522</u>	<u>509</u>
Income from Continuing Operations Before Income Taxes	378	513	806	1,077
Income Taxes	<u>149</u>	<u>109</u>	<u>261</u>	<u>260</u>
Income from Continuing Operations After Income Taxes	229	404	545	817
Income (Loss) from Discontinued Operations (net of income taxes)		1		1
Net Income Attributable to PPL Shareowners	<u>\$ 229</u>	<u>\$ 405</u>	<u>\$ 545</u>	<u>\$ 818</u>
Amounts Attributable to PPL Shareowners:				
Income from Continuing Operations After Income Taxes	\$ 229	\$ 404	\$ 545	\$ 817
Income (Loss) from Discontinued Operations (net of income taxes)		1		1
Net Income	<u>\$ 229</u>	<u>\$ 405</u>	<u>\$ 545</u>	<u>\$ 818</u>
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners:				
Basic	\$ 0.35	\$ 0.68	\$ 0.84	\$ 1.39
Diluted	\$ 0.34	\$ 0.63	\$ 0.83	\$ 1.28
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.35	\$ 0.68	\$ 0.84	\$ 1.39
Diluted	\$ 0.34	\$ 0.63	\$ 0.83	\$ 1.28
Dividends Declared Per Share of Common Stock	\$ 0.3725	\$ 0.3675	\$ 0.7450	\$ 0.7350
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	653,132	589,834	642,002	586,683
Diluted	665,792	664,615	664,927	661,263

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net income	\$ 229	\$ 405	\$ 545	\$ 818
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of \$5, (\$1), \$6, (\$7)	(3)	(7)	128	(252)
Available-for-sale securities, net of tax of (\$15), (\$2), (\$21), (\$27)	14	2	19	25
Qualifying derivatives, net of tax of \$4, (\$23), \$29, (\$43)	(1)	24	(47)	86
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$2, \$0, \$2, \$0	(2)		(2)	
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$1, \$0, \$2, \$1	(1)	(1)	(2)	(2)
Qualifying derivatives, net of tax of \$5, \$22, \$1, \$57	(5)	(36)	14	(116)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$2), (\$2)	1	2	2	3
Net actuarial loss, net of tax of (\$8), (\$12), (\$17), (\$25)	28	34	55	68
Total other comprehensive income (loss) attributable to PPL Shareowners	31	18	167	(188)
Comprehensive income (loss) attributable to PPL Shareowners	\$ 260	\$ 423	\$ 712	\$ 630

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 545	\$ 818
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	617	570
Amortization	112	113
Defined benefit plans - expense	59	91
Deferred income taxes and investment tax credits	133	291
Unrealized (gains) losses on derivatives, and other hedging activities	301	(11)
Adjustment to WPD line loss accrual	65	24
Other	51	26
Change in current assets and current liabilities		
Accounts receivable	(73)	(189)
Accounts payable	(99)	(75)
Unbilled revenues	161	144
Fuel, materials and supplies	52	29
Prepayments	(35)	(64)
Counterparty collateral	(15)	(61)
Taxes payable	51	128
Uncertain tax positions		(98)
Accrued interest	(107)	(119)
Other	(82)	(142)
Other operating activities		
Defined benefit plans - funding	(218)	(468)
Other assets	1	(64)
Other liabilities	64	4
Net cash provided by operating activities	<u>1,583</u>	<u>947</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(1,854)	(1,797)
Expenditures for intangible assets	(48)	(40)
Purchases of nuclear plant decommissioning trust investments	(73)	(66)
Proceeds from the sale of nuclear plant decommissioning trust investments	65	59
Proceeds from the receipt of grants	56	4
Net (increase) decrease in restricted cash and cash equivalents	(251)	(17)
Other investing activities	2	23
Net cash provided by (used in) investing activities	<u>(2,103)</u>	<u>(1,834)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	296	450
Retirement of long-term debt	(239)	(9)
Repurchase of common stock		(28)
Issuance of common stock	1,017	259
Payment of common stock dividends	(470)	(426)
Contract adjustment payments	(21)	(48)
Net increase (decrease) in short-term debt	107	563
Other financing activities	(19)	(51)
Net cash provided by (used in) financing activities	<u>671</u>	<u>710</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>16</u>	<u>(13)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>167</u>	<u>(190)</u>
Cash and Cash Equivalents at Beginning of Period	<u>1,102</u>	<u>901</u>
Cash and Cash Equivalents at End of Period	<u>\$ 1,269</u>	<u>\$ 711</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,269	\$ 1,102
Restricted cash and cash equivalents	332	83
Accounts receivable (less reserve: 2014, \$47; 2013, \$64)		
Customer	981	923
Other	115	97
Unbilled revenues	680	835
Fuel, materials and supplies	651	702
Prepayments	160	153
Deferred income taxes	317	246
Price risk management assets	954	942
Regulatory assets	29	33
Other current assets	49	37
Total Current Assets	5,537	5,153
Investments		
Nuclear plant decommissioning trust funds	911	864
Other investments	39	43
Total Investments	950	907
Property, Plant and Equipment		
Regulated utility plant	29,473	27,755
Less: accumulated depreciation - regulated utility plant	5,291	4,873
Regulated utility plant, net	24,182	22,882
Non-regulated property, plant and equipment		
Generation	11,858	11,881
Nuclear fuel	624	591
Other	864	834
Less: accumulated depreciation - non-regulated property, plant and equipment	6,294	6,172
Non-regulated property, plant and equipment, net	7,052	7,134
Construction work in progress	3,197	3,071
Property, Plant and Equipment, net	34,431	33,087
Other Noncurrent Assets		
Regulatory assets	1,242	1,246
Goodwill	4,301	4,225
Other intangibles	952	947
Price risk management assets	423	337
Other noncurrent assets	357	357
Total Other Noncurrent Assets	7,275	7,112
Total Assets	\$ 48,193	\$ 46,259

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 808	\$ 701
Long-term debt due within one year	304	315
Accounts payable	1,178	1,308
Taxes	124	114
Interest	223	325
Dividends	248	232
Price risk management liabilities	1,259	829
Regulatory liabilities	82	90
Other current liabilities	930	998
Total Current Liabilities	5,156	4,912
Long-term Debt	20,819	20,592
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,261	3,928
Investment tax credits	278	342
Price risk management liabilities	498	415
Accrued pension obligations	1,080	1,286
Asset retirement obligations	712	687
Regulatory liabilities	1,026	1,048
Other deferred credits and noncurrent liabilities	628	583
Total Deferred Credits and Other Noncurrent Liabilities	8,483	8,289
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
Common stock - \$0.01 par value (a)	7	6
Additional paid-in capital	9,358	8,316
Earnings reinvested	5,768	5,709
Accumulated other comprehensive loss	(1,398)	(1,565)
Total Equity	13,735	12,466
Total Liabilities and Equity	\$ 48,193	\$ 46,259

(a) 780,000 shares authorized; 664,018 and 630,321 shares issued and outstanding at June 30, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

PPL Shareowners

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non- controlling interests	Total
March 31, 2014	631,417	\$ 6	\$ 8,352	\$ 5,788	\$ (1,429)		\$ 12,717
Common stock issued (b)	32,601	1	997				998
Stock-based compensation (c)			9				9
Net income				229			229
Dividends and dividend equivalents (d)				(249)			(249)
Other comprehensive income (loss)					31		31
June 30, 2014	664,018	\$ 7	\$ 9,358	\$ 5,768	\$ (1,398)		\$ 13,735
December 31, 2013	630,321	\$ 6	\$ 8,316	\$ 5,709	\$ (1,565)		\$ 12,466
Common stock issued (b)	33,697	1	1,027				1,028
Stock-based compensation (c)			15				15
Net income				545			545
Dividends and dividend equivalents (d)				(486)			(486)
Other comprehensive income (loss)					167		167
June 30, 2014	664,018	\$ 7	\$ 9,358	\$ 5,768	\$ (1,398)		\$ 13,735
March 31, 2013	583,214	\$ 6	\$ 6,988	\$ 5,676	\$ (2,146)	\$ 18	\$ 10,542
Common stock issued (b)	9,338		245				245
Common stock repurchased	(930)		(28)				(28)
Cash settlement of equity forward agreements			(13)				(13)
Stock-based compensation (c)			3				3
Net income				405			405
Dividends and dividend equivalents (d)				(218)			(218)
Other comprehensive income (loss)					18		18
June 30, 2013	591,622	\$ 6	\$ 7,195	\$ 5,863	\$ (2,128)	\$ 18	\$ 10,954
December 31, 2012	581,944	\$ 6	\$ 6,936	\$ 5,478	\$ (1,940)	\$ 18	\$ 10,498
Common stock issued (b)	10,608		282				282
Common stock repurchased	(930)		(28)				(28)
Cash settlement of equity forward agreements			(13)				(13)
Stock-based compensation (c)			18				18
Net income				818			818
Dividends and dividend equivalents (d)				(433)			(433)
Other comprehensive income (loss)					(188)		(188)
June 30, 2013	591,622	\$ 6	\$ 7,195	\$ 5,863	\$ (2,128)	\$ 18	\$ 10,954

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

(b) Each period includes shares of common stock issued through various stock and incentive compensation plans. The 2014 periods include the May issuance of shares of common stock to settle the 2011 Purchase Contracts. See Note 7 for additional information. The 2013 periods include the April issuance of shares of common stock to settle the forward sales agreements.

(c) The three and six months ended June 30, 2014 include \$12 million and \$39 million and the three and six months ended June 30, 2013 include \$8 million and \$36 million of stock-based compensation expense related to new and existing unvested equity awards. The three and six months ended June 30, 2014 include \$(3) million and \$(24) million and the three and six months ended June 30, 2013 include \$(5) million and \$(18) million related primarily to the reclassification from "Stock-based compensation" to "Common stock issued" for the issuance of common stock after applicable equity award vesting periods and tax adjustments related to stock-based compensation.

(d) Includes dividends and dividend equivalents on PPL common stock and restricted stock units.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Revenues				
Unregulated wholesale energy	\$ 591	\$ 1,401	\$ (838)	\$ 1,544
Unregulated wholesale energy to affiliate	21	12	48	26
Unregulated retail energy	281	257	632	495
Energy-related businesses	155	122	280	235
Total Operating Revenues	1,048	1,792	122	2,300
Operating Expenses				
Operation				
Fuel	259	224	741	522
Energy purchases	203	898	(1,601)	699
Other operation and maintenance	296	270	554	505
Depreciation	82	79	162	157
Taxes, other than income	16	16	37	33
Energy-related businesses	155	118	279	228
Total Operating Expenses	1,011	1,605	172	2,144
Operating Income (Loss)	37	187	(50)	156
Other Income (Expense) - net	8	12	14	16
Interest Expense	35	46	69	92
Income (Loss) Before Income Taxes	10	153	(105)	80
Income Taxes	(3)	67	(52)	32
Net Income (Loss) Attributable to PPL Energy Supply Member	\$ 13	\$ 86	\$ (53)	\$ 48

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	\$ 13	\$ 86	\$ (53)	\$ 48
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Available-for-sale securities, net of tax of (\$15), (\$2), (\$21), (\$27)	14	2	19	25
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$1, \$0, \$2, \$1	(1)	(1)	(2)	(2)
Qualifying derivatives, net of tax of \$5, \$23, \$9, \$44	(8)	(37)	(13)	(67)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, (\$1), (\$1)		1	1	2
Net actuarial loss, net of tax of (\$1), (\$3), (\$2), (\$5)	2	4	3	8
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	7	(31)	8	(34)
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ 20	\$ 55	\$ (45)	\$ 14

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income (loss)	\$ (53)	\$ 48
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	162	157
Amortization	77	71
Defined benefit plans - expense	32	26
Deferred income taxes and investment tax credits	(120)	98
Impairment of assets	18	
Unrealized (gains) losses on derivatives, and other hedging activities	232	91
Other	10	5
Change in current assets and current liabilities		
Accounts receivable	25	6
Accounts payable	(55)	(62)
Unbilled revenues	67	96
Prepayments	(16)	(67)
Counterparty collateral	(15)	(61)
Price risk management assets and liabilities	(33)	(2)
Other	(20)	(15)
Other operating activities		
Defined benefit plans - funding	(32)	(106)
Other assets	(1)	(38)
Other liabilities	12	(20)
Net cash provided by operating activities	<u>290</u>	<u>227</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(176)	(241)
Expenditures for intangible assets	(24)	(23)
Purchases of nuclear plant decommissioning trust investments	(73)	(66)
Proceeds from the sale of nuclear plant decommissioning trust investments	65	59
Proceeds from the receipt of grants	56	3
Net (increase) decrease in restricted cash and cash equivalents	(258)	(24)
Other investing activities	7	10
Net cash provided by (used in) investing activities	<u>(403)</u>	<u>(282)</u>
Cash Flows from Financing Activities		
Contributions from member	730	105
Distributions to member	(914)	(408)
Net increase (decrease) in short-term debt	324	219
Other financing activities	(2)	(9)
Net cash provided by (used in) financing activities	<u>138</u>	<u>(93)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>25</u>	<u>(148)</u>
Cash and Cash Equivalents at Beginning of Period	239	413
Cash and Cash Equivalents at End of Period	<u>\$ 264</u>	<u>\$ 265</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

**CONDENSED
CONSOLIDATED BALANCE SHEETS**
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 264	\$ 239
Restricted cash and cash equivalents	326	68
Accounts receivable (less reserve: 2014, \$2; 2013, \$21)		
Customer	206	233
Other	102	97
Accounts receivable from affiliates	42	45
Unbilled revenues	219	286
Fuel, materials and supplies	349	358
Prepayments	36	20
Deferred income taxes	105	
Price risk management assets	954	860
Other current assets	31	27
Total Current Assets	2,634	2,233
Investments		
Nuclear plant decommissioning trust funds	911	864
Other investments	34	37
Total Investments	945	901
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,866	11,891
Nuclear fuel	624	591
Other	291	288
Less: accumulated depreciation - non-regulated property, plant and equipment	6,139	6,046
Non-regulated property, plant and equipment, net	6,642	6,724
Construction work in progress	386	450
Property, Plant and Equipment, net	7,028	7,174
Other Noncurrent Assets		
Goodwill	86	86
Other intangibles	267	266
Price risk management assets	420	328
Other noncurrent assets	79	86
Total Other Noncurrent Assets	852	766
Total Assets	\$ 11,459	\$ 11,074

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 324	
Long-term debt due within one year	304	\$ 304
Accounts payable	309	393
Accounts payable to affiliates	2	4
Taxes	30	31
Interest	22	22
Price risk management liabilities	1,133	750
Other current liabilities	229	278
Total Current Liabilities	2,353	1,782
Long-term Debt	2,219	2,221
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,183	1,114
Investment tax credits	144	205
Price risk management liabilities	347	320
Accrued pension obligations	104	111
Asset retirement obligations	406	393
Other deferred credits and noncurrent liabilities	134	130
Total Deferred Credits and Other Noncurrent Liabilities	2,318	2,273
Commitments and Contingent Liabilities (Note 10)		
Member's Equity	4,569	4,798
Total Liabilities and Equity	\$ 11,459	\$ 11,074

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	<u>Member's equity</u>	<u>Non- controlling interests</u>	<u>Total</u>
March 31, 2014	\$ 4,079		\$ 4,079
Net income (loss)	13		13
Other comprehensive income (loss)	7		7
Contributions from member	730		730
Distributions	(260)		(260)
June 30, 2014	<u>\$ 4,569</u>		<u>\$ 4,569</u>
December 31, 2013	\$ 4,798		\$ 4,798
Net income (loss)	(53)		(53)
Other comprehensive income (loss)	8		8
Contributions from member	730		730
Distributions	(914)		(914)
June 30, 2014	<u>\$ 4,569</u>		<u>\$ 4,569</u>
March 31, 2013	\$ 3,476	\$ 18	\$ 3,494
Net income	86		86
Other comprehensive income (loss)	(31)		(31)
Contributions from member	105		105
Distributions	(95)		(95)
June 30, 2013	<u>\$ 3,541</u>	<u>\$ 18</u>	<u>\$ 3,559</u>
December 31, 2012	\$ 3,830	\$ 18	\$ 3,848
Net income	48		48
Other comprehensive income (loss)	(34)		(34)
Contributions from member	105		105
Distributions	(408)		(408)
June 30, 2013	<u>\$ 3,541</u>	<u>\$ 18</u>	<u>\$ 3,559</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Revenues	\$ 449	\$ 414	\$ 1,041	\$ 927
Operating Expenses				
Operation				
Energy purchases	114	120	303	292
Energy purchases from affiliate	21	12	48	26
Other operation and maintenance	135	124	269	257
Depreciation	45	44	90	87
Taxes, other than income	23	22	55	52
Total Operating Expenses	<u>338</u>	<u>322</u>	<u>765</u>	<u>714</u>
Operating Income	111	92	276	213
Other Income (Expense) - net	1	2	3	3
Interest Expense	<u>29</u>	<u>25</u>	<u>58</u>	<u>50</u>
Income Before Income Taxes	83	69	221	166
Income Taxes	<u>31</u>	<u>24</u>	<u>84</u>	<u>57</u>
Net Income (a)	<u>\$ 52</u>	<u>\$ 45</u>	<u>\$ 137</u>	<u>\$ 109</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 137	\$ 109
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	90	87
Amortization	9	10
Defined benefit plans - expense	11	10
Deferred income taxes and investment tax credits	44	81
Other	(17)	(5)
Change in current assets and current liabilities		
Accounts receivable	(80)	(56)
Accounts payable	(33)	(37)
Unbilled revenues	34	36
Prepayments	(40)	(18)
Taxes payable	8	18
Other	2	(38)
Other operating activities		
Defined benefit plans - funding	(19)	(88)
Other assets	5	
Other liabilities	(3)	6
Net cash provided by operating activities	<u>148</u>	<u>115</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(436)	(451)
Expenditures for intangible assets	(22)	(13)
Net (increase) decrease in notes receivable from affiliates	150	
Other investing activities	13	9
Net cash provided by (used in) investing activities	<u>(295)</u>	<u>(455)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	296	
Retirement of long-term debt	(10)	
Contributions from parent	95	205
Payment of common stock dividends to parent	(87)	(66)
Net increase (decrease) in short-term debt	(20)	85
Other financing activities	(3)	
Net cash provided by (used in) financing activities	<u>271</u>	<u>224</u>
Net Increase (Decrease) in Cash and Cash Equivalents	124	(116)
Cash and Cash Equivalents at Beginning of Period	<u>25</u>	<u>140</u>
Cash and Cash Equivalents at End of Period	<u>\$ 149</u>	<u>\$ 24</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 149	\$ 25
Accounts receivable (less reserve: 2014, \$17; 2013, \$18)		
Customer	361	284
Other	8	5
Accounts receivable from affiliates	4	4
Notes receivable from affiliate		150
Unbilled revenues	82	116
Materials and supplies	35	35
Prepayments	51	40
Deferred income taxes	84	85
Other current assets	13	22
Total Current Assets	787	766
Property, Plant and Equipment		
Regulated utility plant	7,168	6,886
Less: accumulated depreciation - regulated utility plant	2,488	2,417
Regulated utility plant, net	4,680	4,469
Other, net	2	2
Construction work in progress	744	591
Property, Plant and Equipment, net	5,426	5,062
Other Noncurrent Assets		
Regulatory assets	771	772
Intangibles	233	211
Other noncurrent assets	35	35
Total Other Noncurrent Assets	1,039	1,018
Total Assets	\$ 7,252	\$ 6,846

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt		\$ 20
Long term debt due within one year		10
Accounts payable	\$ 292	295
Accounts payable to affiliates	50	57
Taxes	15	51
Interest	34	34
Regulatory liabilities	72	76
Other current liabilities	75	82
Total Current Liabilities	538	625
Long-term Debt	2,602	2,305
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,463	1,399
Accrued pension obligations	85	96
Regulatory liabilities	12	15
Other deferred credits and noncurrent liabilities	58	57
Total Deferred Credits and Other Noncurrent Liabilities	1,618	1,567
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	1,435	1,340
Earnings reinvested	695	645
Total Equity	2,494	2,349
Total Liabilities and Equity	\$ 7,252	\$ 6,846

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
March 31, 2014	66,368	\$ 364	\$ 1,405	\$ 698	\$ 2,467
Net income				52	52
Capital contributions from PPL			30		30
Cash dividends declared on common stock				(55)	(55)
June 30, 2014	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,435</u>	<u>\$ 695</u>	<u>\$ 2,494</u>
December 31, 2013	66,368	\$ 364	\$ 1,340	\$ 645	\$ 2,349
Net income				137	137
Capital contributions from PPL			95		95
Cash dividends declared on common stock				(87)	(87)
June 30, 2014	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,435</u>	<u>\$ 695</u>	<u>\$ 2,494</u>
March 31, 2013	66,368	\$ 364	\$ 1,195	\$ 602	\$ 2,161
Net income				45	45
Capital contributions from PPL			145		145
Cash dividends declared on common stock				(41)	(41)
June 30, 2013	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,340</u>	<u>\$ 606</u>	<u>\$ 2,310</u>
December 31, 2012	66,368	\$ 364	\$ 1,135	\$ 563	\$ 2,062
Net income				109	109
Capital contributions from PPL			205		205
Cash dividends declared on common stock				(66)	(66)
June 30, 2013	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,340</u>	<u>\$ 606</u>	<u>\$ 2,310</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Revenues	\$ 722	\$ 682	\$ 1,656	\$ 1,482
Operating Expenses				
Operation				
Fuel	231	216	508	447
Energy purchases	36	37	160	123
Other operation and maintenance	206	197	412	394
Depreciation	87	83	173	165
Taxes, other than income	13	12	26	24
Total Operating Expenses	573	545	1,279	1,153
Operating Income	149	137	377	329
Other Income (Expense) - net	(2)		(4)	(2)
Interest Expense	41	36	83	73
Interest Expense with Affiliate		1		1
Income from Continuing Operations Before Income Taxes	106	100	290	253
Income Taxes	41	37	110	94
Income from Continuing Operations After Income Taxes	65	63	180	159
Income (Loss) from Discontinued Operations (net of income taxes)		1		1
Net Income (a)	\$ 65	\$ 64	\$ 180	\$ 160

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 180	\$ 160
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	173	165
Amortization	12	14
Defined benefit plans - expense	12	27
Deferred income taxes and investment tax credits	149	95
Other	1	(6)
Change in current assets and current liabilities		
Accounts receivable	(24)	(62)
Accounts payable	(5)	36
Accounts payable to affiliates	(2)	
Unbilled revenues	27	(2)
Fuel, materials and supplies	43	25
Taxes payable	(10)	
Other	1	2
Other operating activities		
Defined benefit plans - funding	(40)	(156)
Other assets	(3)	(3)
Other liabilities	2	2
Net cash provided by operating activities	<u>516</u>	<u>297</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(556)	(579)
Net (increase) decrease in notes receivable from affiliates	54	
Net (increase) decrease in restricted cash and cash equivalents	1	10
Other investing activities		1
Net cash provided by (used in) investing activities	<u>(501)</u>	<u>(568)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates		47
Net increase (decrease) in short-term debt	75	127
Distributions to member	(221)	(69)
Contributions from member	119	146
Net cash provided by (used in) financing activities	<u>(27)</u>	<u>251</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(12)</u>	<u>(20)</u>
Cash and Cash Equivalents at Beginning of Period	35	43
Cash and Cash Equivalents at End of Period	<u>\$ 23</u>	<u>\$ 23</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30,	December 31,
	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 23	\$ 35
Accounts receivable (less reserve: 2014, \$26; 2013, \$22)		
Customer	238	224
Other	23	20
Unbilled revenues	153	180
Fuel, materials and supplies	235	278
Prepayments	27	21
Notes receivable from affiliates	16	70
Deferred income taxes	108	159
Regulatory assets	27	27
Other current assets	4	3
Total Current Assets	854	1,017
Property, Plant and Equipment		
Regulated utility plant	9,036	8,526
Less: accumulated depreciation - regulated utility plant	922	778
Regulated utility plant, net	8,114	7,748
Other, net	3	3
Construction work in progress	1,809	1,793
Property, Plant and Equipment, net	9,926	9,544
Other Noncurrent Assets		
Regulatory assets	471	474
Goodwill	996	996
Other intangibles	197	221
Other noncurrent assets	101	98
Total Other Noncurrent Assets	1,765	1,789
Total Assets	\$ 12,545	\$ 12,350

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 320	\$ 245
Accounts payable	335	346
Accounts payable to affiliates	1	3
Customer deposits	50	50
Taxes	29	39
Price risk management liabilities	4	4
Regulatory liabilities	10	14
Interest	23	23
Other current liabilities	121	111
Total Current Liabilities	893	835
Long-term Debt	4,566	4,565
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,065	965
Investment tax credits	133	135
Accrued pension obligations	114	152
Asset retirement obligations	255	245
Regulatory liabilities	1,014	1,033
Price risk management liabilities	38	32
Other deferred credits and noncurrent liabilities	242	238
Total Deferred Credits and Other Noncurrent Liabilities	2,861	2,800
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	4,225	4,150
Total Liabilities and Equity	\$ 12,545	\$ 12,350

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Member's Equity
March 31, 2014	\$ 4,200
Net income	65
Contributions from member	79
Distributions to member	(117)
Other comprehensive income (loss)	(2)
June 30, 2014	<u>\$ 4,225</u>
December 31, 2013	\$ 4,150
Net income	180
Contributions from member	119
Distributions to member	(221)
Other comprehensive income (loss)	(3)
June 30, 2014	<u>\$ 4,225</u>
March 31, 2013	\$ 3,952
Net income	64
Contributions from member	71
Distributions to member	(65)
June 30, 2013	<u>\$ 4,022</u>
December 31, 2012	\$ 3,786
Net income	160
Contributions from member	146
Distributions to member	(69)
Other comprehensive income (loss)	(1)
June 30, 2013	<u>\$ 4,022</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Revenues				
Retail and wholesale	\$ 320	\$ 302	\$ 762	\$ 671
Electric revenue from affiliate	24	14	61	35
Total Operating Revenues	344	316	823	706
Operating Expenses				
Operation				
Fuel	104	88	221	184
Energy purchases	29	31	147	111
Energy purchases from affiliate	2	3	8	4
Other operation and maintenance	94	94	192	185
Depreciation	39	37	77	73
Taxes, other than income	7	6	13	12
Total Operating Expenses	275	259	658	569
Operating Income	69	57	165	137
Other Income (Expense) - net	(1)	(1)	(3)	(2)
Interest Expense	12	10	24	20
Income Before Income Taxes	56	46	138	115
Income Taxes	21	17	51	42
Net Income (a)	\$ 35	\$ 29	\$ 87	\$ 73

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 87	\$ 73
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	77	73
Amortization	6	6
Defined benefit plans - expense	5	9
Deferred income taxes and investment tax credits	20	21
Other	(4)	
Change in current assets and current liabilities		
Accounts receivable	(25)	(9)
Accounts payable	(5)	13
Accounts payable to affiliates	(4)	(2)
Unbilled revenues	19	2
Fuel, materials and supplies	44	25
Taxes payable	2	12
Other	(4)	6
Other operating activities		
Defined benefit plans - funding	(10)	(44)
Other assets	(2)	(1)
Other liabilities	(4)	2
Net cash provided by operating activities	<u>202</u>	<u>186</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(249)	(236)
Net (increase) decrease in restricted cash and cash equivalents	1	10
Net cash provided by (used in) investing activities	<u>(248)</u>	<u>(226)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	50	25
Payment of common stock dividends to parent	(60)	(48)
Contributions from parent	53	54
Net cash provided by (used in) financing activities	<u>43</u>	<u>31</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3)</u>	<u>(9)</u>
Cash and Cash Equivalents at Beginning of Period	8	22
Cash and Cash Equivalents at End of Period	<u>\$ 5</u>	<u>\$ 13</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 5	\$ 8
Accounts receivable (less reserve: 2014, \$2; 2013, \$2)		
Customer	102	102
Other	14	9
Unbilled revenues	66	85
Accounts receivable from affiliates	17	
Fuel, materials and supplies	110	154
Prepayments	9	7
Regulatory assets	24	17
Other current assets	3	3
Total Current Assets	350	385
Property, Plant and Equipment		
Regulated utility plant	3,564	3,383
Less: accumulated depreciation - regulated utility plant	397	332
Regulated utility plant, net	3,167	3,051
Construction work in progress	750	651
Property, Plant and Equipment, net	3,917	3,702
Other Noncurrent Assets		
Regulatory assets	306	303
Goodwill	389	389
Other intangibles	108	120
Other noncurrent assets	35	35
Total Other Noncurrent Assets	838	847
Total Assets	\$ 5,105	\$ 4,934

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 70	\$ 20
Accounts payable	200	166
Accounts payable to affiliates	20	24
Customer deposits	24	24
Taxes	13	11
Price risk management liabilities	4	4
Regulatory liabilities	9	9
Interest	6	6
Other current liabilities	30	32
Total Current Liabilities	376	296
Long-term Debt	1,353	1,353
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	603	582
Investment tax credits	37	38
Accrued pension obligations	10	19
Asset retirement obligations	70	68
Regulatory liabilities	472	482
Price risk management liabilities	38	32
Other deferred credits and noncurrent liabilities	106	104
Total Deferred Credits and Other Noncurrent Liabilities	1,336	1,325
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,417	1,364
Earnings reinvested	199	172
Total Equity	2,040	1,960
Total Liabilities and Equity	\$ 5,105	\$ 4,934

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 30, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
March 31, 2014	21,294	\$ 424	\$ 1,364	\$ 197	\$ 1,985
Net income				35	35
Capital contributions from LKE			53		53
Cash dividends declared on common stock				(33)	(33)
June 30, 2014	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,417</u>	<u>\$ 199</u>	<u>\$ 2,040</u>
December 31, 2013	21,294	\$ 424	\$ 1,364	\$ 172	\$ 1,960
Net income				87	87
Capital contributions from LKE			53		53
Cash dividends declared on common stock				(60)	(60)
June 30, 2014	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,417</u>	<u>\$ 199</u>	<u>\$ 2,040</u>
March 31, 2013	21,294	\$ 424	\$ 1,303	\$ 133	\$ 1,860
Net income				29	29
Capital contributions from LKE			29		29
Cash dividends declared on common stock				(29)	(29)
June 30, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,332</u>	<u>\$ 133</u>	<u>\$ 1,889</u>
December 31, 2012	21,294	\$ 424	\$ 1,278	\$ 108	\$ 1,810
Net income				73	73
Capital contributions from LKE			54		54
Cash dividends declared on common stock				(48)	(48)
June 30, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,332</u>	<u>\$ 133</u>	<u>\$ 1,889</u>

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Revenues				
Retail and wholesale	\$ 402	\$ 380	\$ 894	\$ 811
Electric revenue from affiliate	2	3	8	4
Total Operating Revenues	404	383	902	815
Operating Expenses				
Operation				
Fuel	127	128	287	263
Energy purchases	7	6	13	12
Energy purchases from affiliate	24	14	61	35
Other operation and maintenance	107	98	205	195
Depreciation	47	46	95	92
Taxes, other than income	6	6	13	12
Total Operating Expenses	318	298	674	609
Operating Income	86	85	228	206
Other Income (Expense) - net		2		1
Interest Expense	20	17	39	34
Income Before Income Taxes	66	70	189	173
Income Taxes	26	26	72	65
Net Income (a)	\$ 40	\$ 44	\$ 117	\$ 108

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 117	\$ 108
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	95	92
Amortization	4	7
Defined benefit plans - expense	2	12
Deferred income taxes and investment tax credits	89	72
Other	5	(2)
Change in current assets and current liabilities		
Accounts receivable	(44)	(39)
Accounts payable	10	33
Accounts payable to affiliates	13	(7)
Unbilled revenues	8	(4)
Fuel, materials and supplies	(1)	
Taxes payable	(19)	(10)
Other	16	5
Other operating activities		
Defined benefit plans - funding	(3)	(61)
Other assets	(1)	(3)
Other liabilities	6	(13)
Net cash provided by operating activities	<u>297</u>	<u>190</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(305)	(341)
Other investing activities		1
Net cash provided by (used in) investing activities	<u>(305)</u>	<u>(340)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	25	102
Payment of common stock dividends to parent	(86)	(55)
Contributions from parent	66	92
Net cash provided by (used in) financing activities	<u>5</u>	<u>139</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3)	(11)
Cash and Cash Equivalents at Beginning of Period	21	21
Cash and Cash Equivalents at End of Period	<u>\$ 18</u>	<u>\$ 10</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 18	\$ 21
Accounts receivable (less reserve: 2014, \$4; 2013, \$4)		
Customer	136	122
Other	34	9
Unbilled revenues	87	95
Fuel, materials and supplies	125	124
Prepayments	8	4
Regulatory assets	3	10
Other current assets	5	6
Total Current Assets	416	391
Property, Plant and Equipment		
Regulated utility plant	5,472	5,143
Less: accumulated depreciation - regulated utility plant	525	446
Regulated utility plant, net	4,947	4,697
Other, net	1	1
Construction work in progress	1,055	1,139
Property, Plant and Equipment, net	6,003	5,837
Other Noncurrent Assets		
Regulatory assets	165	171
Goodwill	607	607
Other intangibles	89	101
Other noncurrent assets	59	56
Total Other Noncurrent Assets	920	935
Total Assets	\$ 7,339	\$ 7,163

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 175	\$ 150
Accounts payable	125	159
Accounts payable to affiliates	38	25
Customer deposits	26	26
Taxes	14	33
Regulatory liabilities	1	5
Interest	11	11
Other current liabilities	58	36
Total Current Liabilities	448	445
Long-term Debt	2,091	2,091
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	747	658
Investment tax credits	96	97
Accrued pension obligations	2	11
Asset retirement obligations	185	177
Regulatory liabilities	542	551
Other deferred credits and noncurrent liabilities	88	89
Total Deferred Credits and Other Noncurrent Liabilities	1,660	1,583
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,571	2,505
Accumulated other comprehensive income (loss)		1
Earnings reinvested	261	230
Total Equity	3,140	3,044
Total Liabilities and Equity	\$ 7,339	\$ 7,163

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
March 31, 2014	37,818	\$ 308	\$ 2,545	\$ 270		\$ 3,123
Net income				40		40
Capital contributions from LKE			26			26
Cash dividends declared on common stock				(49)		(49)
June 30, 2014	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,571</u>	<u>\$ 261</u>		<u>\$ 3,140</u>
December 31, 2013	37,818	\$ 308	\$ 2,505	\$ 230	\$ 1	\$ 3,044
Net income				117		117
Capital contributions from LKE			66			66
Cash dividends declared on common stock				(86)		(86)
Other comprehensive income (loss)					(1)	(1)
June 30, 2014	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,571</u>	<u>\$ 261</u>	<u>\$ 1</u>	<u>\$ 3,140</u>
March 31, 2013	37,818	\$ 308	\$ 2,398	\$ 177	\$ 1	\$ 2,884
Net income				44		44
Capital contributions from LKE			42			42
Cash dividends declared on common stock				(42)		(42)
June 30, 2013	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,440</u>	<u>\$ 179</u>	<u>\$ 1</u>	<u>\$ 2,928</u>
December 31, 2012	37,818	\$ 308	\$ 2,348	\$ 126	\$ 1	\$ 2,783
Net income				108		108
Capital contributions from LKE			92			92
Cash dividends declared on common stock				(55)		(55)
June 30, 2013	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,440</u>	<u>\$ 179</u>	<u>\$ 1</u>	<u>\$ 2,928</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for their related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2013 is derived from that Registrant's 2013 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2013 Form 10-K. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the June 30, 2014 financial statements.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2013 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable *(PPL, PPL Energy Supply and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program designed to facilitate competitive markets for electricity in Pennsylvania, PPL Electric purchases certain accounts receivable from alternative electricity suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three and six months ended June 30, 2014, PPL Electric purchased \$253 million and \$614 million of accounts receivable from unaffiliated third parties and \$79 million and \$184 million from PPL EnergyPlus. During the three and six months ended June 30, 2013, PPL Electric purchased \$220 million and \$479 million of accounts receivable from unaffiliated third parties and \$70 million and \$147 million from PPL EnergyPlus.

New Accounting Guidance Adopted *(All Registrants)*

Accounting for Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Registrants retrospectively adopted accounting guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements when the amount of the obligation is fixed at the reporting date. If the obligation is determined to be in the scope of this guidance, it will be measured as the sum of the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires additional disclosures for these obligations.

The adoption of this guidance did not have a significant impact on the Registrants.

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Effective January 1, 2014, PPL prospectively adopted accounting guidance that requires a cumulative translation adjustment to be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For the step acquisition of previously held equity method investments that are foreign entities, this guidance clarifies that the amount of accumulated other comprehensive income that is reclassified and included in the calculation of a gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

The initial adoption of this guidance did not have a significant impact on PPL; however, the impact in future periods could be material.

Presentation of Unrecognized Tax Benefits When Net Operating Loss Carryforwards, Similar Tax Losses, or Tax Credit Carryforwards Exist

Effective January 1, 2014, the Registrants prospectively adopted accounting guidance that requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

The adoption of this guidance did not have a significant impact on the Registrants.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2013 Form 10-K for a discussion of reportable segments and related information.

In June 2014, PPL and PPL Energy Supply, which primarily represents PPL's Supply segment, executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded, independent power producer named Talen Energy. Upon completion of this transaction, PPL will no longer have a Supply segment. See Note 8 for additional information.

Financial data for the segments and reconciliation to PPL's consolidated results for the periods ended June 30 are:

	Three Months		Six Months	
	2014	2013	2014	2013
Income Statement Data				
Revenues from external customers				
U.K. Regulated	\$ 672	\$ 572	\$ 1,320	\$ 1,220
Kentucky Regulated	722	682	1,656	1,482
Pennsylvania Regulated	448	413	1,039	925
Supply (a)	1,027	1,780	74	2,274
Corporate and Other	5	3	8	6
Total	\$ 2,874	\$ 3,450	\$ 4,097	\$ 5,907
Intersegment electric revenues				
Supply	\$ 21	\$ 12	\$ 48	\$ 26
Net Income Attributable to PPL Shareowners				
U.K. Regulated (a)	\$ 187	\$ 245	\$ 393	\$ 558
Kentucky Regulated	58	49	165	134
Pennsylvania Regulated	52	45	137	109
Supply (a)	5	77	(70)	31
Corporate and Other (c)	(73)	(11)	(80)	(14)
Total	\$ 229	\$ 405	\$ 545	\$ 818

	June 30, 2014	December 31, 2013
Balance Sheet Data		
Assets		
U.K. Regulated	\$ 16,496	\$ 15,895
Kentucky Regulated	12,211	12,016
Pennsylvania Regulated	7,252	6,846
Supply	11,793	11,408
Corporate and Other (b)	441	94
Total assets	<u>\$ 48,193</u>	<u>\$ 46,259</u>

(a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.

(b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

(c) 2014 includes certain costs related to the anticipated spinoff of PPL Energy Supply, including deferred income tax expense and third party costs. See Note 8 for additional information.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock method or the If-Converted Method, as applicable. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended June 30 used in the EPS calculation are:

	Three Months		Six Months	
	2014	2013	2014	2013
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL shareowners	\$ 229	\$ 404	\$ 545	\$ 817
Less amounts allocated to participating securities	1	2	3	4
Income from continuing operations after income taxes available to PPL common shareowners - Basic	228	402	542	813
Plus interest charges (net of tax) related to Equity Units (a)		15	9	30
Income from continuing operations after income taxes available to PPL common shareowners - Diluted	<u>\$ 228</u>	<u>\$ 417</u>	<u>\$ 551</u>	<u>\$ 843</u>
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	<u>\$</u>	<u>\$ 1</u>	<u>\$</u>	<u>\$ 1</u>
Net income attributable to PPL shareowners	\$ 229	\$ 405	\$ 545	\$ 818
Less amounts allocated to participating securities	1	2	3	4
Net income available to PPL common shareowners - Basic	228	403	542	814
Plus interest charges (net of tax) related to Equity Units (a)		15	9	30
Net income available to PPL common shareowners - Diluted	<u>\$ 228</u>	<u>\$ 418</u>	<u>\$ 551</u>	<u>\$ 844</u>
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	653,132	589,834	642,002	586,683
Add incremental non-participating securities:				
Share-based payment awards	2,100	1,133	1,806	971
Equity Units (a)	10,560	73,388	21,119	72,689
Forward sale agreements		260		920
Weighted-average shares - Diluted EPS	<u>665,792</u>	<u>664,615</u>	<u>664,927</u>	<u>661,263</u>
Basic EPS				
Net Income Available to PPL common shareowners	<u>\$ 0.35</u>	<u>\$ 0.68</u>	<u>\$ 0.84</u>	<u>\$ 1.39</u>
Diluted EPS				
Net Income Available to PPL common shareowners	<u>\$ 0.34</u>	<u>\$ 0.63</u>	<u>\$ 0.83</u>	<u>\$ 1.28</u>

(a) The If-Converted Method was applied to the Equity Units prior to settlement. See Note 7 for additional information on the 2011 Equity Units, including the issuance of PPL common stock on May 1, 2014 to settle the 2011 Purchase Contracts.

For the periods ended June 30, PPL issued common stock related to stock-based compensation plans, ESOP and DRIP as follows (in thousands):

	Three Months		Six Months	
	2014	2013	2014	2013
Stock-based compensation plans (a)	922	938	2,018	1,384
ESOP				275
DRIP				549

(a) Includes stock options exercised, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

For the periods ended June 30, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Six Months	
	2014	2013	2014	2013
Stock options	790	2,192	2,060	5,486
Performance units	1	5	1	108
Restricted stock units			61	58

5. Income Taxes

Reconciliations of income taxes for the periods ended June 30 are:

(PPL)

	Three Months		Six Months	
	2014	2013	2014	2013
Federal income tax on Income from Continuing Operations Before				
Income Taxes at statutory tax rate - 35%	\$ 132	\$ 180	\$ 282	\$ 377
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	(7)	14	(5)	17
State valuation allowance adjustments (a)	46		46	
Impact of lower U.K. income tax rates	(31)	(25)	(76)	(63)
U.S. income tax on foreign earnings - net of foreign tax credit (b)	10	(7)	21	(5)
Federal and state tax reserve adjustments (c)		(39)		(40)
Federal income tax credits	(1)	(2)	(2)	(5)
Amortization of investment tax credit	(1)	(2)	(3)	(5)
Depreciation not normalized	(2)	(1)	(4)	(4)
State deferred tax rate change	3		3	
Other		(9)	(1)	(12)
Total increase (decrease)	17	(71)	(21)	(117)
Total income taxes	\$ 149	\$ 109	\$ 261	\$ 260

- (a) As a result of the spinoff announcement, PPL recorded deferred income tax expense during the three and six months ended June 30, 2014 to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply. See Note 8 for additional information on the anticipated spinoff.
- (b) During the three and six months ended June 30, 2014, PPL recorded income tax expense primarily attributable to the expected taxable amount of cash repatriation in 2014.

During the three and six months ended June 30, 2013, PPL recorded a \$14 million increase to income tax expense primarily attributable to a revision in the expected taxable amount of cash repatriation in 2013 offset by a \$19 million income tax benefit associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that was reflected on amended 2010 U.S. tax returns.

- (c) In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in 2011. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition and oral argument was held in February 2013. In May 2013, the Supreme Court reversed the Third Circuit's opinion and ruled that the WPT is a creditable tax. As a result of the Supreme Court ruling, PPL recorded a tax benefit of \$44 million during the three and six months ended June 30, 2013, of which \$19 million relates to interest.

(PPL Energy Supply)

	Three Months		Six Months	
	2014	2013	2014	2013
Federal income tax on Income (Loss) Before Income Taxes at statutory tax rate - 35%	\$ 4	\$ 54	\$ (37)	\$ 28
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (a)	(9)	9	(18)	3
Federal and state tax reserve adjustments	1	7	1	6
Federal income tax credits			(1)	(3)
State deferred tax rate change	3		3	
Other	(2)	(3)		(2)
Total increase (decrease)	(7)	13	(15)	4
Total income taxes	\$ (3)	\$ 67	\$ (52)	\$ 32

(a) During the second quarter of 2014, PPL Energy Supply recorded a \$9 million credit to income tax expense, comprised of a \$4 million credit to income tax expense recorded in 2013 and a \$5 million credit related to an adjustment to the annual estimated effective income tax rate utilized to calculate income tax expense for the three months ended March 31, 2014. The adjustment to the annual estimated effective income tax rate had no impact on income tax expense for the six months ended June 30, 2014. The adjustment related to 2013 is not material to previously-issued financial statements and is not expected to be material to the full year results for 2014.

(PPL Electric)

	Three Months		Six Months	
	2014	2013	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 29	\$ 24	\$ 77	\$ 58
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	3	12	8
Federal and state tax reserve adjustments	(1)	(2)	(1)	(4)
Depreciation not normalized	(1)	(1)	(3)	(4)
Other			(1)	(1)
Total increase (decrease)	2		7	(1)
Total income taxes	\$ 31	\$ 24	\$ 84	\$ 57

(LKE)

	Three Months		Six Months	
	2014	2013	2014	2013
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 37	\$ 35	\$ 102	\$ 89
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	3	10	8
Other		(1)	(2)	(3)
Total increase (decrease)	4	2	8	5
Total income taxes from continuing operations	\$ 41	\$ 37	\$ 110	\$ 94

(LG&E)

	Three Months		Six Months	
	2014	2013	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 20	\$ 16	\$ 48	\$ 40
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	1	5	4
Other	(1)		(2)	(2)
Total increase (decrease)	1	1	3	2
Total income taxes	\$ 21	\$ 17	\$ 51	\$ 42

(KU)

	Three Months		Six Months	
	2014	2013	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 23	\$ 25	\$ 66	\$ 61
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	2	7	6
Other	1	(1)	(1)	(2)
Total increase (decrease)	3	1	6	4
Total income taxes	\$ 26	\$ 26	\$ 72	\$ 65

6. Utility Rate Regulation

(All Registrants except PPL Energy Supply)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Current Regulatory Assets:				
Environmental cost recovery	\$ 1	\$ 7		
Gas supply clause	20	10		
Fuel adjustment clause		2		
Demand side management	3	8		
Other	5	6	\$ 2	\$ 6
Total current regulatory assets	\$ 29	\$ 33	\$ 2	\$ 6
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 493	\$ 509	\$ 252	\$ 257
Taxes recoverable through future rates	312	306	312	306
Storm costs	135	147	49	53
Unamortized loss on debt	80	85	53	57
Interest rate swaps	51	44		
Accumulated cost of removal of utility plant	105	98	105	98
AROs	58	44		
Other	8	13		1
Total noncurrent regulatory assets	\$ 1,242	\$ 1,246	\$ 771	\$ 772
Current Regulatory Liabilities:				
Generation supply charge	\$ 30	\$ 23	\$ 30	\$ 23
Environmental cost recovery	1			
Gas supply clause	2	3		
Transmission service charge	6	8	6	8
Fuel adjustment clause		4		
Transmission formula rate	32	20	32	20
Universal service rider		10		10
Storm damage expense	2	14	2	14
Gas line tracker	7	6		
Other	2	2	2	1
Total current regulatory liabilities	\$ 82	\$ 90	\$ 72	\$ 76
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 694	\$ 688		
Coal contracts (a)	78	98		
Power purchase agreement - OVEC (a)	96	100		
Net deferred tax assets	28	30		
Act 129 compliance rider	12	15	\$ 12	\$ 15
Defined benefit plans	28	26		
Interest rate swaps	84	86		
Other	6	5		
Total noncurrent regulatory liabilities	\$ 1,026	\$ 1,048	\$ 12	\$ 15

	LKE		LG&E		KU	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Current Regulatory Assets:						
Environmental cost recovery	\$ 1	\$ 7	\$ 1	\$ 2	\$	\$ 5
Gas supply clause	20	10	20	10		
Fuel adjustment clause		2		2		
Demand side management	3	8	2	3	\$ 1	\$ 5
Other	3		1		2	
Total current regulatory assets	\$ 27	\$ 27	\$ 24	\$ 17	\$ 3	\$ 10
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 241	\$ 252	\$ 162	\$ 164	\$ 79	\$ 88
Storm costs	86	94	47	51	39	43
Unamortized loss on debt	27	28	18	18	9	10
Interest rate swaps	51	44	51	44		
AROs	58	44	25	21	33	23
Other	8	12	3	5	5	7
Total noncurrent regulatory assets	\$ 471	\$ 474	\$ 306	\$ 303	\$ 165	\$ 171
Current Regulatory Liabilities:						
Environmental cost recovery	\$ 1				\$ 1	
Gas supply clause	2	\$ 3	\$ 2	\$ 3		
Fuel adjustment clause		4				\$ 4
Gas line tracker	7	6	7	6		
Other		1				1
Total current regulatory liabilities	\$ 10	\$ 14	\$ 9	\$ 9	\$ 1	\$ 5
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal						
of utility plant	\$ 694	\$ 688	\$ 303	\$ 299	\$ 391	\$ 389
Coal contracts (a)	78	98	34	43	44	55
Power purchase agreement - OVEC (a)	96	100	66	69	30	31
Net deferred tax assets	28	30	25	26	3	4
Defined benefit plans	28	26			28	26
Interest rate swaps	84	86	42	43	42	43
Other	6	5	2	2	4	3
Total noncurrent regulatory liabilities	\$ 1,014	\$ 1,033	\$ 472	\$ 482	\$ 542	\$ 551

(a) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

U. K. Activities (PPL)

Ofgem Review of Line Loss Calculation

In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during the first quarter of 2014 WPD increased its existing liability by \$65 million for over-recovery of line losses with a reduction to "Utility" revenues on the Statement of Income. The total recorded liability at June 30, 2014 was \$106 million, all of which will be refunded to customers from April 1, 2015 through March 31, 2019. The recorded liability at December 31, 2013 was \$74 million. Other activity impacting the liability included reductions in the liability that have been included in tariffs during the first half of 2014 and foreign exchange movements. In June 2014, WPD applied for judicial review of certain of Ofgem's decisions related to closing out the DPCR4 line loss mechanism. The primary relief sought is for Ofgem to reconsider the overall proportionality of penalties imposed on WPD. The entire process could last through the second quarter of 2015. PPL cannot predict the outcome of this matter.

Kentucky Activities (PPL, LKE, LG&E and KU)

CPCN Filings

In January 2014, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to build a NGCC generating unit at KU's Green River generating site and a solar generating facility at the E. W. Brown generating site. In April 2014, LG&E and KU filed a motion to hold further proceedings in abeyance for up to 90 days in order to allow the companies to assess the potential impact of certain events on their future capacity needs, including the receipt of termination

notices to be generally effective in 2019 from certain KU municipal wholesale customers. In May 2014, the KPSC granted that request and scheduled an informal conference for August 2014. LG&E and KU continue to evaluate their future capacity requirements, with the possibility that reduced or delayed capacity needs may result in adjustments to the CPCN filing. See "Federal Matters - FERC Formula Rates" below for additional information relating to the municipal wholesale customers.

Pennsylvania Activities (PPL and PPL Electric)

Storm Damage Expense Rider

In its December 28, 2012 final rate case order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider (SDER). In March 2013, PPL Electric filed its proposed SDER with the PUC and, as part of that filing, requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy. PPL Electric proposed that the SDER become effective January 1, 2013 at a zero rate with qualifying storm costs incurred in 2013 and the 2012 Hurricane Sandy costs included in rates effective January 1, 2014. As of December 31, 2013, PPL Electric had a \$14 million regulatory liability balance for amounts expected to be refunded to customers for revenues collected to cover storm costs in excess of actual storm costs incurred during 2013. On April 3, 2014, the PUC issued a final order approving the SDER. The SDER will be effective January 1, 2015 and will initially include actual storm costs compared to collections from December 2013 through November 2014. As a result of the order, PPL Electric reduced its regulatory liability by \$12 million. Also, as part of the order, PPL Electric can recover Hurricane Sandy storm damage costs through the SDER over a three-year period beginning January 2015. On June 20, 2014, the Office of Consumer Advocate filed a petition for review of the April 2014 order with the Commonwealth Court of Pennsylvania. The case remains pending. See "Storm Costs" below for additional information on Hurricane Sandy costs.

Storm Costs

In February 2013, PPL Electric received an order from the PUC granting permission to defer qualifying costs in excess of insurance recoveries associated with Hurricane Sandy. At June 30, 2014 and December 31, 2013, \$29 million was included on the Balance Sheets as a regulatory asset.

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are subject to significant penalties.

Act 129 requires Default Service Providers (DSP) to provide electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

In January 2013, the PUC approved PPL Electric's DSP procurement plan for the period June 1, 2013 through May 31, 2015. In April 2014, PPL Electric filed a new DSP procurement plan with the PUC for the period June 1, 2015 through May 31, 2017. Hearings before the PUC are scheduled for August 2014. PPL Electric cannot predict the outcome of this proceeding, which remains pending before the PUC.

Smart Meter Rider

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric conducted pilot projects and technical evaluations of its current advanced metering technology and concluded that the current technology does not meet all of the Act 129 requirements. PPL Electric recovered the cost of its evaluations through a cost recovery mechanism, the Smart Meter Rider (SMR). In August 2013, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter Plan during 2013 and its planned actions for 2014. PPL Electric also submitted revised SMR charges that became effective January 1, 2014. On June 30, 2014, PPL Electric filed its final Smart Meter Plan with the PUC. In that plan, PPL Electric proposes to replace all of its current meters with advanced meters that meet the Act 129 requirements. Full deployment of the new meters is expected to be complete by the end of 2019. The total cost of the project is estimated to be approximately \$450 million. PPL Electric proposes to recover these costs through the SMR which the PUC previously has approved for recovery of such costs. PPL Electric cannot predict the outcome of this proceeding.

Distribution System Improvement Charge

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC.

In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC and in an order entered on May 23, 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four technical recovery calculation issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. The case remains pending before the PUC.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form 1 filed under the FERC's Uniform System of Accounts.

PPL Electric initiated its formula rate 2012, 2011 and 2010 Annual Updates. Each update was subsequently challenged by a group of municipal customers, whose challenges were opposed by PPL Electric. Between 2011 and 2013, numerous hearings before the FERC and settlement conferences were convened in an attempt to resolve these matters. Beginning in the second half of 2013, PPL Electric and the group of municipal customers exchanged confidential settlement proposals. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings, which remain pending before the FERC.

FERC Wholesale Formula Rates (LKE and KU)

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Certain elements, including the new formula rate, became effective April 23, 2014 subject to refund. In April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts, such terminations to be effective in 2019, except in the case of one municipality with a 2017 effective date. In July 2014, KU agreed on settlement terms with the two municipal customers that did not provide termination notices and filed the settlement proposal with the FERC for its approval. If approved, the settlement agreement will resolve the rate case with respect to these two municipalities, including an authorized return on equity of 10% or the return on equity awarded to other parties in this case, whichever is lower. Also in July 2014, KU made a contractually required filing with the FERC that addressed certain rate recovery matters affecting the nine terminating municipalities during the remaining term of their contracts. KU cannot currently predict the outcome of its FERC applications regarding its wholesale power agreements with the municipalities.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Energy Supply, PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	June 30, 2014					December 31, 2013	
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
PPL U.K.							
PPL WW Syndicated Credit Facility	Dec. 2016	£ 210	£ 97		£ 113	£ 103	
WPD (South West) Syndicated Credit Facility (c)	Jan. 2017	245			245		
WPD (East Midlands) Syndicated Credit Facility (c)	Apr. 2016	300			300		
WPD (West Midlands) Syndicated Credit Facility (c)	Apr. 2016	300			300		
Uncommitted Credit Facilities		105		£ 5	100		£ 5
Total U.K. Credit Facilities (a)		£ 1,160	£ 97	£ 5	£ 1,058	£ 103	£ 5
U.S.							
PPL Capital Funding							
Syndicated Credit Facility (b)	Nov. 2018	\$ 300			\$ 300	\$ 270	
Bilateral Credit Facility	Mar. 2015	150		\$ 11	139		
Total PPL Capital Funding Credit Facilities		\$ 450		\$ 11	\$ 439	\$ 270	
PPL Energy Supply							
Syndicated Credit Facility (b)	Nov. 2017	\$ 3,000	\$ 175	\$ 264	\$ 2,561		\$ 29
Letter of Credit Facility	Mar. 2015	150		143	7		138
Uncommitted Credit Facilities (c)		175		77	98		77
Total PPL Energy Supply Credit Facilities		\$ 3,325	\$ 175	\$ 484	\$ 2,666		\$ 244
PPL Electric							
Syndicated Credit Facility (c)	Oct. 2017	\$ 300		\$ 1	\$ 299		\$ 21
LKE							
Syndicated Credit Facility (b)	Oct. 2018	\$ 75	\$ 75			\$ 75	
LG&E							
Syndicated Credit Facility (c)	Nov. 2017	\$ 500		\$ 70	\$ 430		\$ 20
KU							
Syndicated Credit Facility (c)	Nov. 2017	\$ 400		\$ 175	\$ 225		\$ 150
Letter of Credit Facility	May 2016	198		198			198
Total KU Credit Facilities		\$ 598		\$ 373	\$ 225		\$ 348

- (a) PPL WW's amounts borrowed at June 30, 2014 and December 31, 2013 were USD-denominated borrowings of \$164 million and \$166 million, which bore interest at 1.85% and 1.87%. At June 30, 2014, the unused capacity under the U.K. credit facilities was \$1.8 billion.
- (b) At June 30, 2014, interest rates on outstanding borrowings were 2.04% for PPL Energy Supply and 1.65% for LKE. At December 31, 2013, interest rates on outstanding borrowings were 1.79% for PPL Capital Funding and 1.67% for LKE.
- (c) In July 2014, the expiration dates for the WPD (South West), WPD (East Midlands), WPD (West Midlands), LG&E and KU syndicated credit facilities were extended to July 2019 and the PPL Electric syndicated credit facility was extended to October 2018. Also, in July 2014, PPL Energy Supply extended the expiration date for its uncommitted credit facility to July 2015.

In July 2014, PPL Capital Funding entered into an additional \$300 million credit facility expiring in July 2019. The credit agreement allows for borrowings at market-based rates plus a spread, which is based upon PPL Capital Funding's senior unsecured long-term debt rating. In addition, PPL Capital Funding may request certain lenders under the credit agreement to issue letters of credit, which issuances reduce available borrowing capacity. PPL Capital Funding intends to use this credit facility for general corporate purposes of PPL and its affiliates, including for making investments in or loans to affiliates to support infrastructure investments by PPL's operating companies. PPL Capital Funding will pay customary commitment and letter of credit issuance fees under the credit agreement.

The credit agreement contains a financial covenant requiring PPL Capital Funding's debt to total capitalization not to exceed 70% (as calculated pursuant to the credit agreement), and other customary covenants. Failure to meet the covenants beyond applicable grace periods and certain other events, including the occurrence of a Change of Control (as defined in the credit agreement), could result in acceleration of due dates of any borrowings, cash collateralization of outstanding letters of credit and/or termination of the credit agreement. The credit agreement also contains certain customary representations and warranties that must be made and certain other conditions that must be met for PPL Capital Funding to borrow or to cause the issuing lender to issue letters of credit.

PPL Energy Supply, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	June 30, 2014				December 31, 2013	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Energy Supply	0.75%	\$ 750	\$ 149	\$ 601		
PPL Electric		300		300	0.23%	\$ 20
LG&E	0.29%	350	70	280	0.29%	20
KU	0.29%	350	175	175	0.32%	150
Total		\$ 1,750	\$ 394	\$ 1,356		\$ 190

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, which provides PPL Energy Supply the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At June 30, 2014, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an \$800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2018, but is subject to automatic one-year renewals under certain conditions. There were \$41 million of secured obligations outstanding under this facility at June 30, 2014.

(PPL Electric and LKE)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt and Equity Securities

(PPL)

In March 2014, PPL Capital Funding remarketed \$978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired \$228 million of the 4.32% Junior Subordinated Notes due 2019 and issued \$350 million of 2.189% Junior Subordinated Notes due 2017 and \$400 million of 3.184% Junior Subordinated Notes due 2019. Simultaneously, the newly issued Junior Subordinated Notes were exchanged for \$350 million of 3.95% Senior Notes due 2024 and \$400 million of 5.00% Senior Notes due 2044. The transaction was accounted for as a debt extinguishment, resulting in a \$(9) million gain (loss) on extinguishment of the Junior Subordinated Notes, recorded to "Interest Expense" on the Statement of Income. Except for the \$228 million retirement of the 4.32% Junior Subordinated Notes and fees related to the transactions, the activity was non-cash and was excluded from the Statement of Cash Flows for the six months ended June 30, 2014. In May 2014, PPL issued 31.7 million shares of common stock at \$30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of \$978 million, which were used to repay short-term debt and for general corporate purposes.

(PPL and PPL Electric)

In June 2014, PPL Electric issued \$300 million of 4.125% First Mortgage Bonds due 2044. PPL Electric received proceeds of \$294 million, net of a discount and underwriting fees, which will be used for capital expenditures, to repay short-term debt and for general corporate purposes.

Distributions (PPL)

In May 2014, PPL declared its quarterly common stock dividend, payable July 1, 2014, at 37.25 cents per share (equivalent to \$1.49 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See Note 8 in the 2013 Form 10-K for additional information.

Divestitures

Anticipated Spinoff of PPL Energy Supply

(PPL and PPL Energy Supply)

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded, independent power producer named Talen Energy. Under the terms of the agreements, at closing, PPL will spin off PPL Energy Supply to PPL shareowners and simultaneously combine that business with RJS Power. Upon closing, PPL shareowners will own 65% of Talen Energy and affiliates of Riverstone will own 35%. PPL will have no continuing ownership interest in, control of, or affiliation with Talen Energy and PPL's shareowners will receive a number of Talen Energy shares at closing based on the number of PPL shares owned as of the spinoff record date. The spinoff will have no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes and is subject to customary closing conditions, including receipt of certain regulatory approvals by the NRC, the FERC, the DOJ and the PUC. In addition, there must be available, subject to certain conditions, at least \$1 billion of undrawn capacity after excluding any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding, under a Talen Energy (or its subsidiaries) revolving credit or similar facility. The transaction is expected to close in the first or second quarter of 2015.

(PPL, PPL Energy Supply and PPL Electric)

Following the announcement of the transaction to form Talen Energy, efforts have been initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans are expected to be completed by the end of 2014. As a result, charges for employee separation and related costs are anticipated to be recorded in future periods. The separation costs to be incurred include cash severance compensation, lump sum COBRA reimbursement payments, accelerated stock-based compensation vesting, pro-rated performance-based cash incentive and stock-based compensation awards and outplacement services. At present, there is considerable uncertainty as to the range of costs that will be incurred and when those costs will be recognized, as the amount of each category of costs will depend on the number of employees leaving the company, current position and compensation level, years of service and expected separation date. Additionally, certain of these costs are expected to be reimbursed to PPL by Talen Energy upon closing of the transaction. As a result, a range of the separation costs associated with the spinoff transaction and the timing of when those costs will be recognized cannot be reasonably estimated at this time but could be material.

(PPL)

As a result of the spinoff announcement, PPL recorded \$46 million of deferred income tax expense during the three and six months ended June 30, 2014 to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.

In addition, PPL recorded \$16 million of third-party costs during the three and six months ended June 30, 2014 related to this transaction in "Other Income (Expense) - net" on the Statement of Income, primarily for investment bank advisory, legal, consulting and accounting fees. PPL cannot currently estimate a range of total third-party costs that will ultimately be incurred; however, additional costs of at least \$26 million will be recognized upon closing of the transaction.

The assets and liabilities of PPL Energy Supply will continue to be classified as "held and used" on PPL's Balance Sheet until the closing of the transaction. The spinoff announcement was evaluated and determined not to be an event or a change in circumstance that required a recoverability test or a goodwill impairment assessment. However, an impairment loss could be recognized by PPL at the spinoff date if the aggregate carrying amount of PPL Energy Supply's assets and liabilities exceeds its aggregate fair value at that date. PPL cannot currently predict whether an impairment loss will be recorded at the spinoff date.

(PPL Energy Supply)

PPL Energy Supply will treat the combination with RJS Power as an acquisition, as PPL Energy Supply will be considered the accounting acquirer in accordance with business combination accounting guidance.

Montana Hydro Sale Agreement (PPL and PPL Energy Supply)

In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern its hydroelectric generating facilities located in Montana (with a generation capacity of 633 MW) for \$900 million in cash, subject to certain adjustments. The sale, which is not expected to close before the fourth quarter of 2014, includes 11 hydroelectric power facilities and related assets. In April 2014, the DOJ and Federal Trade Commission granted early termination of PPL Montana's and NorthWestern's notifications under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The sale remains subject to closing conditions, including receipt of regulatory approvals by the FERC and the MPSC and certain third-party consents. Due to the uncertainties related to certain of these conditions as of June 30, 2014, the sale did not meet the applicable accounting criteria for the assets and liabilities included in the transaction to be classified as held for sale on the balance sheet.

Development

Hydroelectric Expansion Projects (PPL and PPL Energy Supply)

In January 2014, the U.S. Department of Treasury awarded \$56 million for Specified Energy Property in Lieu of Tax Credits for the Rainbow hydroelectric redevelopment project in Great Falls, Montana. PPL Energy Supply accepted and accounted for the receipt of the grant in the first quarter of 2014. PPL Energy Supply is required to recapture \$60 million of investment tax credits previously recorded related to the Rainbow project as a result of the grant receipt. The impact on the financial statements for the grant receipt and recapture of investment tax credits was not significant for the three and six months ended June 30, 2014, and will not be significant in future periods.

In July 2014, the U.S. Department of Treasury awarded \$108 million for Specified Energy Property in Lieu of Tax Credits for the Holtwood hydroelectric project in Holtwood, Pennsylvania. PPL Energy Supply accepted and will account for the receipt of the grant in the third quarter of 2014. PPL Energy Supply is required to recapture \$117 million of investment tax credits previously recorded related to the Holtwood project as a result of the grant receipt. The impact on the financial statements for the grant receipt and recapture of investment tax credits is not expected to be significant in 2014 or future periods.

Future Capacity Needs (PPL, LKE, LG&E and KU)

Construction activity continues on the previously announced NGCC unit, Cane Run Unit 7, scheduled to be operational in May 2015. In October 2013, LG&E and KU announced plans to build a second NGCC unit, Green River Unit 5, at KU's Green River generating site. Subject to finalizing details, regulatory applications, permitting and construction schedules, the facility would have approximately 700 MW of capacity and cost \$700 million and was originally planned to be operational in 2018. At the same time, LG&E and KU also announced plans for a 10 MW solar generation facility to be operational in 2016 and to cost approximately \$36 million. As a result of developing uncertainty as to the need for the new capacity, in April 2014 LG&E and KU asked the KPSC to hold the related CPCN case in abeyance for 90 days. In May 2014, the KPSC granted that request and scheduled an informal conference for August 2014. LG&E and KU continue to evaluate their future capacity requirements, with the possibility that reduced or delayed capacity needs may result in adjustments to the timing of previously estimated capacity construction.

9. Defined Benefits

(PPL, PPL Energy Supply and PPL Electric)

Effective July 1, 2014, PPL's primary defined benefit pension plan and postretirement medical plan were closed to newly hired IBEW Local 1600 employees. As such, the majority of PPL's defined benefit pension plans are now closed to newly hired employees.

(All Registrants except PPL Electric and KU)

Certain net periodic defined benefit costs are applied to accounts that are further distributed between capital and expense, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL, PPL Energy Supply, LKE and LG&E for the periods ended June 30:

	Pension Benefits							
	Three Months				Six Months			
	U.S.		U.K.		U.S.		U.K.	
	2014	2013	2014	2013	2014	2013	2014	2013
PPL								
Service cost	\$ 25	\$ 32	\$ 18	\$ 16	\$ 51	\$ 63	\$ 36	\$ 34
Interest cost	58	53	90	78	117	107	178	159
Expected return on plan assets	(75)	(73)	(132)	(113)	(149)	(147)	(262)	(231)
Amortization of:								
Prior service cost	5	5			10	11		
Actuarial (gain) loss	8	20	33	37	15	40	66	75
Net periodic defined benefit costs (credits) prior to termination benefits	21	37	9	18	44	74	18	37
Termination benefits (a)	20				20			
Net periodic defined benefit costs (credits)	\$ 41	\$ 37	\$ 9	\$ 18	\$ 64	\$ 74	\$ 18	\$ 37

	Pension Benefits			
	Three Months		Six Months	
	2014	2013	2014	2013
	PPL Energy Supply			
Service cost	\$ 2	\$ 2	\$ 3	\$ 4
Interest cost	2	2	4	4
Expected return on plan assets	(3)	(2)	(5)	(5)
Amortization of:				
Actuarial (gain) loss	1		1	1
Net periodic defined benefit costs (credits)	\$ 2	\$ 2	\$ 3	\$ 4

	Pension Benefits			
	Three Months		Six Months	
	2014	2013	2014	2013
	LKE			
Service cost	\$ 5	\$ 6	\$ 11	\$ 13
Interest cost	16	15	33	31
Expected return on plan assets	(21)	(20)	(41)	(41)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial (gain) loss	3	9	6	17
Net periodic defined benefit costs (credits)	\$ 4	\$ 11	\$ 11	\$ 22

	Pension Benefits			
	Three Months		Six Months	
	2014	2013	2014	2013
	LG&E			
Service cost	\$ 1		\$ 1	\$ 1
Interest cost	3	4	7	7
Expected return on plan assets	(5)	(5)	(10)	(10)
Amortization of:				
Prior service cost			1	1
Actuarial (gain) loss	2	4	3	7
Net periodic defined benefit costs (credits)	\$ 1	\$ 3	\$ 2	\$ 6

(a) See Note 10 for details of a one-time voluntary retirement window offered to certain bargaining unit employees.

	Other Postretirement Benefits			
	Three Months		Six Months	
	2014	2013	2014	2013
PPL				
Service cost	\$ 3	\$ 3	\$ 6	\$ 7
Interest cost	8	7	16	14
Expected return on plan assets	(7)	(6)	(13)	(12)
Amortization of:				
Actuarial (gain) loss		2		3
Net periodic defined benefit costs (credits)	<u>\$ 4</u>	<u>\$ 6</u>	<u>\$ 9</u>	<u>\$ 12</u>
LKE				
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	3	2	5	4
Expected return on plan assets	(2)	(1)	(3)	(2)
Amortization of:				
Prior service cost			1	1
Net periodic defined benefit costs (credits)	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 5</u>

(All Registrants except PPL)

In addition to the specific plans they sponsor, PPL Energy Supply subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services, and LG&E is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. For the periods ended June 30, PPL Services allocated the following net periodic defined benefit costs to PPL Energy Supply subsidiaries and PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU.

	Three Months		Six Months	
	2014	2013	2014	2013
PPL Energy Supply (a)	\$ 23	\$ 12	\$ 30	\$ 23
PPL Electric (a)	10	9	15	18
LG&E	2	3	4	6
KU	1	5	4	9

(a) The three and six months ended June 30, 2014 include \$16 million and \$4 million of termination benefits for PPL Energy Supply and PPL Electric related to a one-time voluntary retirement window offered to certain bargaining unit employees. See Note 10 for additional information.

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL Electric)

See Note 11 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification (PPL and LKE)

See footnote (h) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(PPL and PPL Energy Supply)

Sierra Club Litigation

On March 6, 2013, the Sierra Club and the MEIC filed a complaint in the U.S. District Court, District of Montana, Billings Division against PPL Montana and the other Colstrip Steam Electric Station (Colstrip) co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, Northwestern Energy and Pacific Corp. PPL Montana operates Colstrip on behalf of the co-owners. The suit alleges certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements and listed 39 separate claims for relief. The complaint requests injunctive relief and civil penalties on average of \$36,000 per day per violation, including a request that the owners remediate environmental damage and that \$100,000 of the civil penalties be used for beneficial mitigation projects.

On July 27, 2013, the Sierra Club and MEIC filed an additional Notice, identifying additional plant projects that are alleged not to be in compliance with the Clean Air Act. In September 2013, the plaintiffs filed an amended complaint. This amended complaint drops all claims regarding pre-2001 plant projects, as well as the plaintiffs' Title V and opacity claims. It does, however, add claims with respect to a number of post-2000 plant projects, which effectively increased the number of projects subject to the litigation by about 40. PPL Montana and the other Colstrip owners filed a motion to dismiss the amended complaint in October 2013. On May 22, 2014, the court dismissed the plaintiffs' independent Best Available Control Technology claims and their Prevention of Significant Deterioration (PSD) claims for three projects, but denied the owners' motion to dismiss the plaintiffs' other PSD claims on statute of limitation grounds. In April 2014, trial as to liability in this matter was re-scheduled to June 2015. A trial date with respect to remedies, if there is a finding of liability, has not been scheduled. PPL Montana believes it and the other co-owners have numerous defenses to the allegations set forth in this complaint and will vigorously assert the same. PPL Montana cannot predict the ultimate outcome of this matter at this time.

(PPL, LKE and LG&E)

Cane Run Environmental Claims

On December 16, 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, on July 17, 2014 the court dismissed the plaintiffs' RCRA claims and all but one of its Clean Air Act claims, but declined to dismiss their common law tort claims. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on operations of the Cane Run plant. LG&E has previously announced that it anticipates retiring the coal-fired units at Cane Run before the end of 2015.

Mill Creek Environmental Claims

On May 28, 2014, the Sierra Club filed a citizen suit against LG&E in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Water Act. The Sierra Club alleges that various discharges at the Mill Creek plant constitute violations of the plant's water discharge permit. The Sierra Club seeks civil penalties, injunctive relief, plus costs and attorney's fees. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on the operations of the Mill Creek plant but believe the plant is operating in compliance with the permits.

Regulatory Issues

(All Registrants except PPL Energy Supply)

See Note 6 for information on regulatory matters related to utility rate regulation.

(PPL, PPL Energy Supply and PPL Electric)

New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC (the Act). To create incentives for the development of new, in-state electricity generation facilities, the Act implements a long-term capacity agreement pilot program (LCAPP). The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In February 2011, PPL and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution and requesting declaratory and injunctive relief barring implementation of the Act by the BPU Commissioners. In October 2013, the U.S. District Court in New Jersey issued a decision finding the Act unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision has been appealed to the U.S. Court of Appeals for the Third Circuit by CPV Power Development, Inc., Hess Newark, LLC and the State of New Jersey and oral argument was held on March 27, 2014. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electricity generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland (District Court) challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution, and requested declaratory and injunctive relief barring implementation of the order by the MD PSC Commissioners. In September 2013, the District Court issued a decision finding the MD PSC order unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision was appealed to the U.S. Court of Appeals for the Fourth Circuit (Fourth Circuit) by CPV Power Development, Inc. and the State of Maryland. In June 2014, the Fourth Circuit affirmed the District Court's opinion and subsequently denied the appellants' motion for rehearing.

Pacific Northwest Markets (PPL and PPL Energy Supply)

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, the FERC initiated proceedings to consider additional evidence. In July 2012, PPL Montana and the City of Tacoma, one of the two parties claiming refunds at FERC, reached a settlement whereby PPL Montana paid \$75 thousand to resolve the City of Tacoma's \$23 million claim. The settlement does not resolve the remaining claim outstanding at June 30, 2014 by the City of Seattle for approximately \$50 million. Hearings before a FERC Administrative Law Judge (ALJ) regarding the City of Seattle's refund claims were completed in October 2013 and briefing was completed in January 2014. In March 2014, the ALJ issued an initial decision denying the City of Seattle's complaint against PPL Montana. The initial decision is pending review by the FERC.

Although PPL and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or

whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

(All Registrants)

FERC Market-Based Rate Authority

In 1998, the FERC authorized LG&E, KU and PPL EnergyPlus to make wholesale sales of electricity and related products at market-based rates. In those orders, the FERC directed LG&E, KU and PPL EnergyPlus, respectively, to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by LG&E, KU, PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. In December 2013, PPL and these subsidiaries filed market-based rate updates for the Eastern and Western regions. In June 2014, the FERC accepted PPL and its subsidiaries' updated market power analysis finding that they qualify for continued market-based rate authority in the Western region, which acceptance became final in July 2014. The filings for the Eastern region remain pending before the FERC. The Registrants cannot predict the ultimate outcome of the update filings for the Eastern region at this time.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

As previously reported, in October 2012, the FERC initiated its consideration of proposed changes to Reliability Standards to address the impacts of geomagnetic disturbances on the reliable operation of the bulk-power system, which might, among other things, lead to a requirement to install equipment that blocks geomagnetically induced currents on implicated transformers. On May 16, 2013, FERC issued Order No. 779, requiring NERC to submit two types of Reliability Standards for FERC's approval. The first type would require certain owners and operators of the nation's electricity infrastructure, such as the Registrants, to develop and implement operational procedures to mitigate the effects of geomagnetic disturbances on the bulk-power system. This NERC-proposed standard was filed by NERC with FERC for approval in January 2014 and was approved on June 19, 2014. The second type is to require owners and operators of the bulk-power system to assess certain geomagnetic disturbance events and develop and implement plans to protect the bulk-power system from those events and must be filed by NERC with FERC for approval by January 22, 2015. The Registrants may be required to make significant expenditures in new equipment or modifications to their facilities to comply with the new requirements. The Registrants are unable to predict the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for geomagnetic disturbances.

Environmental Matters - Domestic

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which are applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to related environmental compliance costs is reduced. As PPL Energy Supply is not a rate-regulated entity, it cannot seek to recover environmental compliance costs through the mechanism of rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

(All Registrants except PPL Electric)

Air

CSAPR (formerly Clean Air Transport Rule) and CAIR

In July 2011, the EPA adopted the CSAPR. The CSAPR replaced the EPA's previous CAIR which was invalidated in July 2008 by the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court). CAIR subsequently was effectively reinstated by the D.C. Circuit Court in December 2008, pending finalization of the CSAPR. Like CAIR, CSAPR targeted sources in the eastern U.S. and would have required reductions in sulfur dioxide and nitrogen oxides in two phases (2012 and 2014).

In December 2011, the D.C. Circuit Court stayed implementation of the CSAPR and left CAIR in effect pending a final decision on the validity of the rule. In August 2012, the D.C. Circuit Court issued a ruling invalidating CSAPR, remanding the rule to the EPA for further action, and leaving CAIR in place during the interim. In April 2014, the U.S. Supreme Court reversed and remanded the D.C. Circuit Court's August 2012 decision, which may result in new or revised emission reduction requirements, including the possible replacement of the CAIR program with CSAPR, depending on future determinations by the EPA and the courts. On June 26, 2014, the DOJ filed a motion requesting the D.C. Circuit Court to lift the stay on CSAPR. The CAIR program remains in place. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the outcome of further regulatory and legal proceedings.

The Kentucky fossil-fueled generating plants meet the CAIR sulfur dioxide emission requirements by utilizing sulfur dioxide allowances (including banked allowances) and optimizing existing controls. To meet the CAIR standards for nitrogen oxide under the CAIR, the Kentucky companies will need to buy allowances and/or make operational changes. LG&E and KU do not currently anticipate that the costs of meeting these reinstated CAIR standards will be significant.

PPL Energy Supply's Pennsylvania fossil-fueled generating plants meet the CAIR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet the CAIR standards for nitrogen oxides, PPL Energy Supply will need to buy allowances and/or make operational changes, the costs of which are not anticipated to be significant.

National Ambient Air Quality Standards

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies. The PADEP has issued a draft rule requiring reasonable reductions. However, the proposal is being questioned as too lenient by the EPA, other OTR states and environmental groups. The PADEP may impose more stringent emission limits than those set forth in the proposed rule which could have a significant impact on PPL Energy Supply's Pennsylvania coal plants. The EPA is expected to further tighten the ozone standard in the near term, which may require further nitrogen oxide controls, particularly within the OTR.

In December 2012, the EPA issued final rules that tighten the National Ambient Air Quality Standard for fine particulates. The rules were challenged by industry groups, and on May 9, 2014 the D.C. Circuit Court upheld them. Under the final rules, states and the EPA have until 2015 to identify non-attainment areas, and states have until 2020 to achieve attainment for those areas.

In 2010, the EPA finalized a new National Ambient Air Quality Standard for sulfur dioxide and required states to identify areas that meet those standards and areas that are in non-attainment. In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Yellowstone County in Montana (Billings area) and part of Jefferson County in Kentucky. Attainment must be achieved by 2018. States are working on designations for other areas. On

April 17, 2014 the EPA proposed timeframes for completing these designations. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR or CSAPR (as discussed above), or the MATS, or the Regional Haze requirements (as discussed below), such as upgraded or new sulfur dioxide scrubbers at certain plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment (as noted above) is not expected to be significant, as PPL Energy Supply previously announced its intent to place the plant in long-term reserve status beginning in April 2015.

Until final rules are promulgated, non-attainment designations are finalized and state compliance plans are developed, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the ultimate outcome of the new National Ambient Air Quality standards for ozone, sulfur dioxide and particulate matter.

MATS

In May 2011, the EPA published a proposed regulation requiring stringent reductions of mercury and other hazardous air pollutants from power plants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 2012. The rule, which was challenged by industry groups and states, was upheld by the D.C. Circuit Court in April 2014. On July 14, 2014, a coalition of 23 states filed a petition seeking Supreme Court review of this decision. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. LG&E, KU and PPL Energy Supply have received compliance extensions for certain plants and are considering extension requests for additional plants.

At the time the MATS rule was proposed, LG&E and KU filed requests with the KPSC for environmental cost recovery based on their expected need to install environmental controls including chemical additive and fabric-filter baghouses to remove air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. LG&E's and KU's anticipated retirement of certain coal-fired electricity generating units located at Cane Run and Green River is in response to MATS and other environmental regulations. LG&E and KU are continuing to assess whether any revisions of their approved compliance plans will be necessary.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that installation of chemical additive systems may be necessary at certain coal-fired plants, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact of MATS on operating costs. With respect to PPL Energy Supply's Montana plants, modifications to the air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. For the Corette plant, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant was determined to be impaired in December 2013. See Note 18 in PPL's and PPL Energy Supply's 2013 Form 10-K for additional information.

PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below.

Regional Haze and Visibility

The EPA's regional haze programs were developed under the Clean Air Act to eliminate man-made visibility degradation by 2064. Under the programs, states are required to make reasonable progress every decade, through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977.

The primary power plant emissions affecting visibility are sulfur dioxide, nitrogen oxides and particulates. To date, the focus of regional haze activity has been the western U.S. because the EPA had determined that the regional trading program in the eastern U.S. under the CSAPR satisfies BART requirements to reduce sulfur dioxide and nitrogen oxides. Although the D.C. Circuit Court's August 2012 decision to vacate and remand the CSAPR has been reversed by the U.S. Supreme Court, future decisions by the EPA and the courts will determine whether power plants located in the eastern U.S., including PPL's plants in Pennsylvania and Kentucky, will be subject to additional reductions in sulfur dioxide and nitrogen oxides as required by BART. In addition, LG&E's Mill Creek Units 3 and 4 are required to reduce sulfuric acid mist emissions because they were determined to have a significant regional haze impact. These reductions are required in the regional haze state implementation plan that the Kentucky Division for Air Quality submitted to the EPA. LG&E is currently installing sorbent injection technology to comply with these reductions, the costs of which are not expected to be significant.

In Montana, the EPA Region 8 developed the regional haze plan as the MDEQ declined to do so. The EPA finalized the Federal Implementation Plan (FIP) for Montana in September 2012. The final FIP assumed no additional controls for Corette or Colstrip Units 3 and 4, but proposed tighter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply expects to meet these tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above). Under the final FIP, Colstrip Units 1 and 2 may require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxides and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit. Oral arguments were held on May 16, 2014.

New Source Review (NSR)

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants, but they have received no further communications from the EPA since providing their responses. In January 2009, PPL, PPL Energy Supply and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during a Spring 2012 maintenance outage at Colstrip Unit 1. In September 2012, PPL Montana received an information request from the MDEQ regarding Colstrip Unit 1 and other projects. MDEQ formally suspended this request on June 6, 2014, in consideration of pending litigation. The EPA request remains an open matter. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In August 2007, LG&E received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. See "Legal Matters" above for information on a lawsuit filed by environmental groups in March 2013 against PPL Montana and other owners of Colstrip.

If PPL subsidiaries are found to have violated NSR regulations by significantly increasing pollutants through a major plant modification, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet stringent permit limits reflecting Best Available Control Technology (BACT) for pollutants meeting the National Ambient Air Quality Standards (NAAQS) in the area and reflecting Lowest Achievable Emission Rates for pollutants not meeting the NAAQS in the area. The costs to meet such limits, including installation of technology at certain units, could be material.

TC2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload coal-fired generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which, in January 2010, were incorporated into a final revised permit issued by the Kentucky Division for Air Quality. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on plant operations, including increased capital costs, if any.

Climate Change

(All Registrants)

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that applied beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. The EPA's rules were challenged in court and on June 23, 2014 the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG emissions under these provisions of the Clean Air Act but only for stationary sources that would otherwise have been subject to these provisions due to significant increases in

emissions of other pollutants. As a result, any new sources or major modifications to an existing GHG source causing a net significant increase in GHG emissions must comply with BACT permit limits for GHGs if it would otherwise be subject to BACT or lowest achievable emissions rate limits due to significant increases in other pollutants.

In June 2013, President Obama released his Climate Action Plan that reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum, the EPA was directed to issue a revised proposal for new power plants (a prior proposal was issued in 2012) by September 20, 2013, with a final rule in a timely fashion thereafter, and to issue proposed standards for existing plants by June 1, 2014 with a final rule to be issued by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 30, 2016. The Administration's increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may also lead to more costly regulatory requirements; the White House Office of Management and Budget opened this issue for public comment and PPL submitted comments. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect PPL and others in the industry as modifications to electricity delivery systems to improve the ability to withstand major storms may be needed in order to meet those requirements.

The EPA issued its revised proposal for new sources on September 20, 2013 as directed by the White House. This proposal was published in the Federal Register on January 8, 2014. The comment period closed on May 9, 2014. Unlike the EPA's prior proposal, the EPA's revised proposal established separate emission standards for coal and gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially available, the revised proposal effectively precludes the construction of new coal plants. The standard for NGCC power plants is the same as the EPA proposed in 2012 and is not continuously achievable.

The EPA's proposed regulation addressing GHG emissions from existing sources was published in the Federal Register on June 18, 2014. The proposal contains state-specific rate-based reduction goals and guidelines for the development, submission, and implementation of state plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying EPA's very broad interpretation and definition of the Best System of Emission Reduction resulting in very stringent targets to be met in two phases (2020-2029 and 2030 and beyond). The EPA believes it has offered some flexibility to the states as to how state compliance plans can be crafted, including the option to demonstrate compliance on a mass basis and through multi-state collaborations. The EPA is also proposing potential state plan extensions based on the plan filed (single or multi-state). PPL is analyzing the proposal and potential impacts in preparation for submitting comments to the EPA by the October 16, 2014 deadline. The regulation of GHG emissions from existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

(PPL and PPL Energy Supply)

The PADEP submitted to the EPA a GHG white paper on April 10, 2014 regarding the regulation of carbon dioxide emissions under Section 111(d) of the Clean Air Act. The PADEP expects to achieve reductions required under the EPA's proposed rule by increasing efficiency at existing fossil-fuel plants and/or reducing generation. The PADEP specifically excludes demand-side energy efficiency projects (such as DSM and Act 129 programs) from consideration under the program, which makes it more difficult for Pennsylvania to achieve the reduction levels proposed for Pennsylvania by the EPA, as the EPA assumed significant reductions due to demand-side energy efficiency. On July 1, 2014, a bill passed the Pennsylvania House of Representatives (HB 2354) requiring the PADEP to obtain General Assembly approval of any state plan addressing GHG emissions under the EPA's rules for existing plants. The legislation, which will next be considered by the Pennsylvania Senate, includes provisions to minimize the exposure to a federal implementation plan due to legislative delay.

(PPL, LKE, LG&E and KU)

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. In November 2011, the Council issued a final report to the Secretary of Kentucky's Energy and Environment Cabinet for consideration. The final report acknowledged that the recommendations would require additional review and analysis prior to implementation, and that many of the recommendations would likely require, in part, further legislative or regulatory actions. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant. In April 2014, the Kentucky

General Assembly passed legislation which limits the measures which the Energy and Environment Cabinet may consider in setting performance standards to comply with the EPA's regulations governing GHG emissions from existing sources. The legislation provides that such state GHG performance standards shall be based on emission reductions, efficiency measures, and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions will make it more difficult for Kentucky to achieve the GHG reduction levels which the EPA has proposed for Kentucky.

(All Registrants except PPL Electric)

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained claims brought on the basis of these theories of liability, the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the Second Circuit and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in *Comer v. Murphy Oil* (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal district court granted defendants' motions to dismiss the state common law claims. Plaintiffs appealed to the U.S. Court of Appeals for the Fifth Circuit and in May 2013, the Fifth Circuit affirmed the district court's dismissal of the case. Additional litigation in federal and state courts over such issues is continuing. The Registrants cannot predict the outcome of these lawsuits or estimate a range of reasonably possible losses, if any.

Renewable Energy Legislation

(All Registrants)

There has been interest in renewable energy legislation at both the state and federal levels; however, no legislation is expected to become law in 2014 at either the federal or state levels.

(PPL, PPL Energy Supply and PPL Electric)

In Pennsylvania, bills were introduced calling for an increase in Alternative Energy Portfolio Standard (AEPS) Tier 1 obligations and to create a \$25 million permanent funding program for solar generation. Bills (SB 1171 and HB 100) were also introduced to add natural gas as a qualified AEPS resource, and another bill (HB 1912) would repeal the AEPS Act entirely. All these bills remain in committee and are unlikely to advance. An interim legislative committee in Montana is reviewing the state's Renewable Portfolio Standard (RPS). PPL and PPL Energy Supply cannot predict at this time whether the committee will recommend any changes to existing laws. In New Jersey, a bill (S-1475) has been introduced to increase the current RPS standard to 30% from Class I sources by 2020. The chairman of the Senate Environmental Committee has convened a workgroup to look at further changes to New Jersey's RPS law to enable New Jersey to meet emissions goals established in the state's Global Warming Response Act. PPL and PPL Energy Supply are unable to predict the outcome of this legislation at this time.

The Registrants believe there are financial, regulatory and operational uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply and downward pressure on energy prices that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their competitive plants' future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (All Registrants except PPL Electric)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the RCRA. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. Regulating CCRs as a hazardous waste under Subtitle C of the RCRA would materially increase costs and result in early retirements of many coal-fired plants, as it would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through generation, transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The EPA's proposed approach to regulate CCRs as non-hazardous waste under Subtitle D of the RCRA would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the EPA's proposed non-hazardous waste regulations, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented or is implementing certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) requesting comments on selected documents it received during the comment period for the proposed regulations. On September 20, 2013, in response to the proposed Effluent Limitation Guidelines, PPL submitted comments on the proposed CCR regulations. Also, on September 3, 2013, PPL commented on a second CCR NODA seeking comment on additional information related to the EPA's proposal.

A coalition of environmental groups and two CCR recycling companies have filed lawsuits against the EPA seeking a deadline for final rulemaking and, in settlement of that litigation, the EPA has agreed to issue its final rulemaking on the Subtitle D option addressed above by December 19, 2014.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from issuing final CCR regulations and would set non-hazardous CCR standards under RCRA and authorize state permit programs. It remains uncertain whether similar legislation will be passed by the U.S. Senate. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the financial and operational impact is expected to be material if CCRs are regulated as hazardous waste and significant if regulated as non-hazardous.

Trimble County Landfill Permit (PPL, LKE, LG&E and KU)

In May 2011, LG&E submitted an application for a special waste landfill permit to handle coal combustion residuals generated at the Trimble County plant. After extensive review of the permit application in May 2013, the Kentucky Division of Waste Management denied the permit application on the grounds that the proposed facility would violate the Kentucky Cave Protection Act because it would eliminate an on-site karst feature considered to be a cave. After assessing additional options for managing coal combustion residuals, in January 2014, LG&E submitted to the Kentucky Division of Waste Management a landfill permit application for an alternate site adjacent to the plant. PPL, LKE, LG&E and KU are unable to determine the potential impact of this matter until a landfill permit is issued and any resulting legal challenges are concluded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(All Registrants except PPL Electric)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to respond to notices of violations and implement assessment or abatement measures, where required or applicable. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER) on behalf of the Sierra Club, the MEIC, and the National Wildlife Federation. In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County. This matter was stayed in December 2012. In April 2014, Earthjustice filed a motion for leave to amend the petition for review and to lift the stay which was granted by the court in May 2014. PPL Montana and MDEQ responded to the amended petition and filed partial motions to dismiss in July 2014.

(All Registrants except PPL Electric)

Clean Water Act/316(b)

The EPA's final rule under 316(b) was issued on May 16, 2014. The rule contains two requirements to reduce impact to aquatic organisms at cooling water intake structures. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens (impingement) regardless of the levels of mortality actually occurring or the cost to achieve the standards. The second requirement is to determine and install the best technology available to reduce mortality of aquatic organisms pulled through a plant's cooling water system (entrainment). A form of cost-benefit analysis is allowed for this second requirement involving a site-specific evaluation based on nine factors, including impacts to energy delivery reliability and the remaining useful life of the plant. PPL, PPL Energy Supply, LKE, LG&E and KU are evaluating compliance strategies but do not presently expect the compliance costs to be material.

Effluent Limitations Guidelines (ELGs) and Standards

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations contain requirements that would affect the inspection and operation of CCR facilities, if finalized. The EPA has indicated that it will coordinate these regulations with the regulation of CCRs discussed above. The proposal contains alternative approaches, some of which could significantly impact PPL's coal-fired plants. PPL, PPL Energy Supply, LKE, LG&E and KU worked with industry groups to comment on the proposed regulation on September 20, 2013. The EPA has agreed to a new deadline for the final rule of September 30, 2015 which is contingent upon the EPA meeting its deadline of December 19, 2014 for issuing its final CCR regulations. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant. Pending finalization of the ELGs, certain states (including Pennsylvania and Kentucky) and environmental groups are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines.

(All Registrants)

Waters of the United States (WOTUS)

On April 21, 2014, the EPA and the U.S. Army Corps of Engineers (Army Corps) published the proposed rule defining Waters of the United States (WOTUS) that could significantly expand the federal government's interpretation of what constitutes WOTUS subject to regulation under the Clean Water Act. The comment deadline is October 20, 2014. If the definition is expanded as proposed by the EPA and the Army Corps, permits and other regulatory requirements may be imposed for many matters presently not covered (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands), the implications of which could be significant. The U.S. House and Senate are considering legislation to block these regulations.

Other Issues

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all or some PCB-containing equipment. The EPA is planning to propose the revised regulations in November 2014. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

(PPL and PPL Energy Supply)

A subsidiary of PPL Energy Supply has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant. In June 2012, a Consent Order and Agreement (COA) was signed allowing the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. The COA required a retrofit of impingement control technology at the intakes to the cooling towers, at a cost that would have been significant. Based on the results of the first year of study, the PADEP has suggested closing the COA and writing a new COA to resolve the issue. PPL is in negotiations with the agency at this time. PPL and PPL Energy Supply cannot predict at this time the outcome of the proposed new COA and what impact, if any, it would have on their facilities, but the costs could be significant.

(PPL, LKE, LG&E and KU)

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. In September 2013, the court reversed the Cabinet order upholding the permit and remanded the permit to the agency for further proceedings. In October 2013, LG&E filed a notice of appeal with the Kentucky Court of Appeals. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

Superfund and Other Remediation *(All Registrants)*

PPL Electric is potentially responsible for costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase substantially more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL Energy Supply, PPL Electric, LG&E and KU undertake remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third

parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on these Registrants' operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for the Registrants.

Environmental Matters - WPD (PPL)

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

Other

Nuclear Insurance (PPL and PPL Energy Supply)

The Price-Anderson Act is a United States Federal law which governs liability-related issues and ensures the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities. It also seeks to limit the liability of nuclear reactor owners for such claims from any single incident. Effective September 10, 2013, the liability limit per incident is \$13.6 billion for such claims which is funded by insurance coverage from American Nuclear Insurers and an industry assessment program.

Under the industry assessment program, in the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act, as amended, PPL Susquehanna could be assessed up to \$255 million per incident, payable at \$38 million per year.

Additionally, PPL Susquehanna purchases property insurance programs from NEIL, an industry mutual insurance company of which PPL Susquehanna is a member. Effective April 1, 2014, facilities at the Susquehanna plant are insured against property damage losses up to \$2.0 billion. PPL Susquehanna also purchases an insurance program that provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the NEIL property and replacement power insurance programs, PPL Susquehanna could be assessed retrospective premiums in the event of the insurers' adverse loss experience. This maximum assessment is \$46 million.

Pennsylvania Coal Plants (PPL and PPL Energy Supply)

In the fourth quarter of 2013, management tested the Brunner Island and Montour plants for impairment and concluded neither was impaired as of December 31, 2013. There were no events or changes in circumstances that indicated a recoverability test was required to be performed in 2014. The carrying value of the Pennsylvania coal-fired generation assets was \$2.5 billion as of June 30, 2014 (\$1.3 billion for Brunner Island and \$1.2 billion for Montour).

Labor Unions (PPL, PPL Energy Supply and PPL Electric)

In May 2014, PPL's, PPL Energy Supply's and PPL Electric's bargaining agreement with its largest IBEW local expired. PPL, PPL Energy Supply and PPL Electric finalized a new three-year labor agreement with the IBEW local in May 2014 and the agreement was ratified in early June 2014.

As part of efforts to reduce operations and maintenance expenses, the new agreement offered a one-time voluntary retirement window to certain bargaining unit employees. The benefits offered under this provision are consistent with the standard separation program benefits for bargaining unit employees. As a result, for the three and six months ended June 30, 2014, the following estimated separation benefits were recorded:

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>
Pension Benefits	\$ 20	\$ 16	\$ 4
Severance Compensation	9	7	2
Total Separation Benefits	<u>\$ 29</u>	<u>\$ 23</u>	<u>\$ 6</u>
Number of Employees	155	124	30

The separation benefits were recorded in "Other operation and maintenance" on the Statement of Income. The pension benefits are accrued in "Accrued pension obligations" and the severance compensation is accrued in "Other current liabilities" on the Balance Sheet at June 30, 2014. Substantially all of the severance compensation will be paid in the third and fourth quarters of 2014. The remaining terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL, PPL Energy Supply or PPL Electric.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of June 30, 2014. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at June 30, 2014 and December 31, 2013, was \$25 million and \$26 million for PPL and \$19 million for both periods for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at June 30, 2014	Expiration Date
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 12 (b)	2017 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	131 (c)	
<u>PPL Energy Supply</u>		
Letters of credit issued on behalf of affiliates	45 (d)	2014 - 2015
Indemnifications for sales of assets	250 (e)	2025
Guarantee of a portion of a divested unconsolidated entity's debt	22 (f)	2018
<u>PPL Electric</u>		
Guarantee of inventory value	38 (g)	2017
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301 (h)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(i)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At June 30, 2014, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- (d) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.
- (e) Indemnifications are governed by the specific sales agreement and include breach of the representations, warranties and covenants, and liabilities for certain other matters. PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration date noted is based on those cases in which the agreements provide for specific limits.
- (f) Relates to a guarantee of one-third of the divested entity's debt. The purchaser provided a cross-indemnity, secured by a lien on the purchaser's stock of the divested entity. The exposure noted reflects principal only.
- (g) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
- (h) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing the December 2012 order of the Henderson Circuit Court, confirming the arbitration award. On May 30, 2014, the Court of Appeals issued an opinion affirming the lower court decision, but LKE's indemnitee has filed a Petition for Rehearing with the Court of Appeals. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.
- (i) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts currently included within a demand charge designed and currently expected to cover these costs over the term of the contract. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" and "Guarantees and Other Assurances" in Note 15 in PPL's, LKE's, LG&E's and KU's 2013 Form 10-K for additional information on the OVEC power purchase contract.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable (*PPL Energy Supply and PPL Electric*)

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. The sales and purchases between PPL EnergyPlus and PPL Electric are included in the Statements of Income as "Unregulated wholesale energy to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Default Service Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric when: (a) the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered; and (b) this market price exposure exceeds a contractual credit limit. During the second quarter of 2014, PPL Energy Supply experienced a downgrade in its corporate credit ratings to below investment grade. As a result of the downgrade of PPL Energy Supply, as guarantor, PPL EnergyPlus no longer has an established credit limit and was required to post an insignificant amount of collateral at June 30, 2014. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At June 30, 2014, PPL Energy Supply had a net credit exposure of \$24 million from PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Support Costs (All Registrants except PPL)

Both PPL Services and LKS provide the respective PPL and LKE subsidiaries with administrative, management and support services. Where applicable, the costs of these services are charged to the respective subsidiaries as direct support costs. General costs that cannot be directly attributed to a specific subsidiary are allocated and charged to the respective subsidiaries as indirect support costs. PPL Services uses a three-factor methodology that includes the subsidiaries' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services and LKS charged the following amounts for the periods ended June 30, and believe these amounts are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

	Three Months		Six Months	
	2014	2013	2014	2013
PPL Energy Supply from PPL Services	\$ 54	\$ 52	\$ 112	\$ 109
PPL Electric from PPL Services	38	34	79	72
LKE from PPL Services	4	4	8	8
LG&E from LKS	57	67	105	106
KU from LKS	59	44	112	110

LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and LKE and KU are reimbursed through LKS.

Intercompany Borrowings (PPL Electric and LKE)

A PPL Electric subsidiary periodically holds revolving demand notes from certain affiliates. At June 30, 2014, there was no balance outstanding. At December 31, 2013, \$150 million was outstanding and was reflected in "Notes receivable from affiliate" on the Balance Sheet. The interest rates on borrowings are equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at December 31, 2013, was 1.92%. Interest earned on these revolving facilities was not significant for the three and six months ended June 30, 2014 and 2013.

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rate on borrowings is equal to one-month LIBOR plus a spread. There were no balances outstanding at June 30, 2014 and December 31, 2013.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. At June 30, 2014 and December 31, 2013, \$16 million and \$70 million were outstanding and were reflected in "Notes receivable from affiliates" on the Balance Sheets. The interest rate on the loan based on the PPL affiliate's credit rating is currently equal to one-month LIBOR plus a spread. The interest rates on the outstanding borrowing at June 30, 2014 and December 31, 2013 were 2.15% and 2.17%. Interest income on this note was not significant for the three and six months ended June 30, 2014 and 2013.

Other (All Registrants except PPL and LKE)

See Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

(All Registrants)

The components of "Other Income (Expense) - net" for the periods ended June 30 was:

	Three Months		Six Months	
	2014	2013	2014	2013
PPL				
Other Income				
Earnings on securities in NDT funds	\$ 6	\$ 5	\$ 12	\$ 10
Interest income	3		4	1
AFUDC - equity component	2	2	5	5
Miscellaneous - Domestic	2	7	4	9
Miscellaneous - U.K.				1
Total Other Income	13	14	25	26
Other Expense				
Economic foreign currency exchange contracts (Note 14)	72	(4)	96	(123)
Charitable contributions	2	4	9	8
Spinoff of PPL Energy Supply transaction costs (Note 8)	16		16	
Miscellaneous - Domestic	5	1	8	5
Miscellaneous - U.K.			1	1
Total Other Expense	95	1	130	(109)
Other Income (Expense) - net	\$ (82)	\$ 13	\$ (105)	\$ 135

"Other Income (Expense) - net" for the three and six months ended June 30, 2014 and 2013 for PPL Energy Supply is primarily the earnings on securities in NDT funds. The components of "Other Income (Expense) - net" for the three and six months ended June 30, 2014 and 2013 for PPL Electric, LKE, LG&E and KU are not significant.

13. Fair Value Measurements and Credit Concentration

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and six months ended June 30, 2014 and 2013, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2013 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	June 30, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 1,269	\$ 1,269			\$ 1,102	\$ 1,102		
Restricted cash and cash equivalents (a)	408	408			156	156		
Price risk management assets:								
Energy commodities	1,374	2	\$ 1,206	\$ 166	1,188	3	\$ 1,123	\$ 62
Interest rate swaps	1		1		91		91	
Foreign currency contracts	2		2					
Total price risk management assets	1,377	2	1,209	166	1,279	3	1,214	62
NDT funds:								
Cash and cash equivalents	16	16			14	14		
Equity securities								
U.S. large-cap	580	432	148		547	409	138	
U.S. mid/small-cap	85	35	50		81	33	48	
Debt securities								
U.S. Treasury	97	97			95	95		
U.S. government sponsored agency	6		6		6		6	
Municipality	78		78		77		77	
Investment-grade corporate	41		41		38		38	
Other	6		6		5		5	
Receivables (payables), net	2		2		1	(1)	2	
Total NDT funds	911	580	331		864	550	314	
Auction rate securities (b)	16			16	19			19
Total assets	\$ 3,981	\$ 2,259	\$ 1,540	\$ 182	\$ 3,420	\$ 1,811	\$ 1,528	\$ 81

	June 30, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,480	\$ 2	\$ 1,386	\$ 92	\$ 1,070	\$ 4	\$ 1,028	\$ 38
Interest rate swaps	54		54		36		36	
Foreign currency contracts	176		176		106		106	
Cross-currency swaps	47		47		32		32	
Total price risk management liabilities	\$ 1,757	\$ 2	\$ 1,663	\$ 92	\$ 1,244	\$ 4	\$ 1,202	\$ 38

PPL Energy Supply

Assets								
Cash and cash equivalents	\$ 264	\$ 264			\$ 239	\$ 239		
Restricted cash and cash equivalents (a)	343	343			85	85		
Price risk management assets:								
Energy commodities	1,374	2	\$ 1,206	\$ 166	1,188	3	\$ 1,123	\$ 62
Total price risk management assets	1,374	2	1,206	166	1,188	3	1,123	62
NDT funds:								
Cash and cash equivalents	16	16			14	14		
Equity securities								
U.S. large-cap	580	432	148		547	409	138	
U.S. mid/small-cap	85	35	50		81	33	48	
Debt securities								
U.S. Treasury	97	97			95	95		
U.S. government sponsored agency	6		6		6		6	
Municipality	78		78		77		77	
Investment-grade corporate	41		41		38		38	
Other	6		6		5		5	
Receivables (payables), net	2		2		1	(1)	2	
Total NDT funds	911	580	331		864	550	314	
Auction rate securities (b)	13			13	16			16
Total assets	\$ 2,905	\$ 1,189	\$ 1,537	\$ 179	\$ 2,392	\$ 877	\$ 1,437	\$ 78

Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,480	\$ 2	\$ 1,386	\$ 92	\$ 1,070	\$ 4	\$ 1,028	\$ 38
Total price risk management liabilities	\$ 1,480	\$ 2	\$ 1,386	\$ 92	\$ 1,070	\$ 4	\$ 1,028	\$ 38

PPL Electric

Assets								
Cash and cash equivalents	\$ 149	\$ 149			\$ 25	\$ 25		
Restricted cash and cash equivalents (c)	3	3			12	12		
Total assets	\$ 152	\$ 152			\$ 37	\$ 37		

LKE

Assets								
Cash and cash equivalents	\$ 23	\$ 23			\$ 35	\$ 35		
Restricted cash and cash equivalents (d)	21	21			22	22		
Total assets	\$ 44	\$ 44			\$ 57	\$ 57		

Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 42		\$ 42		\$ 36		\$ 36	
Total price risk management liabilities	\$ 42		\$ 42		\$ 36		\$ 36	

LG&E

Assets								
Cash and cash equivalents	\$ 5	\$ 5			\$ 8	\$ 8		
Restricted cash and cash equivalents (d)	21	21			22	22		
Total assets	\$ 26	\$ 26			\$ 30	\$ 30		

Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 42		\$ 42		\$ 36		\$ 36	
Total price risk management liabilities	\$ 42		\$ 42		\$ 36		\$ 36	

KU

Assets								
Cash and cash equivalents	\$ 18	\$ 18			\$ 21	\$ 21		
Total assets	\$ 18	\$ 18			\$ 21	\$ 21		

- (a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Included in "Other noncurrent assets" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended June 30, 2014 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Six Months			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL								
Balance at beginning of period	\$ 17	\$ 16		\$ 33	\$ 24	\$ 19		\$ 43
Total realized/unrealized gains (losses)								
Included in earnings	72			72	(63)			(63)
Included in OCI (a)							(1)	(1)
Purchases	(6)			(6)	(6)			(6)
Sales						(3)		(3)
Settlements	(9)			(9)	119			119
Transfers out of Level 3							1	1
Balance at end of period	\$ 74	\$ 16		\$ 90	\$ 74	\$ 16		\$ 90
PPL Energy Supply								
Balance at beginning of period	\$ 17	\$ 13		\$ 30	\$ 24	\$ 16		\$ 40
Total realized/unrealized gains (losses)								
Included in earnings	72			72	(63)			(63)
Purchases	(6)			(6)	(6)			(6)
Sales						(3)		(3)
Settlements	(9)			(9)	119			119
Balance at end of period	\$ 74	\$ 13		\$ 87	\$ 74	\$ 13		\$ 87

- (a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended June 30, 2013 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Six Months			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL								
Balance at beginning of period	\$ 14	\$ 16		\$ 30	\$ 22	\$ 16	\$ 1	\$ 39
Total realized/unrealized gains (losses)								
Included in earnings	14			14	6			6
Included in OCI (a)							3	3
Sales	(2)			(2)	(2)			(2)
Settlements	4			4	3			3
Transfers into Level 3	6	3	\$ 3	12	7	3	3	13
Transfers out of Level 3	4			4	4		(4)	
Balance at end of period	\$ 40	\$ 19	\$ 3	\$ 62	\$ 40	\$ 19	\$ 3	\$ 62
PPL Energy Supply								
Balance at beginning of period	\$ 14	\$ 13		\$ 27	\$ 22	\$ 13		\$ 35
Total realized/unrealized gains (losses)								
Included in earnings	14			14	6			6
Sales	(2)			(2)	(2)			(2)
Settlements	4			4	3			3
Transfers into Level 3	6	3		9	7	3		10
Transfers out of Level 3	4			4	4			4
Balance at end of period	\$ 40	\$ 16		\$ 56	\$ 40	\$ 16		\$ 56

- (a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in and quantitative information about the fair value measurement of assets and liabilities classified as Level 3 are as follows:

June 30, 2014				
	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Natural gas contracts (b)	\$ 7	Discounted cash flow	Proprietary model used to calculate forward prices	14% - 100% (35%)
Power sales contracts (c)	(63)	Discounted cash flow	Proprietary model used to calculate forward prices	14% - 100% (79%)
FTR purchase contracts (d)	6	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Heat rate options (e)	124	Discounted cash flow	Proprietary model used to calculate forward prices	22% - 100% (44%)
Auction rate securities (f)	16	Discounted cash flow	Modeled from SIFMA Index	58% - 75% (67%)

PPL Energy Supply

Energy commodities

Natural gas contracts (b)	\$ 7	Discounted cash flow	Proprietary model used to calculate forward prices	14% - 100% (35%)
Power sales contracts (c)	(63)	Discounted cash flow	Proprietary model used to calculate forward prices	14% - 100% (79%)
FTR purchase contracts (d)	6	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Heat rate options (e)	124	Discounted cash flow	Proprietary model used to calculate forward prices	22% - 100% (44%)
Auction rate securities (f)	13	Discounted cash flow	Modeled from SIFMA Index	59% - 75% (68%)

December 31, 2013

	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Natural gas contracts (b)	\$ 36	Discounted cash flow	Proprietary model used to calculate forward prices	10% - 100% (86%)
Power sales contracts (c)	(12)	Discounted cash flow	Proprietary model used to calculate forward prices	100% - 100% (100%)
Auction rate securities (f)	19	Discounted cash flow	Modeled from SIFMA Index	10% - 80% (63%)
PPL Energy Supply				
Energy commodities				
Natural gas contracts (b)	\$ 36	Discounted cash flow	Proprietary model used to calculate forward prices	10% - 100% (86%)
Power sales contracts (c)	(12)	Discounted cash flow	Proprietary model used to calculate forward prices	100% - 100% (100%)
Auction rate securities (f)	16	Discounted cash flow	Modeled from SIFMA Index	10% - 80% (63%)

- (a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs.
- (b) As the forward price of natural gas increases/(decreases), the fair value of purchase contracts increases/(decreases). As the forward price of natural gas increases/(decreases), the fair value of sales contracts (decreases)/increases.
- (c) As forward market prices increase/(decrease), the fair value of contracts (decreases)/increases. As volumetric assumptions for contracts in a gain position increase/(decrease), the fair value of contracts increases/(decreases). As volumetric assumptions for contracts in a loss position increase/(decrease), the fair value of the contracts (decreases)/increases.
- (d) As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).
- (e) The proprietary model used to calculate fair value incorporates market heat rates, correlations and volatilities. As the market implied heat rate increases/(decreases), the fair value of the contracts increases/(decreases).

- (f) The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the periods ended June 30 are reported in the Statements of Income as follows:

	Three Months					
	Energy Commodities, net					
	Unregulated Wholesale Energy		Unregulated Retail Energy		Energy Purchases	
	2014	2013	2014	2013	2014	2013
PPL and PPL Energy Supply						
Total gains (losses) included in earnings	\$ 58	\$ (7)	\$ 12	\$ 22	\$ 2	\$ (1)
Change in unrealized gains (losses) relating to positions still held at the reporting date	47	(7)	10	22	(4)	1

	Six Months					
	Energy Commodities, net					
	Unregulated Wholesale Energy		Unregulated Retail Energy		Energy Purchases	
	2014	2013	2014	2013	2014	2013
PPL and PPL Energy Supply						
Total gains (losses) included in earnings	\$ (31)	\$ (9)	\$ (51)	\$ 15	\$ 19	
Change in unrealized gains (losses) relating to positions still held at the reporting date	44	(9)	(21)	17	(3)	\$ 2

Price Risk Management Assets/Liabilities - Energy Commodities (PPL and PPL Energy Supply)

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative contracts, which are valued using the market approach and are classified as Level 1. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. Energy commodity contracts include forwards, futures, swaps, options and structured transactions and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and other standard industry models. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Level 3 contracts are valued using PPL proprietary models which may include significant unobservable inputs such as delivery at a location where pricing is unobservable, delivery dates that are beyond the dates for which independent quotes are available, volumetric assumptions, implied volatilities, implied correlations, and market implied heat rates. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2013 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency

contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. For PPL, the primary reason for the transfers between Level 2 and Level 3 during 2014 and 2013 was the change in the significance of the credit valuation adjustment. Cross-currency swaps are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

(PPL and PPL Energy Supply)

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets.
- The fair value measurements of investments in commingled equity funds are classified as Level 2. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

The fair value of debt securities is generally measured using a market approach, including the use of pricing models which incorporate observable inputs. Common inputs include benchmark yields, reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as monthly payment data, future predicted cash flows, collateral performance and new issue data.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The probability of realizing losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3. The primary reason for the transfers during 2013 was the change in discount rates and SIFMA Index.

Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

Nonrecurring Fair Value Measurements *(PPL and PPL Energy Supply)*

The following nonrecurring fair value measurement occurred during the six months ended June 30, 2014, resulting in an asset impairment:

	<u>Carrying Amount (a)</u>	<u>Fair Value Measurement Using Level 3</u>	<u>Loss (b)</u>
<u>PPL and PPL Energy Supply</u>			
Kerr Dam Project	\$ 47	\$ 29	\$ 18

(a) Represents carrying value before fair value measurement.

(b) The loss on the Kerr Dam Project was recorded in the Supply segment and included in "Other operation and maintenance" on PPL's and PPL Energy Supply's Statement of Income.

The significant unobservable inputs used in and the quantitative information about the nonrecurring fair value measurement of assets and liabilities classified as Level 3 are as follows:

	Fair Value, net Asset (Liability)	Valuation Technique	Significant Unobservable Input(s)	Range (Weighted Average)(a)
<u>PPL and PPL Energy Supply</u>				
Kerr Dam Project				
March 31, 2014	\$ 29	Discounted cash flow	Proprietary model used to calculate plant value	38% (38%)

(a) The range and weighted average represent the percentage of fair value derived from the unobservable inputs.

Kerr Dam Project

As disclosed in Note 11 in PPL's and PPL Energy Supply's 2013 Form 10-K, PPL Montana holds a joint operating license issued for the Kerr Dam Project. The license extends until 2035 and, between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase, hold and operate the Kerr Dam Project. The parties submitted the issue of the appropriate amount of the conveyance price to arbitration in February 2013. In March 2014, the arbitration panel issued its final decision holding that the conveyance price payable by the Tribes to PPL Montana is \$18 million. As a result of the decision, PPL Energy Supply performed a recoverability test on the Kerr Dam Project and recorded an impairment charge. PPL Energy Supply performed an internal analysis using an income approach based on discounted cash flows (a proprietary PPL model) to assess the fair value of the Kerr Dam Project. Assumptions used in the PPL proprietary model were the conveyance price, forward energy price curves, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the business planning process and a market participant discount rate. Through this analysis, PPL Energy Supply determined the fair value of the Kerr Dam Project to be \$29 million at March 31, 2014.

The assets were valued by the PPL Energy Supply Financial Department, which reports to the President of PPL Energy Supply. Accounting personnel, who report to the CFO, interpreted the analysis to appropriately classify the assets in the fair value hierarchy.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of contract adjustment payments related to the 2011 Purchase Contract component of the 2011 Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Contract adjustment payments (a)</u>				
PPL			\$ 21	\$ 22
<u>Long-term debt</u>				
PPL	\$ 21,123	\$ 22,958	20,907	22,177
PPL Energy Supply	2,523	2,630	2,525	2,658
PPL Electric	2,602	2,915	2,315	2,483
LKE	4,566	4,879	4,565	4,672
LG&E	1,353	1,428	1,353	1,372
KU	2,091	2,264	2,091	2,155

(a) Included in "Other current liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, approximates fair value due to the variable interest rates associated with the short-term debt and is classified as Level 2.

Credit Concentration Associated with Financial Instruments

(All Registrants)

Contracts are entered into with many entities for the purchase and sale of energy. When NPNS is elected, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

(PPL and PPL Energy Supply)

At June 30, 2014, PPL and PPL Energy Supply had credit exposure of \$805 million from energy trading partners, excluding exposure from related parties (PPL Energy Supply only) and the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, PPL and PPL Energy Supply's credit exposure was reduced to \$340 million. The top ten counterparties including their affiliates accounted for \$192 million, or 56%, of these exposures. Seven of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 65% of the top ten exposures. The remaining counterparties are below investment grade or have not been rated by S&P or Moody's, but are current on their obligations. See Note 11 for information regarding PPL Energy Supply's related party credit exposure.

(PPL Electric)

PPL Electric is exposed to credit risk under energy supply contracts (including its supply contracts with PPL EnergyPlus); however, its PUC-approved recovery mechanism is anticipated to substantially mitigate this exposure.

(LKE, LG&E and KU)

At June 30, 2014, LKE's, LG&E's and KU's credit exposure was not significant.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value, and other risk management metrics.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The table below summarizes the market risks that affect PPL and its Subsidiary Registrants.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Commodity price risk (including basis and volumetric risk)	X	X	M	M	M	M
Interest rate risk:						
Debt issuances	X	X	M	M	M	M
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Equity securities price risk:						
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Future stock transactions	X					
Foreign currency risk - WPD investment and earnings	X					

X = PPL and PPL Energy Supply actively mitigate market risks through their risk management programs described above.

M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

Commodity price risk

- PPL is exposed to commodity price risk through its domestic subsidiaries as described below. Volumetric risk is significantly mitigated at WPD as a result of the method of regulation in the U.K.
- PPL Energy Supply is exposed to commodity price risk for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities.
- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. WPD holds over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt and LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances. This risk for PPL Electric, LG&E and KU is significantly mitigated due to recovery mechanisms in place.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with defined benefit plans. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL and PPL Energy Supply are exposed to equity securities price risk in the NDT funds.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments and earnings in U.K. affiliates.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL Energy Supply is exposed to credit risk from "in-the-money" commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers, financial institutions, other wholesale customers and retail customers.

The majority of PPL and PPL Energy Supply's credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with energy trading partners.

Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was \$13 million and \$9 million at June 30, 2014 and December 31, 2013.

PPL Electric, LKE and LG&E had no obligation to return cash collateral under master netting arrangements at June 30, 2014 and December 31, 2013.

PPL posted \$25 million and LKE and LG&E posted \$21 million of cash collateral under master netting arrangements at June 30, 2014. PPL, LKE and LG&E had posted \$22 million of cash collateral under master netting arrangements at December 31, 2013.

PPL Energy Supply posted an insignificant amount of cash collateral under master netting arrangements at June 30, 2014 and did not post any cash collateral at December 31, 2013. PPL Electric and KU did not post any cash collateral under master netting arrangements at June 30, 2014 and December 31, 2013.

See "Offsetting Derivative Investments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

Commodity price risk, including basis and volumetric risk, is among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing activities. Several factors influence price levels and volatilities. These factors include, but are not

limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its unregulated wholesale and unregulated retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 7,369 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,309 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts are non-derivatives or NPNS is elected and therefore they are not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their non-trading activities into two categories: cash flow hedges and economic activity as discussed below.

Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. There were no active cash flow hedges during the three and six months ended June 30, 2014. At June 30, 2014, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$22 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. There were no such reclassifications for the three and six months ended June 30, 2014 and 2013.

For the three and six months ended June 30, 2014 and 2013, hedge ineffectiveness associated with energy derivatives was insignificant.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or because hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity also includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at June 30, 2014 range in maturity through 2019.

Examples of economic activity may include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally capped at the price at which the generating unit would be dispatched and therefore does not expose PPL Energy Supply to uncovered market price risk.

The unrealized gains (losses) for economic activity for the periods ended June 30 were as follows.

	Three Months		Six Months	
	2014	2013	2014	2013
Operating Revenues				
Unregulated wholesale energy	\$ (91)	\$ 590	\$ (880)	\$ (232)
Unregulated retail energy	4	20	(22)	12
Operating Expenses				
Fuel	7	(4)	6	(5)
Energy purchases	39	(479)	619	155

Commodity Price Risk (Trading)

PPL Energy Supply has a proprietary trading strategy which is utilized to take advantage of market opportunities primarily in its geographic footprint. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in losses if prices do not move in the manner or direction anticipated. Net energy trading margins, which are included in "Unregulated wholesale energy" on the Statements of Income, were \$44 million and \$58 million for the three and six months ended June 30, 2014 and were insignificant for the same periods in 2013.

Commodity Volumes

At June 30, 2014, the net volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

Commodity	Unit of Measure	Volumes (a)			
		2014 (b)	2015	2016	Thereafter
Power	MWh	(20,439,732)	(26,034,375)	(2,187,131)	12,845,473
Capacity	MW-Month	(8,589)	(5,120)	501	9
Gas	MMBtu	66,064,719	40,183,723	55,354,593	37,786,174
Coal	Tons	45,000			
FTRs	MW-Month	4,283	3,364		
Oil	Barrels	68,966	363,660	322,777	269,438

(a) Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

(b) Represents balance of the current year.

Interest Rate Risk

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates.

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At June 30, 2014, outstanding interest rate swap contracts range in maturity through 2026 for PPL's domestic interest rate swaps. These swaps had an aggregate notional value of \$475 million at June 30, 2014.

At June 30, 2014, PPL held a notional position in cross-currency interest rate swaps totaling \$1.3 billion that range in maturity through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three months ended June 30, 2014, PPL had no hedge ineffectiveness associated with interest rate derivatives. There were insignificant amounts of hedge ineffectiveness associated with interest rate derivatives for the six months ended June 30, 2014 and three and six months ended June 30, 2013.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. For the six months ended June 30, 2014, PPL had an insignificant amount reclassified associated with discontinued cash flow hedges. There were no such reclassifications for the three months ended June 30, 2014 and the three and six months ended June 30, 2013.

At June 30, 2014, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were \$(13) million. Amounts are reclassified as the hedged interest payments are made.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the underlying hedged interest expense is recorded. At June 30, 2014, LG&E held contracts with a notional amount of \$179 million that range in maturity through 2033.

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at June 30, 2014 had a notional amount of £306 million (approximately \$494 million based on contracted rates). The settlement dates of these contracts range from November 2014 through June 2016.

Additionally, a PPL Global subsidiary that has a U.S. dollar functional currency entered into GBP intercompany loans payable with PPL WEM subsidiaries that have GBP functional currency. The loans qualify as a net investment hedge for the PPL Global subsidiary. As such, the foreign currency gains and losses on the intercompany loans for the PPL Global subsidiary are recorded to the foreign currency translation adjustment component of OCI. At June 30, 2014, the outstanding balances of the intercompany loans were £38 million (approximately \$64 million based on spot rates). For the three and six months ended June 30, 2014, PPL recognized an insignificant amount of net investment hedge gains (losses) on the intercompany loans in the foreign currency translation adjustment component of OCI. For the three and six months ended June 30, 2013, PPL recognized an insignificant amount and \$6 million of net investment hedge gains (losses) on the intercompany loans in the foreign currency translation adjustment component of OCI.

At June 30, 2014, PPL had \$(16) million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI, compared to an insignificant amount at December 31, 2013.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At June 30, 2014, the total exposure hedged by PPL was approximately £1.7 billion (approximately \$2.8 billion based on contracted rates). These contracts had termination dates ranging from July 2014 through December 2016.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Energy Supply include certain full-requirement sales contracts, other physical purchase and sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized currently in earnings unless specific hedge accounting criteria are met and designated as such, except for the

changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at June 30, 2014 and December 31, 2013. PPL and PPL Energy Supply have many physical and financial commodity purchases and sales contracts that economically hedge commodity price risk but do not receive hedge accounting treatment. As such, realized and unrealized gains (losses) on these contracts are recorded currently in earnings. Generally each contract is considered a unit of account and PPL and PPL Energy Supply present gains (losses) on physical and financial commodity sales contracts in "Unregulated wholesale energy" or "Unregulated retail energy" and (gains) losses on physical and financial commodity purchase contracts in "Fuel" or "Energy purchases" on the Statements of Income. Certain of the economic hedging strategies employed by PPL Energy Supply utilize a combination of financial purchases and sales contracts which are similarly reported gross as an expense and revenue, respectively, on the Statements of Income. PPL Energy Supply records realized hourly net sales or purchases of physical power with PJM in its Statements of Income as "Unregulated wholesale energy" if in a net sales position and "Energy purchases" if in a net purchase position.

See Notes 1 and 19 in each Registrant's 2013 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 2014				December 31, 2013											
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments									
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities								
Current:																
Price Risk Management																
Assets/Liabilities (a):																
Interest rate swaps (b)			\$	4	\$	82		\$	4							
Cross-currency swaps (b)	\$	5			\$	4										
Foreign currency contracts		22		95		16		55								
Commodity contracts			\$	954		1,133	\$	860	750							
Total current		27		954		82		860	809							
Noncurrent:																
Price Risk Management																
Assets/Liabilities (a):																
Interest rate swaps (b)	\$	1		38		9		32								
Cross-currency swaps (b)		42				28										
Foreign currency contracts		5		2		4		31								
Commodity contracts				420		347		328	320							
Total noncurrent		1		59		422		439	383							
Total derivatives	\$	1	\$	86	\$	1,376	\$	1,671	\$	91	\$	52	\$	1,188	\$	1,192

(a) Represents the location on the Balance Sheets.

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended June 30, 2014.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months					
	Three Months	Six Months		Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)				
	Cash Flow Hedges:										
Interest rate swaps	\$	(14)	\$	(60)	Interest expense	\$	(4)	\$	(9)	\$	2
Cross-currency swaps		9		(16)	Interest expense		1		1		
					Other income						
					(expense) - net						(29)

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts			Unregulated wholesale energy	5			6
			Energy purchases	8			15
			Depreciation				1
Total	\$ (5)	\$ (76)		\$ 10		\$ (15)	\$ 2

Net Investment Hedges:

Foreign currency contracts	\$ (14)	\$ (18)
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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Six Months
Foreign currency contracts	Other income (expense) - net	\$ (72)	\$ (96)
Interest rate swaps	Interest expense	(2)	(4)
Commodity contracts	Unregulated wholesale energy (a)	(91)	(3,135)
	Unregulated retail energy	12	(52)
	Fuel	8	7
	Energy purchases (b)	78	2,442
	Total	\$ (67)	\$ (838)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (2)	\$ (6)

- (a) The six-month period ended June 30, 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.
- (b) The six-month period ended June 30, 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI, or regulatory assets and regulatory liabilities for the periods ended June 30, 2013.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ 68	\$ 77	Interest expense	\$ (4)		\$ (9)	
Cross-currency swaps	(21)	52	Interest expense	1		1	
			Other income (expense) - net	1		70	
Commodity contracts			Unregulated wholesale energy	73		140	\$ 1
			Energy purchases	(14)		(30)	
			Depreciation	1		1	
Total	\$ 47	\$ 129		\$ 58		\$ 173	\$ 1
Net Investment Hedges:							
Foreign currency contracts	\$ 1	\$ 17					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months	
Foreign currency contracts	Other income (expense) - net	\$	4	\$	123
Interest rate swaps	Interest expense		(2)		(4)
Commodity contracts	Unregulated wholesale energy		740		34
	Unregulated retail energy		22		15
	Fuel		(3)		(2)
	Energy purchases		(599)		(13)
	Total	\$	162	\$	153

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months		Six Months	
Interest rate swaps	Regulatory assets - noncurrent	\$	11	\$	15

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months		Six Months	
Interest rate swaps	Regulatory liabilities - noncurrent	\$	48	\$	58

(PPL Energy Supply)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 2014		December 31, 2013	
	Derivatives not designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management Assets/Liabilities (a):				
Commodity contracts	\$ 954	\$ 1,133	\$ 860	\$ 750
Total current	954	1,133	860	750
Noncurrent:				
Price Risk Management Assets/Liabilities (a):				
Commodity contracts	420	347	328	320
Total noncurrent	420	347	328	320
Total derivatives	\$ 1,374	\$ 1,480	\$ 1,188	\$ 1,070

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended June 30, 2014.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative		
				Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		
Cash Flow Hedges:							
Commodity contracts			Unregulated wholesale energy	\$ 5	\$ 6		
			Energy purchases	8	15		
			Depreciation		1		
Total				\$ 13	\$ 22		

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Six Months
Commodity contracts	Unregulated wholesale energy (a)	\$ (91)	\$ (3,135)
	Unregulated retail energy	12	(52)
	Fuel	8	7
	Energy purchases (b)	78	2,442
	Total	\$ 7	\$ (738)

- (a) The six-month period ended June 30, 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.
- (b) The six-month period ended June 30, 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended June 30, 2013.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income on Derivative	Three Months	Six Months
	Three Months	Six Months		Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative
				Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Cash Flow Hedges:					
Commodity contracts			Unregulated wholesale energy	\$ 73	\$ 140
			Energy purchases	(14)	(30)
			Depreciation	1	1
Total				\$ 60	\$ 111

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Six Months
Commodity contracts	Unregulated wholesale energy	\$ 740	\$ 34
	Unregulated retail energy	22	15
	Fuel	(3)	(2)
	Energy purchases	(599)	(13)
	Total	\$ 160	\$ 34

(LKE)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended June 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Six Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 48	\$ 58

(LG&E)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended June 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Six Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 24	\$ 29

(KU)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended June 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Six Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 24	\$ 29

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	June 30, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	\$ 4	\$ 4	\$ 4	\$ 4
Total current	4	4	4	4
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	38	32	32	32
Total noncurrent	38	32	32	32
Total derivatives	\$ 42	\$ 36	\$ 36	\$ 36

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivatives not designated as hedging instruments recognized in income or regulatory assets for the periods ended June 30, 2014.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Interest rate swaps	Interest expense	\$ (2)	\$ (4)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (2)	\$ (6)

The following tables present the pre-tax effect of derivatives not designated as hedging instruments recognized in income or regulatory assets for the periods ended June 30, 2013.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Interest rate swaps	Interest expense	\$ (2)	\$ (4)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 11	\$ 15

(All Registrants except PPL Electric)

Offsetting Derivative Instruments

PPL, PPL Energy Supply, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements or similar agreements in place including derivative clearing agreements with futures commission merchants (FCMs) to permit the trading of cleared derivative products on one or more futures exchanges. The clearing arrangements permit an FCM to use and apply any property in its possession as a set off to pay amounts or discharge obligations owed by a customer upon default of the customer and typically do not place any restrictions on the FCM's use of collateral posted by the customer. PPL, PPL Energy Supply, LKE, LG&E and KU and their subsidiaries also enter into agreements pursuant to which they trade certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to setoff amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, PPL Energy Supply, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
June 30, 2014								
PPL								
Energy Commodities	\$ 1,374	\$ 1,176	\$ 12	\$ 186	\$ 1,480	\$ 1,176	\$ 148	\$ 156
Treasury Derivatives	3	3			277	3	55	219
Total	\$ 1,377	\$ 1,179	\$ 12	\$ 186	\$ 1,757	\$ 1,179	\$ 203	\$ 375
PPL Energy Supply								
Energy Commodities	\$ 1,374	\$ 1,176	\$ 12	\$ 186	\$ 1,480	\$ 1,176	\$ 148	\$ 156
LKE								
Treasury Derivatives					\$ 42		\$ 21	\$ 21
LG&E								
Treasury Derivatives					\$ 42		\$ 21	\$ 21
December 31, 2013								
PPL								
Energy Commodities	\$ 1,188	\$ 912	\$ 7	\$ 269	\$ 1,070	\$ 912	\$ 1	\$ 157
Treasury Derivatives	91	61		30	174	61	23	90
Total	\$ 1,279	\$ 973	\$ 7	\$ 299	\$ 1,244	\$ 973	\$ 24	\$ 247
PPL Energy Supply								
Energy Commodities	\$ 1,188	\$ 912	\$ 7	\$ 269	\$ 1,070	\$ 912	\$ 1	\$ 157
LKE								
Treasury Derivatives					\$ 36		\$ 20	\$ 16
LG&E								
Treasury Derivatives					\$ 36		\$ 20	\$ 16

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(All Registrants except PPL Electric and KU)

At June 30, 2014, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 373	\$ 155	\$ 28	\$ 28
Aggregate fair value of collateral posted on these derivative instruments	155	134	21	21
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	265 (b)	68 (b)	8	8

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

(b) During the second quarter of 2014, PPL Energy Supply experienced a downgrade in its corporate credit ratings to below investment grade. Amounts related to PPL Energy Supply represent net liability positions subject to further adequate assurance features.

15. Goodwill

(PPL)

The change in the carrying amount of goodwill for the six months ended June 30, 2014 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

16. Asset Retirement Obligations

(All Registrants except PPL Electric)

The changes in the carrying amounts of AROs were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Balance at December 31, 2013	\$ 705	\$ 404	\$ 252	\$ 74	\$ 178
Accretion expense	22	15	6	2	4
Obligations incurred	1	1	1	1	1
Changes in estimated cash flow or settlement date	4	4	4	1	3
Effect of foreign currency exchange rates	1	1	1	1	1
Obligations settled	(5)	(3)	(2)	(2)	(2)
Balance at June 30, 2014	<u>\$ 728</u>	<u>\$ 416</u>	<u>\$ 261</u>	<u>\$ 75</u>	<u>\$ 186</u>

Substantially all of the ARO balances are classified as noncurrent at June 30, 2014 and December 31, 2013.

(PPL and PPL Energy Supply)

The most significant ARO recorded by PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. Assets in the NDT funds are legally restricted for purposes of settling this ARO. See Notes 13 and 17 for additional information on these assets.

(PPL, LKE, LG&E and KU)

LG&E's and KU's accretion and depreciation expense are recorded as a regulatory asset, such that there is no net earnings impact.

17. Available-for-Sale Securities

(PPL and PPL Energy Supply)

Securities held by the NDT funds and auction rate securities are classified as available-for-sale. Available-for-sale securities are carried on the Balance Sheets at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI and the fair value of available-for-sale securities.

	June 30, 2014				December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
NDT funds:								
PPL and PPL Energy Supply								
Cash and cash equivalents	\$ 16			\$ 16	\$ 14			\$ 14
Equity securities	272	\$ 393		665	265	\$ 363		628
Debt securities	218	11	\$ 1	228	217	7	\$ 3	221
Receivables/payables, net	2			2	1			1
Total NDT funds	\$ 508	\$ 404	\$ 1	\$ 911	\$ 497	\$ 370	\$ 3	\$ 864
Auction rate securities:								
PPL	\$ 17		\$ 1	\$ 16	\$ 20		\$ 1	\$ 19
PPL Energy Supply	14		1	13	17		1	16

See Note 13 for details on the securities held by the NDT funds.

There were no securities with credit losses at June 30, 2014 and December 31, 2013.

The following table shows the scheduled maturity dates of debt securities held at June 30, 2014.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 6-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	\$ 8	\$ 89	\$ 60	\$ 78	\$ 235
Fair value	8	91	63	82	244
PPL Energy Supply					
Amortized cost	\$ 8	\$ 89	\$ 60	\$ 75	\$ 232
Fair value	8	91	63	79	241

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended June 30.

	Three Months		Six Months	
	2014	2013	2014	2013
PPL and PPL Energy Supply				
Proceeds from sales of NDT securities (a)	\$ 38	\$ 35	\$ 65	\$ 59
Other proceeds from sales			3	
Gross realized gains (b)	5	3	8	7
Gross realized losses (b)	3	2	4	4

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.

(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

18. Accumulated Other Comprehensive Income (Loss)

(PPL and PPL Energy Supply)

The after-tax changes in AOCI by component for the periods ended June 30 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans			Total
		Available-for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	Transition asset (obligation)	
PPL								
March 31, 2014	\$ 120	\$ 177	\$ 67	\$ 1	\$ (5)	\$ (1,790)	\$ 1	\$ (1,429)
Amounts arising during the period	(3)	14	(1)			(2)		8
Reclassifications from AOCI		(1)	(5)		1	28		23
Net OCI during the period	(3)	13	(6)		1	26		31
June 30, 2014	\$ 117	\$ 190	\$ 61	\$ 1	\$ (4)	\$ (1,764)	\$ 1	\$ (1,398)

	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans			Total
		Available- for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	Transition asset (obligation)	
December 31, 2013	\$ (11)	\$ 173	\$ 94	\$ 1	\$ (6)	\$ (1,817)	\$ 1	\$ (1,565)
Amounts arising during the period	128	19	(47)			(2)		98
Reclassifications from AOCI		(2)	14		2	55		69
Net OCI during the period	128	17	(33)		2	53		167
June 30, 2014	\$ 117	\$ 190	\$ 61	\$ 1	\$ (4)	\$ (1,764)	\$ 1	\$ (1,398)
March 31, 2013	\$ (394)	\$ 134	\$ 114	\$ 1	\$ (13)	\$ (1,989)	\$ 1	\$ (2,146)
Amounts arising during the period	(7)	2	24					19
Reclassifications from AOCI		(1)	(36)		2	34		(1)
Net OCI during the period	(7)	1	(12)		2	34		18
June 30, 2013	\$ (401)	\$ 135	\$ 102	\$ 1	\$ (11)	\$ (1,955)	\$ 1	\$ (2,128)
December 31, 2012	\$ (149)	\$ 112	\$ 132	\$ 1	\$ (14)	\$ (2,023)	\$ 1	\$ (1,940)
Amounts arising during the period	(252)	25	86					(141)
Reclassifications from AOCI		(2)	(116)		3	68		(47)
Net OCI during the period	(252)	23	(30)		3	68		(188)
June 30, 2013	\$ (401)	\$ 135	\$ 102	\$ 1	\$ (11)	\$ (1,955)	\$ 1	\$ (2,128)
PPL Energy Supply								
March 31, 2014		\$ 177	\$ 83		\$ (3)	\$ (179)		\$ 78
Amounts arising during the period		14						14
Reclassifications from AOCI		(1)	(8)			2		(7)
Net OCI during the period		13	(8)			2		7
June 30, 2014		\$ 190	\$ 75		\$ (3)	\$ (177)		\$ 85
December 31, 2013		\$ 173	\$ 88		\$ (4)	\$ (180)		\$ 77
Amounts arising during the period		19						19
Reclassifications from AOCI		(2)	(13)		1	3		(11)
Net OCI during the period		17	(13)		1	3		8
June 30, 2014		\$ 190	\$ 75		\$ (3)	\$ (177)		\$ 85
March 31, 2013		\$ 134	\$ 181		\$ (9)	\$ (261)		\$ 45
Amounts arising during the period		2						2
Reclassifications from AOCI		(1)	(37)		1	4		(33)
Net OCI during the period		1	(37)		1	4		(31)
June 30, 2013		\$ 135	\$ 144		\$ (8)	\$ (257)		\$ 14
December 31, 2012		\$ 112	\$ 211		\$ (10)	\$ (265)		\$ 48
Amounts arising during the period		25						25
Reclassifications from AOCI		(2)	(67)		2	8		(59)
Net OCI during the period		23	(67)		2	8		(34)
June 30, 2013		\$ 135	\$ 144		\$ (8)	\$ (257)		\$ 14

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended June 30. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 9 for additional information.

Details about AOCI	Three Months				Affected Line Item on the Statements of Income
	PPL		PPL Energy Supply		
	2014	2013	2014	2013	
Available-for-sale securities	\$ 2	\$ 1	\$ 2	\$ 1	Other Income (Expense) - net
Total Pre-tax	2	1	2	1	
Income Taxes	(1)		(1)		
Total After-tax	1	1	1	1	
Qualifying derivatives					
Interest rate swaps	(4)	(4)			Interest Expense
Cross-currency swaps		1			Other Income (Expense) - net
	1	1			Interest Expense
Energy commodities	5	73	5	73	Unregulated wholesale energy
	8	(14)	8	(14)	Energy purchases
		1		1	Other
Total Pre-tax	10	58	13	60	

Details about AOCI	Three Months				Affected Line Item on the Statements of Income
	PPL		PPL Energy Supply		
	2014	2013	2014	2013	
Income Taxes	(5)	(22)	(5)	(23)	
Total After-tax	5	36	8	37	
Defined benefit plans					
Prior service costs	(2)	(3)		(1)	
Net actuarial loss	(36)	(46)	(3)	(7)	
Total Pre-tax	(38)	(49)	(3)	(8)	
Income Taxes	9	13	1	3	
Total After-tax	(29)	(36)	(2)	(5)	
Total reclassifications during the period	\$ (23)	\$ 1	\$ 7	\$ 33	

Details about AOCI	Six Months				Affected Line Item on the Statements of Income
	PPL		PPL Energy Supply		
	2014	2013	2014	2013	
Available-for-sale securities	\$ 4	\$ 3	\$ 4	\$ 3	Other Income (Expense) - net
Total Pre-tax	4	3	4	3	
Income Taxes	(2)	(1)	(2)	(1)	
Total After-tax	2	2	2	2	
Qualifying derivatives					
Interest rate swaps	(7)	(9)			Interest Expense
Cross-currency swaps	(29)	70			Other Income (Expense) - net
Energy commodities	1	1			Interest Expense
	6	140	6	140	Unregulated wholesale energy
	15	(30)	15	(30)	Energy purchases
	1	1	1	1	Other
Total Pre-tax	(13)	173	22	111	
Income Taxes	(1)	(57)	(9)	(44)	
Total After-tax	(14)	116	13	67	
Defined benefit plans					
Prior service costs	(4)	(5)	(2)	(3)	
Net actuarial loss	(72)	(93)	(5)	(13)	
Total Pre-tax	(76)	(98)	(7)	(16)	
Income Taxes	19	27	3	6	
Total After-tax	(57)	(71)	(4)	(10)	
Total reclassifications during the period	\$ (69)	\$ 47	\$ 11	\$ 59	

19. New Accounting Guidance Pending Adoption

(All Registrants)

Reporting of Discontinued Operations

In April 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that changes the criteria for determining what should be classified as a discontinued operation and also changes the related presentation and disclosure requirements. A discontinued operation may include a component of an entity or a group of components of an entity, or a business activity.

A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results when any of the following occurs: (1) The components of an entity or group of components of an entity meets the criteria to be classified as held for sale, (2) The component of an entity or group of components of an entity is disposed of by sale, or (3) The component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff).

For public business entities, this guidance should be applied prospectively to all disposals (or classifications as held for sale) of components of an entity that occur within the annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted.

The Registrants are assessing in which period they will adopt this new guidance. The new guidance will impact the amounts presented as discontinued operations on the Statements of Income and will enhance the related disclosure requirements.

Accounting for Revenue from Contracts with Customers

In May 2014, the FASB issued accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods beginning after December 15, 2016 and interim periods within those years. Early adoption is not permitted. The Registrants will adopt this guidance effective January 1, 2017.

The Registrants are currently assessing the impact of adopting this guidance, as well as the transition method they will use.

Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL Corporation and each of its Subsidiary Registrants. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2013 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy, a summary of PPL's earnings, a description of key factors expected to impact future earnings and a discussion of important financial and operational developments.
- "Results of Operations" for PPL provides a more detailed analysis of earnings by segment, and for the Subsidiary Registrants includes a summary of earnings. For all Registrants, "Margins" provides explanations of non-GAAP financial measures and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income, comparing the three and six months ended June 30, 2014 with the same periods in 2013.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

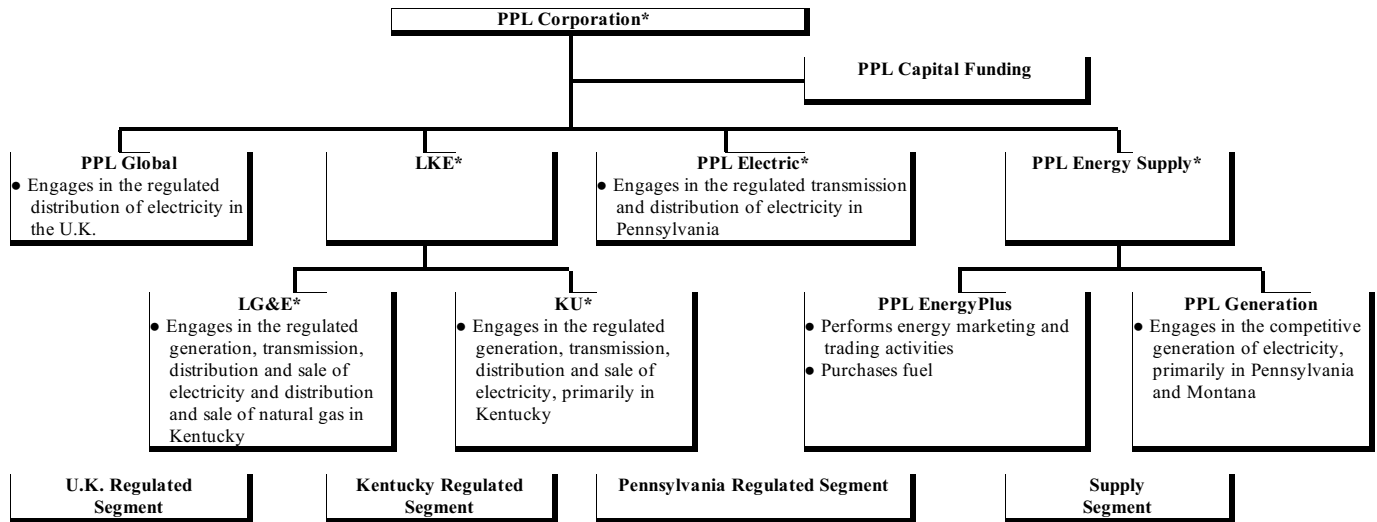
Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is an energy and utility holding company. Through subsidiaries, PPL delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; generates electricity from power plants in the northeastern, northwestern and southeastern U.S.; and markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S.

PPL's principal subsidiaries are shown below (* denotes an SEC registrant):



PPL's reportable segments' results primarily represent the results of its related Subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable Subsidiary Registrants. The U.K. Regulated segment does not have a related Subsidiary Registrant.

(PPL and PPL Energy Supply)

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded, independent power producer named Talen Energy. See "Business Strategy" and "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" below for additional information.

(PPL Energy Supply)

PPL Energy Supply, headquartered in Allentown, Pennsylvania is an indirect wholly owned subsidiary of PPL and is an energy company that through its principal subsidiaries is primarily engaged in the competitive generation and marketing of electricity in two key markets - the northeastern and northwestern U.S. PPL Energy Supply's principal subsidiaries are PPL EnergyPlus, its marketing and trading subsidiary, and PPL Generation, the owner of its generating facilities in Pennsylvania and Montana.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is a direct wholly owned subsidiary of PPL and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate corporate identities and serve customers in

Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act.

(KU)

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as a public utility by the KPSC, the VSCC and the TRA, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

Business Strategy

(PPL and PPL Energy Supply)

In recognition of the dramatic changes in the wholesale power markets, PPL performed an in-depth analysis of its business mix to determine the best available opportunities to maximize the value of its competitive generation business for shareowners. As a result, in June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded, independent power producer named Talen Energy. Under the terms of the agreements, at closing, PPL will spin off PPL Energy Supply to PPL shareowners and simultaneously combine that business with RJS Power. Upon closing, PPL shareowners will own 65% of Talen Energy and affiliates of Riverstone will own 35%. PPL will have no continuing ownership interest in, control of, or affiliation with Talen Energy and PPL's shareowners will receive a number of Talen Energy shares at closing based on the number of PPL shares owned as of the spinoff record date. The spinoff will have no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes and is subject to customary closing conditions, including receipt of certain regulatory approvals by the NRC, the FERC, the DOJ and the PUC. In addition, there must be available, subject to certain conditions, at least \$1 billion of undrawn capacity after excluding any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding, under a Talen Energy (or its subsidiaries) revolving credit or similar facility. The transaction is expected to close in the first or second quarter of 2015. Talen Energy will own and operate a diverse mix of approximately 14,000 MW (after proposed divestitures to meet FERC market power tests) of generating capacity in certain U.S. competitive energy markets primarily in PJM and ERCOT.

Following the transaction, PPL will focus solely on its regulated utilities businesses in the U.K., Kentucky and Pennsylvania, serving more than 10 million customers. PPL intends to maintain a strong balance sheet and to manage its finances consistent with maintaining investment grade credit ratings and providing a competitive total shareowner return, including an attractive dividend. In connection with the transaction, and following any required transition services period, PPL is targeting to reduce its annual corporate support costs by an estimated \$185 million. This includes \$110 million of corporate support costs to be transferred to Talen Energy and \$75 million from workforce reduction and other corporate cost savings.

See "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" and "Part II. Other Information - Item 1A. Risk Factors" below for additional information.

The strategy for PPL Energy Supply is to optimize the value from its competitive generation asset and marketing portfolios while mitigating near-term volatility in both cash flows and earnings. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. PPL Energy Supply is focused on maintaining profitability and positive cash flow during this current period of low energy and capacity prices.

(All Registrants except PPL Energy Supply)

The strategy for the regulated businesses of WPD, PPL Electric, LKE, LG&E and KU is to provide efficient, reliable and safe operations and strong customer service, maintain constructive regulatory relationships and achieve timely recovery of costs.

These regulated businesses also focus on providing competitively priced energy to customers and achieving stable, long-term growth in earnings and rate base, or RAV, as applicable. Both rate base and RAV are expected to grow for the foreseeable future as a result of significant capital expenditure programs to maintain existing assets and to improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to electricity generation facilities. Future RAV for WPD will also be affected by RIIO-ED1, effective April 1, 2015, as the recovery period for assets placed in service after that date will be extended from 20 to 45 years. In addition, incentive targets have been adjusted in RIIO-ED1, resulting in lower overall incentive revenues available to be earned. See "Financial and Operational Developments - Other Financial and Operational Developments - RIIO-ED1 - Fast Tracking" below for additional information.

Recovery of capital project costs is attained through various rate-making mechanisms, including periodic base rate case proceedings, FERC formula rate mechanisms, and other regulatory agency-approved recovery mechanisms. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs. See "Item 1. Business - Segment Information - U.K. Regulated Segment - Revenues and Regulation" in PPL's 2013 Form 10-K for changes to the regulatory framework in the U.K. applicable to WPD beginning in April 2015.

(PPL)

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent they have U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

(All Registrants)

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain targeted credit profiles and liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to, as applicable, changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of generating units. To manage these risks, PPL generally uses contracts such as forwards, options, swaps and insurance contracts.

Financial and Operational Developments

Earnings (PPL)

PPL's earnings by reportable segments for the periods ended June 30 were as follows.

	Three Months			Six Months		
	2014	2013	% Change	2014	2013	% Change
U.K. Regulated	\$ 187	\$ 245	(24)	\$ 393	\$ 558	(30)
Kentucky Regulated	58	49	18	165	134	23
Pennsylvania Regulated	52	45	16	137	109	26
Supply	5	77	(94)	(70)	31	(326)
Corporate and Other (a)	(73)	(11)	564	(80)	(14)	471
Net Income Attributable to						
PPL Shareowners	\$ 229	\$ 405	(43)	\$ 545	\$ 818	(33)
EPS - basic	\$ 0.35	\$ 0.68	(49)	\$ 0.84	\$ 1.39	(40)
EPS - diluted (b)	\$ 0.34	\$ 0.63	(46)	\$ 0.83	\$ 1.28	(35)

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. 2014 includes certain costs related to the anticipated spinoff of PPL Energy Supply. See the following table of special items for additional information.

(b) See "2011 Equity Units" below and Note 4 to the Financial Statements for information on the Equity Units' impact on the calculation of diluted EPS.

The following after-tax gains (losses), in total, which management considers special items, impacted the results of PPL's reportable segments for the periods ended June 30. See PPL's "Results of Operations - Segment Earnings" for details of each segment's special items.

	Three Months			Six Months		
	2014	2013	Change	2014	2013	Change
U.K. Regulated	\$ (33)	\$ 19	\$ (52)	\$ (91)	\$ 94	\$ (185)
Kentucky Regulated	1	1		1	2	(1)
Pennsylvania Regulated	(4)		(4)	(4)		(4)
Supply	(36)	74	(110)	(185)	(43)	(142)
Corporate and Other (a)	(56)		(56)	(56)		(56)
Total PPL	<u>\$ (128)</u>	<u>\$ 94</u>	<u>\$ (222)</u>	<u>\$ (335)</u>	<u>\$ 53</u>	<u>\$ (388)</u>

(a) Includes \$46 million of deferred income tax expense to adjust valuation allowances on deferred tax assets for state net operating loss carryforwards and \$10 million, after-tax, of transactions costs related to the anticipated spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.

The changes in PPL's reportable segments results for the three and six-months ended June 30, 2014 compared with 2013, excluding the impact of special items, were due to the following factors (on an after-tax basis):

- Decrease at the U.K. Regulated segment for the three-month period was primarily due to higher U.S. income taxes due to a 2013 favorable tax ruling and the adverse impact of weather on utility revenues, partially offset by higher utility revenues from the April 1, 2014 and 2013 price increases and lower pension expense. Increase for the six-month period was primarily due to higher utility revenues from the April 1, 2014 and 2013 price increases, lower pension expense and lower U.K. income taxes, partially offset by the adverse impact of weather on utility revenues, higher U.S. income taxes due to a 2013 favorable tax ruling, higher network maintenance and higher depreciation expense.
- Increase at the Kentucky Regulated segment for the three-month period was primarily due to returns on additional environmental capital investments, partially offset by higher operation and maintenance expense. Increase for the six-month period was primarily due to returns on additional capital investments and higher sales volumes due to unusually cold weather in the first quarter of 2014, partially offset by higher operation and maintenance expense driven by storm-related expenses and timing of generation maintenance outages.
- Increases at the Pennsylvania Regulated segment for the three and six-month periods were primarily due to higher transmission margins from returns on additional capital investments and the recovery of additional costs through FERC formula based rates, partially offset by higher interest expense. Increase for the six-month period also includes higher distribution margins primarily due to unusually cold weather in the first quarter of 2014, returns on additional distribution improvement capital investments and a benefit from a change in estimate of a regulatory liability.
- Increases at the Supply segment for the three and six-month periods were primarily due to unrealized gains on certain commodity positions, higher Eastern margins from higher capacity prices, improved availability of baseload power plants and lower interest expense, partially offset by lower baseload energy prices. Earnings for the six-month period were also favorably impacted by net benefits from unusually cold weather in the first quarter of 2014, partially offset by lower western U.S. margins.

See "Results of Operations" below for further discussion of PPL's reportable segments and analysis of results of operations.

2014 Outlook

(PPL)

Excluding special items, lower earnings are expected in 2014 compared with 2013, primarily due to lower energy margins in the Supply segment. The factors underlying these projections by segment and Subsidiary Registrant are discussed below (on an after-tax basis).

(PPL's U.K. Regulated Segment)

Excluding special items, higher earnings are projected in 2014 compared with 2013, primarily driven by higher electricity delivery revenue and lower pension expense, partially offset by higher income taxes, higher depreciation and higher financing costs.

(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Excluding special items, lower earnings are projected in 2014 compared with 2013, primarily driven by higher operation and

maintenance expense, higher depreciation and higher financing costs, partially offset by returns on additional environmental capital investments and increased sales volumes.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Excluding special items, higher earnings are projected in 2014 compared with 2013, primarily driven by higher transmission margins, returns on distribution improvement capital investments and a benefit from a change in estimate of a regulatory liability, partially offset by higher financing costs and higher income taxes.

(PPL's Supply Segment and PPL Energy Supply)

Excluding special items, lower earnings are projected in 2014 compared with 2013, primarily driven by lower energy and capacity prices, partially offset by the net benefits due to unusually cold weather in the first quarter of 2014, lower financing costs and lower income taxes.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2013 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Other Financial and Operational Developments

Economic and Market Conditions

(All Registrants except PPL Electric)

The businesses of PPL Energy Supply, LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to coal combustion residuals, GHG, effluent limitation guidelines and MATS. See "Financial Condition - Environmental Matters" below for additional information on these requirements. These and other stringent environmental requirements, combined with low energy margins for competitive generation, have led several energy companies, including PPL, PPL Energy Supply, LKE, LG&E and KU, to announce plans to either temporarily or permanently close, or place in long-term reserve status, and/or impair certain of their coal-fired generating plants.

(PPL and PPL Energy Supply)

In the fourth quarter of 2013, management tested the Brunner Island and Montour plants for impairment and concluded neither was impaired as of December 31, 2013. There were no events or changes in circumstances that indicated a recoverability test was required to be performed in 2014. The carrying value of the Pennsylvania coal-fired generation assets was \$2.5 billion as of June 30, 2014 (\$1.3 billion for Brunner Island and \$1.2 billion for Montour).

As a result of current economic and market conditions, the announced transaction with affiliates of Riverstone to form Talen Energy, PPL Energy Supply's current sub-investment grade credit rating and Talen Energy's expected sub-investment grade credit rating, PPL Energy Supply is reviewing its business and operational plans. This review includes capital and operation and maintenance expenditures, its hedging strategies and potential plant modifications to burn lower cost fuels. See "Margins - Changes in Non-GAAP Financial Measures - Unregulated Gross Energy Margins" below for additional information on energy margins. Full-year 2014 energy margins are projected to be lower compared to 2013 due to a higher average hedge price in 2013, partially offset by higher pricing on unhedged generation.

(All Registrants)

The Registrants cannot predict the impact that future economic and market conditions and regulatory requirements may have on their financial condition or results of operations.

Anticipated Spinoff of PPL Energy Supply

(PPL, PPL Energy Supply and PPL Electric)

Following the announcement of the transaction to form Talen Energy as discussed in "Business Strategy" above, efforts have been initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans are expected to be completed by the end of 2014. As a result, charges for employee separation and related costs are anticipated to be recorded in future periods. The separation costs to be incurred include cash severance compensation, lump sum COBRA reimbursement payments, accelerated stock-based compensation vesting, pro-rated performance-based cash incentive and stock-based compensation awards and outplacement services. At present, there is considerable uncertainty as to the range of costs that will be incurred and when those costs will be recognized, as the amount of each category of costs will depend on the number of employees leaving the company, current position and compensation level, years of service and expected separation date. Additionally, certain of these costs are expected to be reimbursed to PPL by Talen Energy upon closing of the transaction. As a result, a range of the separation costs associated with the spinoff transaction and the timing of when those costs will be recognized cannot be reasonably estimated at this time but could be material.

(PPL)

As a result of the spinoff announcement, PPL recorded \$46 million of deferred income tax expense during the three and six months ended June 30, 2014 to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.

In addition, PPL recorded \$16 million of third-party costs during the three and six months ended June 30, 2014 related to this transaction in "Other Income (Expense) - net" on the Statement of Income, primarily for investment bank advisory, legal, consulting and accounting fees. PPL cannot currently estimate a range of total third-party costs that will ultimately be incurred; however, additional costs of at least \$26 million will be recognized upon closing of the transaction.

The assets and liabilities of PPL Energy Supply will continue to be classified as "held and used" on PPL's Balance Sheet until the closing of the transaction. The spinoff announcement was evaluated and determined not to be an event or a change in circumstance that required a recoverability test or a goodwill impairment assessment. However, an impairment loss could be recognized by PPL at the spinoff date if the aggregate carrying amount of PPL Energy Supply's assets and liabilities exceeds its aggregate fair value at that date. PPL cannot currently predict whether an impairment loss will be recorded at the spinoff date.

(PPL Energy Supply)

PPL Energy Supply will treat the combination with RJS Power as an acquisition, as PPL Energy Supply will be considered the accounting acquirer in accordance with business combination accounting guidance.

Montana Hydro Sale Agreement (PPL and PPL Energy Supply)

In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern 633 MW of hydroelectric generating facilities located in Montana for \$900 million in cash, subject to certain adjustments. In April 2014, the DOJ and Federal Trade Commission granted early termination of PPL Montana's and NorthWestern's notifications under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The sale remains subject to closing conditions, including receipt of regulatory approvals by the FERC and the MPSC and certain third-party consents. The sale is not expected to close before the fourth quarter of 2014.

(PPL)

Ofgem Review of Line Loss Calculation

In March 2014, Ofgem issued its final decision on the methodology to be used by all network operators to calculate the final line loss incentives and penalties for the DPCR4, which ended in March 2010. As a result, in the first quarter of 2014 WPD recorded an increase of \$65 million to its existing liability with a reduction to "Utility" revenues on the Statement of Income. In June 2014, WPD applied for judicial review of certain of Ofgem's decisions related to closing out the DPCR4 line loss mechanism. The primary relief sought is for Ofgem to reconsider the overall proportionality of penalties imposed on WPD. The entire process could last through the second quarter of 2015. WPD's total recorded liability at June 30, 2014 was \$106

million, all of which will be refunded to customers beginning April 1, 2015 through March 31, 2019. See Note 6 to the Financial Statements for additional information.

RIO-ED1 - Fast Tracking

In February 2014, WPD elected to accept the decision of Ofgem to set the real cost of equity to be used during the RIO-ED1 period at 6.4% compared to 6.7% proposed by WPD, and remain in the fast-track process. The change in the cost of equity is not expected to have a significant impact on the results of operations for PPL. Also, in February 2014, Ofgem published formal confirmation that WPD's Business Plans submitted by its four DNOs have been accepted as submitted, or "fast-tracked," for the eight-year price control period starting April 1, 2015. Fast tracking affords several benefits to the WPD DNOs including the ability to collect additional revenue equivalent to 2.5% of total annual expenditure during the eight-year price control period, or approximately \$35 million annually, greater revenue certainty and a higher level of cost savings retention. The deadline to challenge the fast tracking occurred in June 2014 and no third parties have filed objections. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2013 Form 10-K for additional information on RIO-ED1.

Distribution Revenue Reduction

As discussed in PPL's 2013 Form 10-K, in December 2013, WPD and other U.K. DNOs announced agreements with the U.K. Department of Energy and Climate Change and Ofgem to a reduction of £5 per residential customer of electricity distribution revenues that otherwise would have been collected in the regulatory year beginning April 1, 2014. Full recovery of the revenue reduction, together with the associated carrying cost, was expected to occur during the regulatory year beginning April 1, 2015 for three of the WPD DNOs, and over the eight year RIO-ED1 regulatory period for the fourth DNO. However, in July 2014, Ofgem decided that full recovery will occur for all WPD DNOs in the regulatory year beginning April 1, 2016. PPL projects that, as a result of this change and changes in foreign exchange rate assumptions, 2014 and 2015 earnings for its U.K. Regulated segment will now be adversely affected by \$31 million and \$16 million, respectively, and earnings for 2016 will be positively affected by \$33 million with the remainder to be recovered in later periods.

2011 Equity Units

In March 2014, PPL Capital Funding remarketed \$978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired \$228 million of the 4.32% Junior Subordinated Notes due 2019 and issued \$350 million of 2.189% Junior Subordinated Notes due 2017 and \$400 million 3.184% of Junior Subordinated Notes due 2019. Simultaneously the newly issued Junior Subordinated Notes were exchanged for \$350 million of 3.95% Senior Notes due 2024 and \$400 million of 5.00% Senior Notes due 2044. In May 2014, PPL issued 31.7 million shares of common stock at \$30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of \$978 million, which were used to repay short-term debt and for general corporate purposes.

Kerr Dam Project Arbitration Decision and Impairment (PPL Energy Supply)

PPL Montana holds a joint operating license issued for the Kerr Dam Project. The license extends until 2035 and, between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase, hold and operate the Kerr Dam Project. The parties submitted the issue of the appropriate amount of the conveyance price to arbitration in February 2013. In March 2014, the arbitration panel issued its final decision holding that the conveyance price payable by the Tribes to PPL Montana is \$18 million. As a result of the decision, in the first quarter of 2014 PPL Energy Supply performed a recoverability test on the Kerr Dam Project and recorded an impairment charge of \$18 million (\$10 million after-tax) to reduce the carrying amount to its fair value, at that time, of \$29 million. See Note 13 to the Financial Statements for additional information.

Susquehanna Turbine Blade Inspection (PPL and PPL Energy Supply)

PPL Susquehanna continues to make modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant that was first identified in 2011. In March 2014, Unit 2 completed its planned turbine inspection outage to replace blades. Unit 1 completed its planned refueling and turbine inspection outage in June 2014. Similar blade replacements were completed and modifications will also be implemented to reduce the likelihood of blade cracking, including the installation of shorter last stage blades on one of the low pressure turbines. In June 2014, Unit 2 was shut down for blade inspection and replacement, as well as additional maintenance. Unit 2 returned to service in early July and the

financial impact of the Unit 2 outage was not material. PPL Susquehanna will continue to monitor blade performance and work with the turbine manufacturer to identify and resolve the issues causing the blade cracking.

Regional Transmission Expansion Plan (PPL and PPL Electric)

On July 31, 2014, PPL Electric announced that it had submitted a proposal to PJM to build a new regional transmission line pursuant to the competitive solicitation process authorized by FERC Order 1000. The proposed line would run from western Pennsylvania into New York and New Jersey and also south into Maryland, covering approximately 725 miles. The line would help ensure adequate supplies of electricity to replace existing coal-fired power plants that are expected to retire. As proposed, the project would begin in 2017 and the line would be in operation between 2023 and 2025. The project is estimated to cost \$4 billion to \$6 billion.

Storm Damage Expense Rider (SDER) (PPL Electric)

In its December 28, 2012 final rate case order, the PUC directed PPL Electric to file a proposed SDER. In March 2013, PPL Electric filed its proposed SDER with the PUC and, as part of that filing, requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy. On April 3, 2014, the PUC issued a final order approving the SDER. The SDER will be effective January 1, 2015 and will initially include actual storm costs compared to collections from December 2013 through November 2014. As a result of the order, PPL Electric reduced its regulatory liability by \$12 million related to collections in excess of costs incurred from January 1, 2013 to November 30, 2013 that are not required to be refunded to customers. Also, as part of the order, PPL Electric can recover Hurricane Sandy storm damage costs through the SDER over a three-year period beginning January 2015. On June 20, 2014, the Office of Consumer Advocate filed a petition for review of the April 2014 order with the Commonwealth Court of Pennsylvania. The case remains pending. See "Pennsylvania Activities - Storm Damage Expense Rider" in Note 6 to the Financial Statements for additional information.

FERC Wholesale Formula Rates (LKE and KU)

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Certain elements, including the new formula rate, became effective April 23, 2014 subject to refund. In April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts, such terminations to be effective in 2019, except in the case of one municipality with a 2017 effective date. In July 2014, KU agreed on settlement terms with the two municipal customers that did not provide termination notices and filed the settlement proposal with the FERC for its approval. If approved, the settlement agreement will resolve the rate case with respect to these two municipalities, including an authorized return on equity of 10% or the return on equity awarded to other parties in this case, whichever is lower. Also in July 2014, KU made a contractually required filing with the FERC that addressed certain rate recovery matters affecting the nine terminating municipalities during the remaining term of their contracts. KU cannot currently predict the outcome of its FERC applications regarding its wholesale power agreements with the municipalities.

Results of Operations

(PPL)

The discussion for PPL provides a review of results by reportable segment. The "Margins" discussion provides explanations of non-GAAP financial measures (Kentucky Gross Margins, Pennsylvania Gross Delivery Margins and Unregulated Gross Energy Margins) and a reconciliation of non-GAAP financial measures to "Operating Income." The "Statement of Income Analysis" discussion addresses significant changes in principal line items on PPL's Statements of Income, comparing the three and six months ended June 30, 2014 with the same periods in 2013. "Segment Earnings, Margins and Statement of Income Analysis" is presented separately for PPL.

Tables analyzing changes in amounts between periods within "Segment Earnings" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average U.K. foreign currency exchange rate.

(Subsidiary Registrants)

The discussion for each of PPL Energy Supply, PPL Electric, LKE, LG&E and KU provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income" and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income comparing the three and six months ended June 30, 2014 with the same periods in 2013. "Earnings, Margins and Statement of Income Analysis" are presented separately for PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL: Segment Earnings, Margins and Statement of Income Analysis

Segment Earnings

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations and certain costs, such as U.S. income taxes, administrative costs and allocated financing costs. The U.K. Regulated segment represents 72% of Net Income Attributable to PPL Shareowners for the six months ended June 30, 2014 and 34% of PPL's assets at June 30, 2014.

Net Income Attributable to PPL Shareowners for the periods ended June 30 includes the following results:

	Three Months			Six Months		
	2014	2013	% Change	2014	2013	% Change
Utility revenues	\$ 659	\$ 559	18	\$ 1,296	\$ 1,197	8
Energy-related businesses	13	13		24	23	4
Total operating revenues	672	572	17	1,320	1,220	8
Other operation and maintenance	117	112	4	225	229	(2)
Depreciation	87	72	21	170	146	16
Taxes, other than income	40	36	11	78	73	7
Energy-related businesses	8	7	14	15	14	7
Total operating expenses	252	227	11	488	462	6
Other Income (Expense) - net	(72)	4	(1,900)	(96)	124	(177)
Interest Expense	115	104	11	237	211	12
Income Taxes	46		n/a	106	113	(6)
Net Income Attributable to PPL Shareowners	\$ 187	\$ 245	(24)	\$ 393	\$ 558	(30)

The changes in the results of the U.K. Regulated segment between these periods were due to the factors set forth below, which reflect certain items that management considers special and effects of foreign currency exchange on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of the special items.

	Three Months	Six Months
U.K.		
Utility revenues	\$ 14	\$ 54
Other operation and maintenance	6	13
Depreciation	(7)	(13)
Interest expense	(5)	(9)
Other		(3)
Income taxes		(3)
U.S.		
Interest expense and other	1	(3)
Income taxes	(18)	(21)
Foreign currency exchange, after-tax	3	5
Special items, after-tax	(52)	(185)
Total	\$ (58)	\$ (165)

U.K.

- Higher utility revenues for the three-month period primarily due to a \$52 million impact from the April 1, 2014 and 2013 price increases, partially offset by \$33 million of lower volume due primarily to weather.

Higher utility revenues for the six-month period primarily due to a \$120 million impact from the April 1, 2014 and 2013 price increases, partially offset by \$56 million of lower volume due primarily to weather and \$7 million from adverse customer mix.

- Lower other operation and maintenance for the six-month period primarily due to \$17 million of lower pension expense and \$9 million of lower engineering management expense, partially offset by \$16 million of higher network maintenance expense.
- Higher depreciation expense for the three and six-month periods primarily due to PP&E additions.
- Higher interest expense for the three and six-month periods primarily due to the October 2013 debt issuance.

U.S.

- Higher income taxes for the three and six-month periods primarily due to a \$19 million 2013 adjustment related to a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits.

The following after-tax gains (losses), which management considers special items, also impacted the U.K. Regulated segment's results during the periods ended June 30.

Income Statement Line Item	Three Months		Six Months	
	2014	2013	2014	2013
Other Income				
Foreign currency-related economic hedges, net of tax of \$18, \$3, \$21, (\$39) (a)	\$ (33)	\$ (5)	\$ (39)	\$ 73
WPD Midlands acquisition-related adjustments:				
Separation benefits, net of tax of \$0, \$0, \$0, \$1				(1)
Other acquisition-related adjustments, net of tax of \$0, \$0, \$0, \$0				(2)
Other:				
Windfall Profits Tax litigation (b)		43		43
Change in WPD line loss accrual, net of tax of \$0, \$5, \$13, \$5 (c)		(19)	(52)	(19)
Total	\$ (33)	\$ 19	\$ (91)	\$ 94

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated earnings denominated in GBP.

(b) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling, by the U.S. Court of Appeals for the Third Circuit, concerning the creditability for income tax purposes of the U.K. Windfall Profits Tax. As a result of the U.S. Supreme Court ruling, PPL recorded an income tax benefit during the three and six months ended June 30, 2013. See Note 5 to the Financial Statements for additional information.

(c) WPD Midlands recorded an adjustment to its line loss accrual in June 2013 based on information provided by Ofgem regarding the calculation of line loss incentive/penalty for all network operators related to DPCR4, a price control period that ended prior to PPL's acquisition of WPD Midlands. In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, WPD increased its existing liability by \$65 million for over-recovery of line losses. See Note 6 to the Financial Statements for additional information.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas in Kentucky. In addition, certain financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 30% of Net Income Attributable to PPL Shareowners for the six months ended June 30, 2014 and 25% of PPL's assets at June 30, 2014.

Net Income Attributable to PPL Shareowners for the periods ended June 30 includes the following results:

	Three Months			Six Months		
	2014	2013	% Change	2014	2013	% Change
Utility revenues	\$ 722	\$ 682	6	\$ 1,656	\$ 1,482	12
Fuel	231	216	7	508	447	14
Energy purchases	36	37	(3)	160	123	30
Other operation and maintenance	206	197	5	412	394	5
Depreciation	87	83	5	173	165	5
Taxes, other than income	13	12	8	26	24	8
Total operating expenses	573	545	5	1,279	1,153	11
Other Income (Expense) - net	(2)		n/a	(4)	(2)	100
Interest Expense	53	61	(13)	108	116	(7)
Income Taxes	36	28	29	100	78	28
Income (Loss) from Discontinued Operations		1	(100)		1	(100)
Net Income Attributable to PPL Shareowners	\$ 58	\$ 49	18	\$ 165	\$ 134	23

The changes in the results of the Kentucky Regulated segment between these periods were due to the factors set forth below, which reflect amounts classified as Kentucky Gross Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of these special items.

	Three Months	Six Months
Kentucky Gross Margins	\$ 24	\$ 74
Other operation and maintenance	(7)	(18)
Depreciation	(4)	(7)
Interest expense	8	8
Other	(4)	(3)
Income taxes	(8)	(22)
Special items, after-tax		(1)
Total	\$ 9	\$ 31

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Kentucky Gross Margins.
- Higher other operation and maintenance for the three month period primarily due to \$3 million of higher costs due to the timing and scope of scheduled generation maintenance outages and higher storm expenses of \$3 million.
- Higher other operation and maintenance for the six month period primarily due to \$6 million of higher costs due to the timing and scope of scheduled generation maintenance outages and higher storm expenses of \$9 million.
- Higher depreciation expense for the three and six month periods primarily due to PP&E additions, net.
- Lower interest expense for the three and six month periods primarily due to the remarketing of the PPL Capital Funding Junior Subordinated Notes component of the 2010 Equity Units and simultaneous exchange into Senior Notes in the second quarter of 2013 partially offset by increased expense due to the issuance of \$500 million First Mortgage Bonds in November 2013.
- Higher income taxes for the three and six month periods primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted the Kentucky Regulated segment's results during the periods ended June 30.

Income Statement Line Item	Three Months		Six Months	
	2014	2013	2014	2013
EEI adjustments, net of tax of \$0, \$0, \$0, \$0 (a)	\$ 1		\$ 1	\$ 1
LKE discontinued operations		\$ 1		1
Total	\$ 1	\$ 1	\$ 1	\$ 2

(a) Impact recorded at KU.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain financing costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 25% of Net Income Attributable to PPL Shareowners for the six months ended June 30, 2014 and 15% of PPL's assets at June 30, 2014.

Net Income Attributable to PPL Shareowners for the periods ended June 30 includes the following results:

	Three Months			Six Months		
	2014	2013	% Change	2014	2013	% Change
Utility revenues	\$ 449	\$ 414	8	\$ 1,041	\$ 927	12
Energy purchases						
External	114	120	(5)	303	292	4
Intersegment	21	12	75	48	26	85
Other operation and maintenance	135	124	9	269	257	5
Depreciation	45	44	2	90	87	3
Taxes, other than income	23	22	5	55	52	6
Total operating expenses	338	322	5	765	714	7
Other Income (Expense) - net	1	2	(50)	3	3	
Interest Expense	29	25	16	58	50	16
Income Taxes	31	24	29	84	57	47
Net Income Attributable to PPL Shareowners	\$ 52	\$ 45	16	\$ 137	\$ 109	26

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as Pennsylvania Gross Delivery Margins and a certain item that management considers special on separate lines and not in their respective Statement of Income line items. See below for additional detail of the special item.

	Three Months	Six Months
Pennsylvania Gross Delivery Margins	\$ 28	\$ 73
Depreciation	(2)	(4)
Interest expense	(4)	(8)
Other	(1)	
Income taxes	(10)	(29)
Special item, after-tax	(4)	(4)
Total	\$ 7	\$ 28

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Higher interest expense for the three and six-month periods primarily due to the issuance of first mortgage bonds in July 2013.
- Higher income taxes for the three and six-month periods primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers a special item, also impacted the Pennsylvania Regulated segment's results during the periods ended June 30.

Income Statement Line Item	Three Months		Six Months	
	2014	2013	2014	2013
Other Operation and Maintenance	\$ (4)		\$ (4)	
Separation benefits, net of tax of \$2, \$0, \$2, \$0 (a)				

(a) In June 2014, PPL Electric's largest IBEW local ratified a new three-year labor agreement. In connection with the new agreement, estimated bargaining unit one-time voluntary retirement benefits were recorded. See Note 10 to the Financial Statements for additional information.

Supply Segment

The Supply segment primarily consists of PPL Energy Supply's wholesale, retail, marketing and trading activities, as well as its competitive generation operations. In addition, certain financing and other costs are allocated to the Supply segment. The Supply segment represents negative 13% of Net Income Attributable to PPL Shareowners for the six months ended June 30, 2014 and 25% of PPL's assets at June 30, 2014.

In June 2014, PPL and PPL Energy Supply, which primarily represents PPL's Supply segment, executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded, independent power producer named Talen Energy. Upon completion of this transaction, PPL will no longer have a Supply segment. See Note 8 to the Financial Statements for additional information.

Net Income Attributable to PPL Shareowners for the periods ended June 30 includes the following results:

	Three Months			Six Months		
	2014	2013	% Change	2014	2013	% Change
Energy revenues						
External (a) (b)	\$ 872	\$ 1,658	(47)	\$ (206)	\$ 2,039	(110)
Intersegment	21	12	75	48	26	85
Energy-related businesses	155	122	27	280	235	19
Total operating revenues	1,048	1,792	(42)	122	2,300	(95)
Fuel (a)	259	224	16	741	522	42
Energy purchases (a) (c)	203	898	(77)	(1,601)	699	(329)
Other operation and maintenance	296	270	10	554	505	10
Depreciation	82	79	4	162	157	3
Taxes, other than income	16	16		37	33	12
Energy-related businesses	155	118	31	279	228	22
Total operating expenses	1,011	1,605	(37)	172	2,144	(92)
Other Income (Expense) - net	8	12	(33)	14	16	(13)
Interest Expense	50	60	(17)	98	120	(18)
Income Taxes	(10)	62	(116)	(64)	21	(405)
Net Income Attributable to PPL Shareowners	\$ 5	\$ 77	(94)	\$ (70)	\$ 31	(326)

- (a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.
- (b) The six-month period ended June 30, 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.
- (c) The six-month period ended June 30, 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

The changes in the results of the Supply segment between these periods were due to the factors set forth below, which reflect amounts classified as Unregulated Gross Energy Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of these special items.

	Three Months	Six Months
Unregulated Gross Energy Margins	\$ 47	\$ 54
Other operation and maintenance		(3)
Depreciation		(5)
Interest expense		23
Other		(8)
Income taxes		(20)
Special items, after-tax	(110)	(142)
Total	\$ (72)	\$ (101)

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Lower interest expense for the three and six-month periods primarily due to the repayment of debt in July and December 2013.
- Higher income taxes for the three and six-month periods primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted the Supply segment's results during the periods ended June 30.

	Income Statement Line Item	Three Months		Six Months	
		2014	2013	2014	2013
Adjusted energy-related economic activity - net, net of tax of \$16, (\$51), \$111, \$28	(a)	\$ (23)	\$ 76	\$ (162)	\$ (41)
Kerr Dam Project impairment, net of tax of \$0, \$0, \$7, \$0 (b)	Other Operation and Maintenance			(10)	
Other:					
Change in tax accounting method related to repairs	Income Taxes		(3)		(3)
Counterparty bankruptcy, net of tax of \$0, (\$1), \$0, (\$1)	Other Operation and Maintenance		1		1
Separation benefits, net of tax of \$9, \$0, \$9, \$0 (c)	Other Operation and Maintenance	(13)		(13)	
Total		<u>\$ (36)</u>	<u>\$ 74</u>	<u>\$ (185)</u>	<u>\$ (43)</u>

- (a) Represents unrealized gains (losses), after-tax, on economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information. Amounts have been adjusted for option premiums of \$2 million, \$0, \$4 million and \$1 million.
- (b) See Note 13 to the Financial Statements for additional information.
- (c) In June 2014, PPL Energy Supply's largest IBEW local ratified a new three-year labor agreement. In connection with the new agreement, estimated bargaining unit one-time voluntary retirement benefits were recorded. See Note 10 to the Financial Statements for additional information.

Margins

Non-GAAP Financial Measures

Management utilizes the following non-GAAP financial measures as indicators of performance for its businesses.

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's, LKE's, LG&E's and KU's electricity generation, transmission and distribution operations as well as LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded as "Other operation and maintenance" on the Statements of Income) are deducted from revenues. In addition, certain other expenses, recorded as "Other operation and maintenance" and "Depreciation" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from the electricity and gas operations.
- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Energy purchases from affiliate" in PPL Electric's reconciliation table). As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.
- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's and PPL Energy Supply's competitive energy activities, which are managed on a geographic basis. In calculating this measure, energy revenues, including operating revenues associated with certain businesses classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, recorded in "Taxes, other than income," and operating expenses associated with certain businesses classified as discontinued operations. This performance measure is relevant due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Unregulated wholesale energy", "Unregulated retail energy" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Unregulated wholesale energy to affiliate" in PPL Energy Supply's reconciliation table). "Unregulated Gross Energy Margins" excludes adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of the competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the

delivery period that was hedged. Adjusted energy-related economic activity includes the ineffective portion of qualifying cash flow hedges and premium amortization associated with options. Unrealized gains and losses related to this activity are deferred and included in "Unregulated Gross Energy Margins" over the delivery period of the item that was hedged or upon realization.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage the operations, analyze actual results compared with budget and, in certain cases, to measure certain corporate financial goals used to determine variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following table contains the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended June 30.

	2014 Three Months					2013 Three Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 722	\$ 449		\$ 659 (c)	\$ 1,830	\$ 682	\$ 414		\$ 559 (c)	\$ 1,655
PLR intersegment utility revenue (expense) (d)		(21)	\$ 21				(12)	\$ 12		
Unregulated wholesale energy			684	(93)(e)	591			812	589 (e)	1,401
Unregulated retail energy			277	3 (e)	280			237	20 (e)	257
Energy-related businesses				173	173				137	137
Total Operating Revenues	722	428	982	742	2,874	682	402	1,061	1,305	3,450
Operating Expenses										
Fuel	231		266	(6)(e)	491	216		223	2 (e)	441
Energy purchases	36	114	246	(45)(e)	351	37	120	420	474 (e)	1,051
Other operation and maintenance	25	23	6	687	741	23	21	3	651	698
Depreciation	2			310	312	2			284	286
Taxes, other than income		21	10	62	93		19	10	57	86
Energy-related businesses			2	166	168				130	130
Total Operating Expenses	294	158	530	1,174	2,156	278	160	656	1,598	2,692
Total	\$ 428	\$ 270	\$ 452	\$ (432)	\$ 718	\$ 404	\$ 242	\$ 405	\$ (293)	\$ 758
	2014 Six Months					2013 Six Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 1,656	\$ 1,041		\$ 1,295 (c)	\$ 3,992	\$ 1,482	\$ 927		\$ 1,196 (c)	\$ 3,605
PLR intersegment utility revenue (expense) (d)		(48)	\$ 48				(26)	\$ 26		
Unregulated wholesale energy			47	(885)(e)	(838)			1,778	(234)(e)	1,544
Unregulated retail energy			655	(26)(e)	629			483	11 (e)	494
Energy-related businesses				314	314				264	264
Total Operating Revenues	1,656	993	750	698	4,097	1,482	901	2,287	1,237	5,907
Operating Expenses										
Fuel	508		747	(6)(e)	1,249	447		522	1 (e)	970
Energy purchases	160	303	(973)	(633)(e)	(1,143)	123	292	857	(164)(e)	1,108
Other operation and maintenance	48	48	13	1,329	1,438	48	43	8	1,275	1,374
Depreciation	3			614	617	2			568	570
Taxes, other than income	1	50	23	123	197		47	18	117	182
Energy-related businesses			4	302	306				252	252
Total Operating Expenses	720	401	(186)	1,729	2,664	620	382	1,405	2,049	4,456
Total	\$ 936	\$ 592	\$ 936	\$ (1,031)	\$ 1,433	\$ 862	\$ 519	\$ 882	\$ (812)	\$ 1,451

- (a) Represents amounts excluded from Margins.
- (b) As reported on the Statements of Income.
- (c) Primarily represents WPD's utility revenue.
- (d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
- (e) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements.

Changes in Non-GAAP Financial Measures

The following table shows the non-GAAP financial measures by PPL's reportable segment and by component, as applicable, for the periods ended June 30 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months			Six Months		
	2014	2013	Change	2014	2013	Change
Kentucky Regulated						
Kentucky Gross Margins						
LG&E	\$ 196	\$ 183	\$ 13	\$ 422	\$ 385	\$ 37
KU	232	221	11	514	477	37
LKE	<u>\$ 428</u>	<u>\$ 404</u>	<u>\$ 24</u>	<u>\$ 936</u>	<u>\$ 862</u>	<u>\$ 74</u>
Pennsylvania Regulated						
Pennsylvania Gross Delivery Margins						
Distribution	\$ 189	\$ 183	\$ 6	\$ 438	\$ 407	\$ 31
Transmission	81	59	22	154	112	42
Total	<u>\$ 270</u>	<u>\$ 242</u>	<u>\$ 28</u>	<u>\$ 592</u>	<u>\$ 519</u>	<u>\$ 73</u>
Supply						
Unregulated Gross Energy Margins						
Eastern U.S.	\$ 400	\$ 349	\$ 51	\$ 835	\$ 769	\$ 66
Western U.S.	52	56	(4)	101	113	(12)
Total	<u>\$ 452</u>	<u>\$ 405</u>	<u>\$ 47</u>	<u>\$ 936</u>	<u>\$ 882</u>	<u>\$ 54</u>

Kentucky Gross Margins

Kentucky Gross Margins increased for the three months ended June 30, 2014 compared with 2013 primarily due to returns on additional environmental capital investments of \$14 million (\$6 million at LG&E and \$8 million at KU), and higher volumes of \$5 million at LG&E. The change in volumes was primarily attributable to favorable weather conditions in 2014.

Kentucky Gross Margins increased for the six months ended June 30, 2014 compared with 2013 primarily due to returns on additional environmental capital investments of \$27 million (\$11 million at LG&E and \$16 million at KU), higher volumes of \$25 million (\$7 million at LG&E and \$18 million at KU), higher demand revenue of \$9 million (\$5 million at LG&E and \$4 million at KU) and higher off-system sales at LG&E of \$7 million. The changes in volumes and demand revenue were primarily attributable to unusually cold weather conditions in the first quarter of 2014.

Pennsylvania Gross Delivery Margins

Distribution

Margins increased for the six months ended June 30, 2014 compared with 2013 primarily due to a \$12 million benefit from a change in estimate of a regulatory liability, a \$10 million favorable effect of unusually cold weather in the first quarter of 2014 and a \$9 million favorable effect of distribution improvement capital investments. See "Pennsylvania Activities - Storm Damage Expense Rider" in Note 6 to the Financial Statements for additional information.

Transmission

Margins increased for the three and six months ended June 30, 2014 compared with 2013 primarily due to increased investment in plant and the recovery of additional costs through the FERC formula based rates.

Unregulated Gross Energy Margins

Eastern U.S.

Eastern margins increased for the three months ended June 30, 2014 compared with 2013 primarily due to favorable asset availability of \$76 million, unrealized gains on certain commodity positions of \$42 million and higher capacity prices of \$27 million, partially offset by lower baseload energy prices of \$109 million.

Eastern margins increased for the six months ended June 30, 2014 compared with 2013 primarily due to higher capacity prices of \$101 million, unrealized gains on certain commodity positions of \$60 million and favorable asset availability of \$50 million, partially offset by lower baseload energy prices of \$201 million.

During the first quarter of 2014, the PJM region experienced unusually cold weather conditions, higher demand and congestion patterns, causing rising natural gas and electricity prices in spot and near-term forward markets. Due to these market dynamics, PPL Energy Supply captured opportunities on unhedged generation, which were primarily offset by under-hedged full-requirement sales contracts and retail electric. The net benefit, due to the aforementioned weather and related market dynamics, was \$38 million for the six months ended June 30, 2014 compared with 2013.

Western U.S.

Western margins decreased for the six months ended June 30, 2014 compared with 2013 primarily due to lower availability of coal units.

Statement of Income Analysis –

Utility Revenues

The increase (decrease) in utility revenues for the periods ended June 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Domestic:		
PPL Electric (a)	\$ 35	\$ 114
LKE (b)	40	174
Total Domestic	<u>75</u>	<u>288</u>
U.K.:		
Price (c)	52	120
Foreign currency exchange rates	59	85
Volume (d)	(33)	(56)
Line loss accrual adjustments (e)	24	(41)
Other	(2)	(9)
Total U.K.	<u>100</u>	<u>99</u>
Total	<u>\$ 175</u>	<u>\$ 387</u>

(a) See "Pennsylvania Gross Delivery Margins" for further information.

(b) See "Kentucky Gross Margins" for further information.

(c) The three and six-month periods were impacted by price increases effective April 1, 2014 and April 1, 2013.

(d) The decrease for the three and six-month periods was primarily due to the unusually cold weather in 2013.

(e) The three and six-month periods were impacted by unfavorable accrual adjustments in 2013 based on Ofgem's consultation documents on the DPCR4 line loss incentives and penalties. The six-month period was also impacted by unfavorable accrual adjustments in 2014 based on Ofgem's final decision on this matter in March 2014. See Note 6 to the Financial Statements for additional information.

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended June 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	<u>Three Months</u>	<u>Six Months</u>
Unregulated wholesale energy (a)	\$ (810)	\$ (2,382)
Unregulated retail energy	23	135
Fuel	50	279
Energy purchases (b)	(700)	(2,251)

(a) The six-month period ended June 30, 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.

- (b) The six-month period ended June 30, 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Domestic:		
PPL Susquehanna (a)	\$ 11	\$ 18
PPL Energy Supply fossil and hydroelectric plants (b)	(9)	11
PPL Electric PUC-reportable storms	1	10
PPL Electric payroll-related costs	(5)	(8)
LKE generation maintenance outages	3	6
LKE storm expense	3	9
Separation benefits (c)	29	29
Other	6	(6)
U.K.:		
Network maintenance (d)	7	16
Foreign currency exchange rates	10	14
Pension	(8)	(17)
Engineering management	(3)	(9)
Separation benefits		(3)
Other	(2)	(6)
Total	<u>\$ 43</u>	<u>\$ 64</u>

- (a) The increase for the three- and six-month periods was primarily due to refueling outage costs.
- (b) The decrease for the three-month period was primarily due to the elimination of rent expense associated with the Colstrip lease which was terminated in December 2013. The increase for the six-month period was due to the Kerr Dam Project impairment of \$18 million recorded in March 2014, partially offset by the elimination of rent expense associated with the Colstrip lease termination of \$10 million. See Note 13 to the Financial Statements for additional information on the Kerr Dam Project impairment.
- (c) Bargaining unit one-time voluntary retirement benefits were recorded as a result of the ratification of the IBEW Local 1600 three year labor agreement in June 2014. See Note 10 to the Financial Statements for additional information.
- (d) The increase for the three- and six-month periods was primarily due to vegetation management and fault repair due to increased 2014 storm activity.

Depreciation

Depreciation increased by \$26 million and \$47 million for the three and six months ended June 30, 2014 compared with 2013, primarily due to additions to PP&E, net.

Taxes, Other Than Income

The increase (decrease) in taxes, other than income for the periods ended June 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Pennsylvania gross receipts tax (a)	\$ 3	\$ 9
Foreign currency exchange rates	4	5
Domestic property tax		1
Total	<u>\$ 7</u>	<u>\$ 15</u>

- (a) The increase for the three- and six-month periods is primarily due to higher retail electric revenues. This tax is included in "Unregulated Gross Energy Margins" and "Pennsylvania Gross Delivery Margins."

Other Income (Expense) - net

Other income (expense) - net decreased by \$95 million and \$240 million for the three and six months ended June 30, 2014 compared with 2013, primarily due to an increase of \$76 million and \$219 million from realized and unrealized losses on foreign currency contracts to economically hedge GBP denominated earnings from WPD. The three and six months ended June 30, 2014 were also impacted by \$16 million of transaction costs related to the anticipated spinoff of PPL Energy Supply.

See Note 12 to the Financial Statements for additional information.

Interest Expense

The increase (decrease) in interest expense for the periods ended June 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Loss on extinguishment of debt (a)	\$ (10)	\$ (1)
Net amortization of debt discounts, premiums and issuance costs		(4)
Capitalized interest and debt component of AFUDC (b)	4	9
Foreign currency exchange rates	9	13
Other	(3)	(4)
Total	<u>\$</u>	<u>\$</u> 13

- (a) In March 2014, a \$9 million loss was recorded related to PPL Capital Funding's remarketing and debt exchange of the junior subordinated notes issued as a component of the 2011 Equity Units compared with a \$10 million loss recorded in May 2013 related to a similar transaction for the 2010 Equity Units.
- (b) Primarily due to the Holtwood hydroelectric expansion project placed in service in November 2013.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Change in pre-tax income at current period tax rates	\$ (68)	\$ (120)
State valuation allowance adjustments (a)	46	46
Federal income tax credits	2	5
Federal and state tax reserve adjustments (b)	39	40
U.S. income tax on foreign earnings - net of foreign tax credit (c)	17	26
Foreign tax return adjustments	4	4
State deferred tax rate change	3	3
Impact of lower UK income tax rates	(3)	(8)
Other		5
Total	<u>\$</u> 40	<u>\$</u> 1

- (a) As a result of the spinoff announcement, PPL recorded deferred income tax expense during the three and six months ended June 30, 2014 to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.
- (b) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling by the U.S. Court of Appeals for the Third Circuit, concerning the creditability, for income tax purposes, of the U.K. Windfall Profits Tax. As a result of this decision, PPL recorded a tax benefit of \$44 million during the three and six months ended June 30, 2013. See Note 5 to the Financial Statements for additional information.
- (c) During the three and six months ended June 30, 2013, PPL recorded a tax benefit of \$19 million associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits.

See Note 5 to the Financial Statements for additional information.

PPL Energy Supply: Earnings, Margins and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net Income (Loss) Attributable to PPL Energy Supply Member	\$ 13	\$ 86	\$ (53)	\$ 48
Special items, gains (losses), after-tax	(36)	74	(185)	(43)

Excluding special items, earnings for the three and six-month periods in 2014 compared with 2013 were higher, primarily due to unrealized gains on certain commodity positions, higher Eastern margins from higher capacity prices, favorable asset availability and lower interest expense, partially offset by lower baseload energy prices and higher income taxes. Earnings for the six-month period were also favorably impacted by net benefits from unusually cold weather in the first quarter of 2014, partially offset by lower western U.S. margins.

The table below quantifies the changes in the components of Net Income (Loss) Attributable to PPL Energy Supply Member between these periods, which reflect amounts classified as Unregulated Gross Energy Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Supply Segment" for details of the special items.

	Three Months	Six Months
Unregulated Gross Energy Margins	\$ 47	\$ 54
Other operation and maintenance		(3)
Depreciation	(3)	(5)
Interest expense	11	23
Other	(8)	(8)
Income taxes	(10)	(20)
Special items, after-tax	(110)	(142)
Total	<u>\$ (73)</u>	<u>\$ (101)</u>

Margins

"Unregulated Gross Energy Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2014 Three Months			2013 Three Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Unregulated wholesale energy	\$ 684	\$ (93) (c)	\$ 591	\$ 812	\$ 589 (c)	\$ 1,401
Unregulated wholesale energy to affiliate	21		21	12		12
Unregulated retail energy	277	4 (c)	281	237	20 (c)	257
Energy-related businesses		155	155		122	122
Total Operating Revenues	<u>982</u>	<u>66</u>	<u>1,048</u>	<u>1,061</u>	<u>731</u>	<u>1,792</u>
Operating Expenses						
Fuel	266	(7) (c)	259	223	1 (c)	224
Energy purchases	246	(43) (c)	203	420	478 (c)	898
Other operation and maintenance	6	290	296	3	267	270
Depreciation		82	82		79	79
Taxes, other than income	10	6	16	10	6	16
Energy-related businesses	2	153	155		118	118
Total Operating Expenses	<u>530</u>	<u>481</u>	<u>1,011</u>	<u>656</u>	<u>949</u>	<u>1,605</u>
Total	<u>\$ 452</u>	<u>\$ (415)</u>	<u>\$ 37</u>	<u>\$ 405</u>	<u>\$ (218)</u>	<u>\$ 187</u>
	2014 Six Months			2013 Six Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Unregulated wholesale energy	\$ 47	\$ (885) (c)	\$ (838)	\$ 1,778	\$ (234) (c)	\$ 1,544
Unregulated wholesale energy to affiliate	48		48	26		26
Unregulated retail energy	655	(23) (c)	632	483	12 (c)	495
Energy-related businesses		280	280		235	235
Total Operating Revenues	<u>750</u>	<u>(628)</u>	<u>122</u>	<u>2,287</u>	<u>13</u>	<u>2,300</u>
Operating Expenses						
Fuel	747	(6) (c)	741	522	(c)	522
Energy purchases	(973)	(628) (c)	(1,601)	857	(158) (c)	699
Other operation and maintenance	13	541	554	8	497	505
Depreciation		162	162		157	157
Taxes, other than income	23	14	37	18	15	33
Energy-related businesses	4	275	279		228	228
Total Operating Expenses	<u>(186)</u>	<u>358</u>	<u>172</u>	<u>1,405</u>	<u>739</u>	<u>2,144</u>
Total	<u>\$ 936</u>	<u>\$ (986)</u>	<u>\$ (50)</u>	<u>\$ 882</u>	<u>\$ (726)</u>	<u>\$ 156</u>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.

Statement of Income Analysis –

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended June 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	<u>Three Months</u>	<u>Six Months</u>
Unregulated wholesale energy (a)	\$ (810)	\$ (2,382)
Unregulated wholesale energy to affiliate	9	22
Unregulated retail energy	24	137
Fuel	35	219
Energy purchases (b)	(695)	(2,300)

(a) The six-month period ended June 30, 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.

(b) The six-month period ended June 30, 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Six Months</u>
PPL Susquehanna (a)	\$ 11	\$ 18
Fossil hydroelectric plants (b)	(9)	11
PPL EnergyPlus	4	4
Separation benefits (c)	23	23
Other	(3)	(7)
Total	<u>\$ 26</u>	<u>\$ 49</u>

(a) The increase for the three and six-month periods is primarily due to refueling outage costs.

(b) The decrease for the three-month period is primarily due to the elimination of rent expense associated with the Colstrip lease which was terminated in December 2013. The increase for the six-month period is primarily due to the Kerr Dam Project impairment of \$18 million, recorded in March 2014, partially offset by the elimination of rent expense associated with the Colstrip lease termination of \$10 million. See Note 13 to the Financial Statements for additional information on the Kerr Dam Project impairment.

(c) Bargaining unit one-time voluntary retirement benefits were recorded as a result of the ratification of the IBEW Local 1600 three year labor agreement in June 2014. See Note 10 to the Financial Statements for additional information.

Interest Expense

The increase (decrease) in interest expense for the periods ended June 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Long-term debt interest expense (a)	\$ (14)	\$ (28)
Capitalized interest (b)	4	8
Other	(1)	(3)
Total	<u>\$ (11)</u>	<u>\$ (23)</u>

(a) The decrease was primarily due to the repayment of debt in July and December 2013.

(b) The increase was primarily due to the Holtwood hydroelectric expansion project placed in service in November 2013.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Change in pre-tax income at current period tax rates	\$ (68)	\$ (86)
Federal and state tax reserve adjustments	(6)	(5)
State deferred tax rate change	3	3
Other	1	4
Total	<u>\$ (70)</u>	<u>\$ (84)</u>

See Note 5 to the Financial Statements for additional information.

PPL Electric: Earnings, Margins and Statement of Income Analysis

Earnings

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net Income	\$ 52	\$ 45	\$ 137	\$ 109
Special item, gains (losses), after-tax	(4)		(4)	

Excluding a special item, earnings for the three and six-month periods in 2014 compared with 2013 increased, primarily due to higher transmission margins from returns on additional capital investments and the recovery of additional costs through FERC formula based rates, partially offset by higher interest expense. Earnings for the six-month period in 2014 compared with 2013 also include higher distribution margins primarily due to unusually cold weather in the first quarter of 2014, returns on additional distribution improvement capital investments and a benefit from a change in estimate of a regulatory liability.

The table below quantifies the changes in the components of Net Income between these periods, which reflects amounts classified as Pennsylvania Gross Delivery Margins and a certain item that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's Results of Operations - Segment Earnings - Pennsylvania Regulated Segment" for details of the special item.

	Three Months	Six Months
Pennsylvania Gross Delivery Margins	\$ 28	\$ 73
Depreciation	(2)	(4)
Interest expense	(4)	(8)
Other	(1)	
Income taxes	(10)	(29)
Special item, after-tax	(4)	(4)
Total	\$ 7	\$ 28

Margins

"Pennsylvania Gross Delivery Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2014 Three Months			2013 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 449		\$ 449	\$ 414		\$ 414
Operating Expenses						
Energy purchases	114		114	120		120
Energy purchases from affiliate	21		21	12		12
Other operation and maintenance	23	\$ 112	135	21	\$ 103	124
Depreciation		45	45		44	44
Taxes, other than income	21	2	23	19	3	22
Total Operating Expenses	179	159	338	172	150	322
Total	\$ 270	\$ (159)	\$ 111	\$ 242	\$ (150)	\$ 92

	2014 Six Months			2013 Six Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,041		\$ 1,041	\$ 927		\$ 927
Operating Expenses						
Energy purchases	303		303	292		292
Energy purchases from affiliate	48		48	26		26
Other operation and maintenance	48	\$ 221	269	43	\$ 214	257
Depreciation		90	90		87	87
Taxes, other than income	50	5	55	47	5	52
Total Operating Expenses	449	316	765	408	306	714
Total	\$ 592	\$ (316)	\$ 276	\$ 519	\$ (306)	\$ 213

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Statement of Income Analysis –

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended June 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	Three Months	Six Months
Operating revenues	\$ 35	\$ 114
Energy purchases	(6)	11
Energy purchases from affiliate	9	22

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2014 compared with 2013 was due to:

	Three Months	Six Months
Payroll-related costs	\$ (5)	\$ (8)
Vegetation management	2	5
PUC-reportable storms	1	10
Act 129	3	(1)
Separation benefits (a)	6	6
Other	4	
Total	\$ 11	\$ 12

- (a) Bargaining unit one-time voluntary retirement benefits were recorded as a result of the ratification of the IBEW Local 1600 three year labor agreement in June 2014. See Note 10 to the Financial Statements for additional information.

Interest Expense

Interest expense increased by \$4 million and \$8 million for the three and six months ended June 30, 2014 compared with 2013, primarily due to a debt issuance in July 2013.

Income Taxes

Income taxes increased by \$7 million and \$27 million for the three and six months ended June 30, 2014 compared with 2013, primarily due to the change in pre-tax income at current period tax rates.

See Note 5 to the Financial Statements for additional information.

LKE: Earnings, Margins and Statement of Income Analysis

Earnings

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net Income	\$ 65	\$ 64	\$ 180	\$ 160
Special items, gains (losses), after-tax	1	1	1	2

Excluding special items, earnings increased for the three-month period in 2014 compared with 2013 primarily due to returns on additional environmental capital investments and higher sales volumes due to favorable weather conditions. Earnings increased for the six-month period in 2014 compared with 2013 primarily due to returns on additional environmental capital investments, higher sales volumes, higher demand revenue and higher off-system sales, partially offset by higher operation and maintenance expense driven by storm-related expenses and timing of generation maintenance outages. The changes in volumes and demand revenue were primarily due to unusually cold weather conditions during the first quarter of 2014.

The table below quantifies the changes in components of Net Income between these periods, which reflect amounts classified as Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special items.

	Three Months	Six Months
Margins	\$ 24	\$ 74
Other operation and maintenance	(7)	(18)
Depreciation	(4)	(7)
Interest expense	(4)	(9)
Other	(4)	(3)
Income taxes	(4)	(16)
Special items, after-tax	(1)	(1)
Total	<u>\$ 1</u>	<u>\$ 20</u>

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, LKE's Margins are referred to as "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2014 Three Months			2013 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 722		\$ 722	\$ 682		\$ 682
Operating Expenses						
Fuel	231		231	216		216
Energy purchases	36		36	37		37
Other operation and maintenance	25	\$ 181	206	23	\$ 174	197
Depreciation	2	85	87	2	81	83
Taxes, other than income		13	13		12	12
Total Operating Expenses	<u>294</u>	<u>279</u>	<u>573</u>	<u>278</u>	<u>267</u>	<u>545</u>
Total	<u>\$ 428</u>	<u>\$ (279)</u>	<u>\$ 149</u>	<u>\$ 404</u>	<u>\$ (267)</u>	<u>\$ 137</u>

	2014 Six Months			2013 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,656		\$ 1,656	\$ 1,482		\$ 1,482
Fuel	508		508	447		447
Energy purchases	160		160	123		123
Other operation and maintenance	48	\$ 364	412	48	\$ 346	394
Depreciation	3	170	173	2	163	165
Taxes, other than income	1	25	26		24	24
Total Operating Expenses	720	559	1,279	620	533	1,153
Total	\$ 936	\$ (559)	\$ 377	\$ 862	\$ (533)	\$ 329

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Statement of Income Analysis –

Certain Operating Revenues and Expenses included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended June 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	Three Months	Six Months
Operating revenues	\$ 40	\$ 174
Fuel	15	61
Energy purchases	(1)	37

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended June 30, 2014 compared with 2013 was due to:

	Three Months	Six Months
Timing and scope of generation maintenance outages	\$ 3	\$ 6
Storm expenses	3	9
Other	3	3
Total	\$ 9	\$ 18

Depreciation

Depreciation increased by \$4 million and \$8 million for the three and six months ended June 30, 2014 compared with 2013 primarily due to additions to PP&E, net.

Interest Expense

Interest expense increased by \$5 million and \$10 million for the three and six months ended June 30, 2014 compared with 2013 primarily due to the issuance of \$500 million First Mortgage Bonds in November 2013.

Income Taxes

Income taxes increased by \$4 million and \$16 million for the three and six months ended June 30, 2014 compared with 2013 primarily due to the change in pre-tax income at current period tax rates.

LG&E: Earnings, Margins and Statement of Income Analysis

Earnings

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net Income	\$ 35	\$ 29	\$ 87	\$ 73

Earnings increased for the three-month period in 2014 compared with 2013 primarily due to returns from additional environmental capital investments and higher sales volumes due to favorable weather conditions. Earnings increased for the six-month period in 2014 compared with 2013 primarily due to returns from additional environmental capital investments, higher sales volume, higher demand revenue and higher off-system sales partially offset by increased operation and maintenance expense driven by storm-related expenses. The changes in volumes and demand revenue were primarily attributable to unusually cold weather conditions during the first quarter of 2014.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line within the table and not in their respective Statement of Income line items.

	Three Months	Six Months
Margins	\$ 13	\$ 37
Other operation and maintenance	2	(4)
Depreciation	(2)	(4)
Interest expense	(2)	(4)
Other	(1)	(2)
Income taxes	(4)	(9)
Total	\$ 6	\$ 14

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, LG&E's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2014 Three Months			2013 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 344		\$ 344	\$ 316		\$ 316
Operating Expenses						
Fuel	104		104	88		88
Energy purchases, including affiliate	31		31	34		34
Other operation and maintenance	12	\$ 82	94	10	\$ 84	94
Depreciation	1	38	39	1	36	37
Taxes, other than income		7	7		6	6
Total Operating Expenses	148	127	275	133	126	259
Total	\$ 196	\$ (127)	\$ 69	\$ 183	\$ (126)	\$ 57

	2014 Six Months			2013 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 823		\$ 823	\$ 706		\$ 706
Operating Expenses						
Fuel	221		221	184		184
Energy purchases, including affiliate	155		155	115		115
Other operation and maintenance	24	\$ 168	192	21	\$ 164	185
Depreciation	1	76	77	1	72	73
Taxes, other than income		13	13		12	12
Total Operating Expenses	401	257	658	321	248	569
Total	\$ 422	\$ (257)	\$ 165	\$ 385	\$ (248)	\$ 137

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Statement of Income Analysis –

Certain Operating Revenues and Expenses included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended June 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	<u>Three Months</u>	<u>Six Months</u>
Retail and wholesale	\$ 18	\$ 91
Electric revenue from affiliate	10	26
Fuel	16	37
Energy purchases	(2)	36
Energy purchases from affiliate	(1)	4

Other Operation and Maintenance

Other operation and maintenance expense increased by \$7 million for the six months ended June 30, 2014 compared with 2013 primarily due to storm expenses.

Depreciation

Depreciation increased by \$2 million and \$4 million for the three and six months ended June 30, 2014 compared with 2013 primarily due to additions to PP&E, net.

Interest Expense

Interest expense increased by \$2 million and \$4 million for the three and six months ended June 30, 2014 compared with 2013 primarily due to the issuance of \$250 million First Mortgage Bonds in November 2013.

Income Taxes

Income taxes increased by \$4 million and \$9 million for the three and six months ended June 30, 2014 compared with 2013 primarily due to the change in pre-tax income at current period tax rates.

KU: Earnings, Margins and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net Income	\$ 40	\$ 44	\$ 117	\$ 108
Special item, gains (losses), after-tax	1	1	1	1

Excluding a special item, earnings increased for the three-month period in 2014 compared with 2013 primarily due to returns on additional environmental capital investments. Earnings increased for the six-month period in 2014 compared with 2013 primarily due to returns on additional environmental capital investments, higher sales volumes and higher demand revenue partially offset by other operation and maintenance expense driven by the timing of generation maintenance outages. The changes in volumes and demand revenue were primarily attributable to unusually cold weather conditions during the first quarter of 2014.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and a certain item that management considers special on separate lines within the table and not in their respective Statement of Income line items.

	Three Months	Six Months
Margins	\$ 11	\$ 37
Other operation and maintenance	(9)	(13)
Depreciation	(1)	(2)
Interest expense	(3)	(5)
Other	(3)	(1)
Income taxes		(7)
Special item - EEI adjustments, after-tax	1	
Total	<u>\$ (4)</u>	<u>\$ 9</u>

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, KU's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended June 30.

	2014 Three Months			2013 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 404		\$ 404	\$ 383		\$ 383
Operating Expenses						
Fuel	127		127	128		128
Energy purchases, including affiliate	31		31	20		20
Other operation and maintenance	13	\$ 94	107	13	\$ 85	98
Depreciation	1	46	47	1	45	46
Taxes, other than income		6	6		6	6
Total Operating Expenses	<u>172</u>	<u>146</u>	<u>318</u>	<u>162</u>	<u>136</u>	<u>298</u>
Total	<u>\$ 232</u>	<u>\$ (146)</u>	<u>\$ 86</u>	<u>\$ 221</u>	<u>\$ (136)</u>	<u>\$ 85</u>

	2014 Six Months			2013 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 902		\$ 902	\$ 815		\$ 815
Operating Expenses						
Fuel	287		287	263		263
Energy purchases, including affiliate	74		74	47		47
Other operation and maintenance	24	\$ 181	205	27	\$ 168	195
Depreciation	2	93	95	1	91	92
Taxes, other than income	1	12	13	1	12	12
Total Operating Expenses	<u>388</u>	<u>286</u>	<u>674</u>	<u>338</u>	<u>271</u>	<u>609</u>
Total	<u>\$ 514</u>	<u>\$ (286)</u>	<u>\$ 228</u>	<u>\$ 477</u>	<u>\$ (271)</u>	<u>\$ 206</u>

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Statement of Income Analysis –

Certain Operating Revenues and Expenses included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended June 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	Three Months	Six Months
Retail and wholesale	\$ 22	\$ 83
Electric revenue from affiliate	(1)	4
Fuel	(1)	24
Energy purchases	1	1
Energy purchases from affiliate	10	26

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended June 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Six Months</u>
Timing and scope of generation maintenance outages	\$ 4	\$ 7
Storm expenses	2	2
Other	3	1
Total	<u>\$ 9</u>	<u>\$ 10</u>

Interest Expense

Interest expense increased by \$3 million and \$5 million for the three and six months ended June 30, 2014 compared with 2013 primarily due to the issuance of \$250 million First Mortgage Bonds in November 2013.

Income Taxes

Income taxes increased by \$7 million for the six months ended June 30, 2014 compared with 2013 primarily due to the change in pre-tax income at current period tax rates.

Financial Condition

The remainder of this Item 2 in this Form 10-Q is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	<u>PPL (a)</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
June 30, 2014						
Cash and cash equivalents	\$ 1,269	\$ 264	\$ 149	\$ 23	\$ 5	\$ 18
Notes receivable from affiliates				16		
Short-term debt	808	324		320	70	175
December 31, 2013						
Cash and cash equivalents	\$ 1,102	\$ 239	\$ 25	\$ 35	\$ 8	\$ 21
Notes receivable from affiliates			150	70		
Short-term debt	701		20	245	20	150

(a) At June 30, 2014, \$462 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL may be subject to additional U.S. taxes, net of allowable foreign income tax credits. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2013 Form 10-K for additional information on undistributed earnings of WPD.

Net cash provided by (used in) operating, investing and financing activities for the six-month periods ended June 30, and the changes between periods were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2014						
Operating activities	\$ 1,583	\$ 290	\$ 148	\$ 516	\$ 202	\$ 297
Investing activities	(2,103)	(403)	(295)	(501)	(248)	(305)
Financing activities	671	138	271	(27)	43	5
2013						
Operating activities	\$ 947	\$ 227	\$ 115	\$ 297	\$ 186	\$ 190
Investing activities	(1,834)	(282)	(455)	(568)	(226)	(340)
Financing activities	710	(93)	224	251	31	139

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)						
Operating activities	\$ 636	\$ 63	\$ 33	\$ 219	\$ 16	\$ 107
Investing activities	(269)	(121)	160	67	(22)	35
Financing activities	(39)	231	47	(278)	12	(134)

Operating Activities

The components of the change in cash provided by (used in) operating activities for the six months ended June 30, 2014 compared with 2013 were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)						
Net income	\$ (273)	\$ (101)	\$ 28	\$ 20	\$ 14	\$ 9
Non-cash components	234	(37)	(46)	52	(5)	14
Working capital	300	58	(14)	31	(20)	5
Defined benefit funding	250	74	69	116	34	58
Other operating activities	125	69	(4)		(7)	21
Total	<u>\$ 636</u>	<u>\$ 63</u>	<u>\$ 33</u>	<u>\$ 219</u>	<u>\$ 16</u>	<u>\$ 107</u>

(PPL)

The increase in cash from changes in components of working capital was partially due to a decrease in customer and other accounts receivable (primarily due to changes in customer rates and changes in income tax receivables) and a reduction in collateral returned to counterparties.

(PPL Energy Supply)

The increase in cash from changes in components of working capital was primarily due to a decrease in prepayments (primarily due to higher federal income tax payments in 2013) and a reduction in collateral returned to counterparties, partially offset by an increase in net cash paid related to power options. The change in cash from other operating activities was partially due to cash payments made in 2013 on PPL Montana's operating lease arrangement related to partial interests in Units 1, 2 and 3 of the Colstrip coal-fired electric generating facility that was terminated in December 2013.

(PPL Electric)

The decrease in non-cash components of net income primarily consisted of deferred income tax benefits.

(LKE)

LKE's non-cash components of net income included a \$54 million increase in deferred income taxes primarily due to utilization of net operating losses. The increase in cash from changes in components of working capital was driven primarily by the change in accounts receivable and unbilled revenues due to weather and higher rates, and lower fuel inventory due to weather, offset by a decrease in accounts payable due to timing of fuel purchases.

(LG&E)

LG&E's increase in cash from changes in components of working capital was driven primarily by the change in accounts receivable and unbilled revenues due to weather and higher rates, offset by a decrease in accounts payable due to timing of fuel purchases.

(KU)

KU's non-cash components of net income included a \$17 million increase in deferred income taxes primarily due to utilization of net operating losses.

Investing Activities

Expenditures for Property, Plant and Equipment

The primary use of cash within investing activities is expenditures for PP&E. The change in these expenditures for the six months ended June 30, 2014 compared with 2013 was as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
(Increase) Decrease	\$ (57)	\$ 65	\$ 15	\$ 23	\$ (13)	\$ 36

The increase in expenditures for PP&E for PPL was primarily due to higher project costs to enhance system reliability at WPD and the changes in project expenditures at PPL Energy Supply, LG&E and KU. The decrease in expenditures at PPL Energy Supply was partially due to expenditures made in 2013 for the Holtwood hydroelectric expansion project. The increase in expenditures for LG&E was primarily due to environmental air projects at LG&E's Mill Creek plant and GLT projects, partially offset by lower expenditures for the construction of Cane Run Unit 7. The decrease in expenditures for KU was related to lower expenditures for the construction of Cane Run Unit 7 and environmental CCR projects at KU's Ghent and E.W. Brown plants, partially offset by higher expenditures for environmental air projects at KU's Ghent and E.W. Brown plants.

Other Significant Changes in Components of Investing Activities

For PPL and PPL Energy Supply, the change in investing activities for the six months ended June 30, 2014 compared with 2013 reflects increases of \$234 million in restricted cash and cash equivalents. These changes were primarily related to increased cash collateral requirements in 2014 of \$257 million to support PPL Energy Supply's commodity hedging program primarily due to higher forward prices. PPL Energy Supply borrowed under its short-term credit facilities to help fund these increased collateral requirements.

For PPL Electric, the change in investing activities was primarily due to cash received for notes receivable from affiliates of \$150 million.

Financing Activities

The components of the change in cash provided by (used in) financing activities for the six months ended June 30, 2014 compared with 2013 was as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)						
Long-term debt issuances/retirements, net	\$ (384)		\$ 286			
Stock issuances/redemptions, net	786					
Dividends	(44)		(21)		(12)	(31)
Capital contributions/distributions, net		\$ 119	(110)	(179)	(1)	(26)
Change in short-term debt, net	(456)	105	(105)	(52)	25	(77)
Other financing activities	59	7	(3)	(47)		
Total	<u>\$ (39)</u>	<u>\$ 231</u>	<u>\$ 47</u>	<u>\$ (278)</u>	<u>\$ 12</u>	<u>\$ (134)</u>

For LKE, the change in Other financing activities for the six months ended June 30, 2014 compared with 2013 was due to a \$47 million borrowing in 2013 included in notes payable with affiliates.

See Note 7 to the Financial Statements in this Form 10-Q for information on 2014 short and long-term debt activity, equity transactions and dividends. See the Registrants' 2013 Form 10-K for information on 2013 activity.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At June 30, 2014, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows.

External (All Registrants)

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 450		\$ 11	\$ 439
PPL Energy Supply Credit Facilities	3,150	\$ 175	407	2,568
PPL Electric Credit Facility	300		1	299
LKE Credit Facility	75	75		
LG&E Credit Facility	500		70	430
KU Credit Facilities	598		373	225
Total LKE	1,173	75	443	655
Total U.S. Credit Facilities (a)	\$ 5,073	\$ 250	\$ 862	\$ 3,961
Total U.K. Credit Facilities (b)	£ 1,055	£ 97		£ 958

- (a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Energy Supply - 10%, PPL Electric - 6%, LKE - 12%, LG&E - 6% and KU - 22%.
- (b) The amount borrowed at June 30, 2014 was a USD-denominated borrowing of \$164 million. At June 30, 2014, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.6 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 13% of the total committed capacity.

As a result of the proposed spinoff transaction, PPL Energy Supply is in the process of syndicating a \$1.85 billion credit facility which is currently fully committed. This syndicated credit facility will replace the existing \$3 billion PPL Energy Supply syndicated credit facility and will be effective upon closing of the spinoff transaction. See "Overview - Business Strategy" and "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" above for additional information.

During the second quarter of 2014, PPL Energy Supply's corporate credit rating was lowered to below investment grade. At June 30, 2014, the additional collateral posted as a result of the downgrade was \$176 million. PPL Energy Supply primarily issued letters of credit under its credit facilities noted above to post the required collateral. PPL Energy Supply continues to have adequate access to the capital markets and adequate capacity under its credit facilities and does not expect a material change in its financing costs as a result of the downgrade.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (All Registrants except PPL)

	Committed Capacity	Borrowed	Unused Capacity
PPL Energy Supply Credit Facility	\$ 200		\$ 200
PPL Electric Credit Facility	100		100
LKE Credit Facility	225		225
LG&E Money Pool (a)	500		500
KU Money Pool (a)	500		500

- (a) LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues.

See Note 11 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

PPL Energy Supply, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund their short-term liquidity needs, as necessary. Commercial paper issuances are supported by the respective Registrant's Syndicated Credit Facility.

Outstanding commercial paper issuances are reflected in "Short-term debt" on the Balance Sheets. At June 30, 2014, the available capacity and the use of that capacity was as follows:

	<u>Capacity</u>	<u>Commercial Paper Issuances</u>	<u>Unused Capacity</u>
PPL Energy Supply	\$ 750	\$ 149	\$ 601
PPL Electric	300		300
LG&E	350	70	280
KU	350	175	175
Total LKE	<u>700</u>	<u>245</u>	<u>455</u>
Total PPL	<u>\$ 1,750</u>	<u>\$ 394</u>	<u>\$ 1,356</u>

Long-term Debt and Equity Securities (PPL and PPL Electric)

The long-term debt and equity securities activity through June 30, 2014 was:

	<u>Debt</u>		<u>Net Stock Issuances</u>
	<u>Issuances (a)</u>	<u>Retirements</u>	
PPL	\$ 296	\$ 239	\$ 1,017
PPL Electric	296	10	
Non-cash Transactions:			
PPL (b)	\$ 750	\$ 750	

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.

(b) Represents the remarketing of Junior Subordinated Notes that were issued as a component of PPL's 2011 Equity Units.

Common Stock Dividends (PPL)

In May 2014, PPL declared its quarterly common stock dividend, payable July 1, 2014, at 37.25 cents per share (equivalent to \$1.49 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

(All Registrants)

Moody's, S&P and Fitch periodically review the credit ratings on the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2014:

(PPL)

In January 2014, Moody's affirmed its ratings and revised its outlook to stable for PPL.

In March 2014, Moody's, S&P and Fitch assigned ratings of Baa3, BBB- and BBB, respectively, to PPL Capital Funding's \$350 million 3.95% Senior Notes due 2024 and \$400 million 5.00% Senior Notes due 2044. Fitch also assigned a stable outlook to these notes.

In April 2014, Moody's affirmed its ratings with a stable outlook for PPL WEM, WPD (East Midlands), WPD (West Midlands), PPL WW, WPD (South Wales) and WPD (South West).

In April 2014, Fitch affirmed its ratings with a stable outlook for PPL and PPL Capital Funding.

In June 2014, Moody's affirmed its ratings and revised its outlook to positive for PPL and PPL Capital Funding.

In June 2014, S&P affirmed its ratings for PPL, PPL Capital Funding, PPL WEM, WPD (East Midlands), WPD (West Midlands), PPL WW, WPD (South Wales) and WPD (South West) and placed the issuers on CreditWatch with positive implications.

In June 2014, Fitch affirmed its ratings with a stable outlook for PPL and PPL Capital Funding.

(PPL and PPL Energy Supply)

In April 2014, Fitch affirmed its ratings with a negative outlook for PPL Energy Supply.

In May 2014, S&P lowered its long-term issuer rating and senior unsecured rating from BBB to BB+ and its commercial paper rating and short-term issuer rating from A-2 to A-3 with a stable outlook for PPL Energy Supply.

In June 2014, Moody's lowered its senior unsecured rating from Baa2 to Ba1 and its commercial paper rating and short-term issuer rating from P-2 to Not Prime with a negative outlook for PPL Energy Supply. Moody's also assigned a Corporate Family Rating of Ba1, a Probability of Default Rating of Ba1-PD and a Speculative Grade Liquidity rating of SGL-1 to PPL Energy Supply.

In June 2014, S&P lowered its long-term issuer rating and senior unsecured rating from BB+ to BB and its commercial paper rating and short-term issuer rating from A-3 to B for PPL Energy Supply and placed the issuer on CreditWatch with negative implications.

In June 2014, Fitch lowered its long-term issuer default rating and senior unsecured debt rating from BBB- to BB and its commercial paper rating and short-term issuer default rating from F3 to B for PPL Energy Supply and placed the issuer on Rating Watch Negative.

(PPL and PPL Electric)

In January 2014, Moody's upgraded its long-term issuer rating and senior unsecured rating from Baa2 to Baa1 and senior secured rating from A3 to A2, affirmed its commercial paper rating and revised its outlook to stable for PPL Electric.

In April 2014, Fitch affirmed its ratings with a stable outlook for PPL Electric.

In June 2014, S&P affirmed its ratings for PPL Electric and placed the issuer on CreditWatch with positive implications.

In June 2014, Moody's, S&P, and Fitch assigned ratings of A2, A- and A-, respectively, to PPL Electric's \$300 million 4.125% First Mortgage Bonds due 2044. Fitch also assigned a stable outlook to these notes.

(PPL, LKE, LG&E and KU)

In January 2014, Moody's affirmed its ratings and revised its outlook to stable for LKE.

In January 2014, Moody's upgraded its long-term issuer ratings and senior unsecured ratings from Baa1 to A3 and senior secured ratings from A2 to A1, affirmed its commercial paper ratings and revised its outlook to stable for LG&E and KU.

In February 2014, Moody's affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds.

In April 2014, Fitch affirmed its ratings with a stable outlook for LKE, LG&E and KU.

In June 2014, S&P affirmed its ratings for LKE, LG&E and KU and placed the issuers on CreditWatch with positive implications.

In June 2014, Moody's affirmed its ratings and revised its outlook to positive for LKE.

In June 2014, S&P affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds and placed them on CreditWatch with positive implications.

Ratings Triggers

(All Registrants except PPL Electric)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, PPL Energy Supply's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, PPL Energy Supply, LKE and LG&E for derivative contracts in a net liability position at June 30, 2014.

Capital Expenditures

(PPL)

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. In the second quarter of 2014, PPL increased its projected capital spending for the period 2014 through 2018 related to distribution facilities by approximately \$0.3 billion from the previously disclosed \$1.9 billion projection included in PPL's 2013 Form 10-K. The increased projected capital spending results from a change in the forecasted foreign currency exchange rate for WPD expenditures that increased each yearly estimate by approximately \$70 million.

(PPL, LKE, LG&E and KU)

LG&E and KU continue to evaluate their future capacity requirements with the possibility that reduced or delayed capacity needs may result in adjustments to the timing of previously estimated capacity construction at KU's Green River generating site. See Note 8 to the Financial Statements for additional information.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2013 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 13 and 14 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

(PPL, LKE, LG&E and KU)

LG&E's and KU's retail electric and natural gas rates and municipal wholesale electric rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LG&E and KU sell excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional information.

(PPL and PPL Electric)

PPL Electric is exposed to market price and volumetric risks from its obligation as PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market price risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement energy supply contracts for the majority of its PLR obligations. These supply contracts transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

(PPL and PPL Energy Supply)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following tables sets forth the changes in the net fair value of non-trading commodity derivative contracts for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Six Months	
	2014	2013	2014	2013
Fair value of contracts outstanding at the beginning of the period	\$ (141)	\$ 229	\$ 107	\$ 473
Contracts realized or otherwise settled during the period	(20)	(100)	485	(237)
Fair value of new contracts entered into during the period (a)	19	37	3	46
Other changes in fair value	(36)	119	(773)	3
Fair value of contracts outstanding at the end of the period	<u>\$ (178)</u>	<u>\$ 285</u>	<u>\$ (178)</u>	<u>\$ 285</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at June 30, 2014, based on the observability of the information used to determine the fair value.

	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Source of Fair Value					
Prices based on significant observable inputs (Level 2)	\$ (159)	\$ (12)	\$ 8	\$ 1	\$ (162)
Prices based on significant unobservable inputs (Level 3)	(21)	4	1		(16)
Fair value of contracts outstanding at the end of the period	<u>\$ (180)</u>	<u>\$ (8)</u>	<u>\$ 9</u>	<u>\$ 1</u>	<u>\$ (178)</u>

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2020. The following table sets forth changes in the net fair value of trading commodity derivative contracts for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Six Months	
	2014	2013	2014	2013
Fair value of contracts outstanding at the beginning of the period	\$ 31	\$ 15	\$ 11	\$ 29
Contracts realized or otherwise settled during the period	(3)		(3)	(2)
Fair value of new contracts entered into during the period (a)	(5)	(4)	(18)	(16)
Other changes in fair value	49	7	82	7
Fair value of contracts outstanding at the end of the period	<u>\$ 72</u>	<u>\$ 18</u>	<u>\$ 72</u>	<u>\$ 18</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at June 30, 2014, based on the observability of the information used to determine the fair value.

	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Source of Fair Value					
Prices based on significant observable inputs (Level 2)	\$ (2)	\$ (19)	\$ 3	\$ (18)	
Prices based on significant unobservable inputs (Level 3)	4	29	36	21	90
Fair value of contracts outstanding at the end of the period	<u>\$ 2</u>	<u>\$ 10</u>	<u>\$ 36</u>	<u>\$ 24</u>	<u>\$ 72</u>

VaR Models

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the six months ended June 30, 2014 was as follows.

95% Confidence Level, Five-Day Holding Period	Trading VaR		Non-Trading VaR	
Period End	\$	9	\$	15
Average for the Period		9		10
High		10		15
Low		8		5

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at June 30, 2014.

Interest Rate Risk (All Registrants)

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates.

The following interest rate hedges were outstanding at June 30, 2014.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Interest rate swaps (c)	\$ 475	\$ (11)	\$ (15)	2026
Cross-currency swaps (d)	1,262	(48)	(177)	2028
Economic hedges				
Interest rate swaps (e)	179	(43)	(3)	2033
LKE and LG&E				
Economic hedges				
Interest rate swaps (e)	179	(43)	(3)	2033

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes foreign currency exchange rates.

(c) Changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or regulatory liabilities, if recoverable through regulated rates and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Cross-currency swaps are utilized to hedge the principal and interest payments of WPD's U.S. dollar-denominated senior notes. Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(e) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates at June 30, 2014 is shown below.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Increase in interest expense	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
Increase in fair value of debt	\$ 768	\$ 45	\$ 135	\$ 141	\$ 44	\$ 83

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

The following foreign currency hedges were outstanding at June 30, 2014.

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability)</u>	<u>Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)</u>	<u>Maturities Ranging Through</u>
Net investment hedges (b)	£ 306	\$ (27)	\$ (52)	2016
Economic hedges (c)	1,750	(147)	(285)	2016

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP. The positions outstanding exclude the amount of intercompany loans classified as net investment hedges. See Note 14 to the Financial Statements for additional information.

(c) To economically hedge the translation of expected earnings denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP.

NDT Funds - Securities Price Risk (PPL and PPL Energy Supply)

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At June 30, 2014, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At June 30, 2014, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$70 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk (All Registrants)

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Credit Risk" in the Registrants' 2013 Form 10-K for additional information.

Foreign Currency Translation (PPL)

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation gain of \$140 million for the six months ended June 30, 2014, which primarily reflected a \$349 million increase to PP&E and goodwill offset by an increase of \$209 million to net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$269 million for the six months ended June 30, 2013, which primarily reflected a \$714 million reduction to PP&E and goodwill offset by a reduction of \$445 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions (All Registrants)

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 11 to the Financial Statements for additional information on related party transactions for PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities.

(PPL and PPL Energy Supply)

See Note 8 to the Financial Statements for information on the anticipated spinoff of PPL Energy Supply.

Environmental Matters

(All Registrants)

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services.

The following is a discussion of the more significant environmental matters. See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in the Registrants' 2013 Form 10-K for additional information on environmental matters.

Climate Change

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage, as applicable, to the Registrants' generation assets, electricity transmission and delivery systems, as well as impacts on the Registrants' customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL, PPL Energy Supply, LKE, LG&E and KU have hydroelectric generating facilities or where river water is used to cool their fossil and nuclear (as applicable) powered generators. The Registrants cannot currently predict whether their businesses will experience these potential risks or estimate the cost of their related consequences.

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing GHG emissions in the U.S. through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum, the EPA was directed to issue a revised proposal for new power plants (a prior proposal was issued in 2012) by September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 30, 2016.

The EPA's revised proposal for new sources was published in the Federal Register on January 8, 2014. The proposed limits for coal plants can only be achieved through carbon capture and sequestration, a technology that is not presently commercially viable and, therefore, effectively preclude the construction of new coal plants. The proposed standards for new gas plants may also not be continuously achievable.

The EPA's proposed regulation addressing GHG emissions from existing power plants was published in the Federal Register on June 18, 2014, making the comment deadline October 16, 2014. The proposal contains very stringent, state-specific rate-based reduction goals to be achieved in two phases (2020-2029 and 2030 and beyond). The EPA believes it has offered some flexibility to the states as to how state plans can be crafted, including the option to demonstrate compliance on a mass basis or through a multi-state collaboration, however, the EPA's proposed broad definition of the "best system of emission reduction" (BSER) substantially limits this flexibility. PPL is analyzing the proposal and potential impacts in preparation for submitting comments to the agency by the October 16, 2014 deadline. The regulation of GHG emissions from existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

The Administration's increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may lead to more costly regulatory requirements. The White House Office of Management and Budget opened this issue for public comment and PPL submitted comments.

Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect PPL, PPL Electric, LKE, LG&E and KU and others in the industry as modifications to electricity delivery systems to improve the ability to withstand major storms may be needed in order to meet those requirements.

Waters of the United States

On April 21, 2014, the EPA and the U.S. Army Corps of Engineers published a proposed rule which greatly expands the Clean Water Act definition of Waters of the United States. Comments are due by October 20, 2014. If the definition is expanded as proposed, permits and other regulatory requirements may be imposed for many matters presently not covered (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands), the implications of which could be significant. Both the U.S. House and Senate are considering legislation to block this regulation.

(All Registrants except PPL Electric)

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous waste) under RCRA. Under a litigation settlement agreement involving certain environmental groups, the EPA has agreed to issue its final rulemaking by December 2014. Regulations could impact handling, disposal and/or beneficial use of CCRs. Recent ash spills that have occurred within the utility industry may precipitate more stringent regulation of both active and legacy CCR sites. The financial and operational impact is expected to be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from issuing final CCR regulations and set rules governing state programs. It remains uncertain whether similar legislation would be passed by the U.S. Senate.

Effluent Limitation Guidelines (ELGs)

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized as proposed. The proposal contains several alternative approaches, some of which could significantly impact PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's coal-fired plants. The final regulation is expected to be issued by September 2015, which is contingent upon the EPA meeting its deadline for issuing the final CCR regulation. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant. Pending finalization of the ELGs, certain states (including Pennsylvania and Kentucky) and environmental groups are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines.

Clean Water Act/316(b)

On May 19, 2014, the EPA issued its final rule under 316(b) of the Clean Water Act. It will become effective upon publication which is expected in July. The regulation applies to nearly all PPL-owned steam electric generation plants in Pennsylvania, Kentucky, and Montana, even those equipped with closed-cycle cooling systems. The rule requires Best Technology Available to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment), and imposes standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). For some plants, studies required by the rule will be used to determine the proper technology for compliance. PPL, PPL Energy Supply, LKE, LG&E and KU are evaluating compliance strategies but do not presently expect the compliance costs to be material.

MATS

In February 2012, the EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule, which was challenged by industry groups and states, was upheld by the D.C. Circuit Court in April 2014. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. PPL, PPL Energy Supply, LKE, LG&E and KU are generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls at PPL Energy Supply and approved ECR plans to install additional controls at some of LG&E's and KU's Kentucky plants. Additionally, PPL Energy Supply is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL Energy Supply announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS. The Corette plant asset group was determined to be impaired in December 2013. See "Application of Critical Accounting Policies - Asset Impairment (Excluding Investments)" in PPL's and PPL Energy Supply's 2013 Form 10 K for additional information. Also, LG&E, KU and PPL Energy Supply have received compliance extensions for certain plants in Kentucky and Pennsylvania and are considering extension requests for additional plants.

LG&E's and KU's anticipated retirements of generating units at the Cane Run and Green River plants are in response to MATS and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrogen oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern U.S. In December 2011, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the D.C. Circuit Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place in the interim. On April 29, 2014, the U.S. Supreme Court reversed and remanded the D.C. Circuit Court's August 2012 decision which may result in new or revised emission reduction requirements, including the possible replacement of the CAIR program with CSAPR, depending on future determinations by the EPA and the courts. PPL, PPL Energy Supply, LKE, LG&E and KU do not currently anticipate that the costs of meeting CSAPR requirements will be significant.

PPL, PPL Energy Supply, LKE, LG&E and KU plants in Pennsylvania and Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases.

Regional Haze

Under the EPA's regional haze programs (developed to eliminate man-made visibility degradation by 2064), states are required to make reasonable progress every decade through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977. For the eastern U.S., the EPA had determined that region-wide reductions under the CSAPR trading program could be utilized by state programs to satisfy BART requirements for sulfur dioxide and nitrogen oxides. Although the August 2012 decision by the D.C. Circuit Court to vacate and remand CSAPR has been reversed by the U.S. Supreme Court, future decisions by EPA and the courts will determine whether power plants located in the eastern U.S., including PPL Energy Supply's plants in Pennsylvania and LG&E's and KU's plants in Kentucky, will be subject to further reductions in those pollutants in accordance with BART requirements.

The EPA signed its final Federal Implementation Plan (FIP) of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for PPL Energy Supply's Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for the Corette plant (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL Energy Supply expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above). Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit and oral arguments occurred in May 2014.

National Ambient Air Quality Standards

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies. The PADEP has issued a draft rule requiring reasonable reductions. However, the proposal is being questioned as too lenient by the EPA, other OTR states and environmental groups. The PADEP may impose more stringent emission limits than those set forth in the proposed rule which could have a significant impact on PPL Energy Supply's Pennsylvania coal plants.

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2014. Existing environmental plans for LG&E's and KU's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. However, depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant. States are working on designations for other areas according to the timeline outlined in the EPA's Data Requirements Rule issued in April 2014.

New Accounting Guidance (All Registrants)

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies (All Registrants)

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2013 Form 10-K for a discussion of each critical accounting policy.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Defined Benefits	X	X	X	X	X	X
Loss Accruals	X	X	X	X	X	X
Income Taxes	X	X	X	X	X	X
Asset Impairments (Excluding Investments)	X	X		X	X	X
AROs	X	X		X	X	X
Price Risk Management	X	X		X	X	X
Regulatory Assets and Liabilities	X		X	X	X	X
Revenue Recognition - unbilled revenue			X	X	X	X

**PPL Corporation
PPL Energy Supply, LLC
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of June 30, 2014, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

- (b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' second fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2013 Form 10-K; and
- Notes 6 and 10 to the Financial Statements.

Item 1A. Risk Factors

PPL Corporation and PPL Energy Supply, LLC

The proposed spinoff of PPL Energy Supply and combination with RJS Power are contingent upon the satisfaction of a number of conditions and may present difficulties that could have an adverse effect on us.

The proposed spinoff of the business of PPL Energy Supply and the subsequent combination with RJS Power to form Talen Energy are complex transactions, subject to various conditions, and may be affected by unanticipated developments or changes in market conditions. We expect Talen Energy to file a registration statement with the SEC that will contain detailed information regarding Talen Energy. Completion of the proposed spinoff of PPL Energy Supply and subsequent combination with RJS Power will be contingent upon a number of factors, including that (i) PPL receives a favorable opinion of tax counsel as described below; (ii) the SEC declares effective Talen Energy's registration statement relating to the registration of Talen Energy common stock and no SEC stop order suspending effectiveness of the registration statement be in effect prior to the PPL Energy Supply spinoff; (iii) the Talen Energy common stock be authorized for listing on the New York Stock

Exchange; (iv) certain regulatory approvals, including approval by the NRC and the FERC, a Hart-Scott-Rodino review and certain approvals by the PUC be obtained and (v) there be available, subject to certain conditions, at least \$1 billion of undrawn capacity after excluding any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding, under a Talen Energy (or its subsidiaries) revolving credit or similar facility. The spinoff and subsequent combination with RJS Power may be terminated by mutual written consent of the parties or subject to certain other circumstances, including the failure to complete these transactions by June 30, 2015 or, if the required regulatory approvals have not been obtained at such time but the other conditions to the consummation of these transactions have been or are capable of being satisfied, December 31, 2015. For these and other reasons, the spinoff and the subsequent combination may not be completed on the terms or within the expected timeframe that we announced, if at all. Further, if the spinoff and the subsequent combination are completed, such transactions may not achieve the intended results.

If the proposed spinoff of the business of PPL Energy Supply does not qualify as a tax-free spinoff under Section 355 of the Internal Revenue Code of 1986, as amended (the "Code"), including as a result of subsequent acquisitions of stock of PPL or Talen Energy, then PPL and/or its shareowners may be required to pay substantial U.S. federal income taxes.

The proposed spinoff of the business of PPL Energy Supply and the subsequent combination with RJS Power are conditioned upon PPL's receipt of an opinion of tax counsel to the effect that, among other matters, the spinoff will qualify as tax-free under Section 355 of the Code to PPL and its shareowners for U.S. federal income tax purposes. Receipt of the opinion of tax counsel will satisfy a condition to completion of the spinoff and subsequent combination. An opinion of tax counsel is not binding on the IRS. Accordingly, the IRS may reach conclusions with respect to the spinoff that are different from the conclusions reached in the opinion. PPL is not aware of any facts or circumstances that would cause the factual statements or representations on which the opinion will be based to be materially different from the facts at the time of the spinoff. If, notwithstanding the receipt of the opinion of tax counsel, the IRS were to determine the spinoff to be taxable, PPL would, and its shareowners may, depending on their individual circumstances, recognize a tax liability that could be substantial.

In addition, the spinoff will be taxable to PPL pursuant to Section 355(e) of the Code if there is a 50% or more change in ownership of either PPL or Talen Energy, directly or indirectly, as part of a plan or series of related transactions that include the spinoff. Because PPL's shareowners will collectively own more than 50% of Talen Energy's common stock following the spinoff and subsequent combination, the combination alone will not cause the spinoff to be taxable to PPL under Section 355(e) of the Code. However, Section 355(e) of the Code might apply if acquisitions of stock of PPL before or after the spinoff, or of Talen Energy after the combination, are considered to be part of a plan or series of related transactions that include the spinoff. PPL is not aware of any such plan or series of transactions that include the spinoff.

PPL may not be successful in realizing the full amount of annual savings anticipated to be available as a result of the proposed spinoff of PPL Energy Supply.

In connection with the spinoff of PPL Energy Supply, and following any required transition services period, PPL is targeting to reduce its annual corporate support costs by an estimated \$185 million. This includes \$110 million of corporate support costs to be transferred to Talen Energy and \$75 million from workforce reductions and other corporate cost savings. If for any reason PPL cannot realize all or a significant portion of the \$75 million corporate cost savings it could have an adverse effect on PPL's results of operations, including PPL's ability to maintain or increase its dividend to shareowners.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

There have been no material changes in risk factors from those disclosed in "Item 1A. Risk Factors" of the 2013 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

PPL Corporation

On July 31, 2014, the Board of Directors (Board) of PPL elected Rodney C. Adkins a director of PPL, effective August 1, 2014, for a term expiring at PPL's Annual Meeting of Shareowners in 2015.

Mr. Adkins will retire from International Business Machines Corporation (IBM) at the end of 2014 after more than 33 years of service for that company. Mr. Adkins is currently serving as Senior Vice President with a focus on special corporate

projects and key client relationships. Until April 2014, Mr. Adkins served as Senior Vice President for Corporate Strategy since 2013, leading continuous transformation and developing strategies and plans linked to a new era of computing, new markets and new clients for IBM. Prior to that, since 2009, Mr. Adkins was Senior Vice President of IBM's Systems and Technology Group (STG), and prior to that, since 2007, Mr. Adkins served as Senior Vice President of IBM's STG development and manufacturing.

Mr. Adkins serves on the boards of United Parcel Service, Inc., W. W. Grainger, Inc., the national board of the Smithsonian Institution and the board of directors of the National Action Council for Minorities in Engineering. The Board expects to appoint Mr. Adkins as a member of the Board's Audit Committee in 2015. The Board has determined that Mr. Adkins satisfies the requirements for "independence" as set forth in PPL's Independence Guidelines and the applicable rules of the New York Stock Exchange. Mr. Adkins is 55 years old.

As a non-employee director, Mr. Adkins will receive the same compensation paid to other non-employee directors of PPL in accordance with the policies and procedures previously approved by the Board for non-employee directors. There were no arrangements or understandings pursuant to which Mr. Adkins was elected, nor are there any relationships or related transactions between PPL and Mr. Adkins to be disclosed under applicable rules of the Securities and Exchange Commission.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b) (10)(iii) of Regulation S-K.

- 2(a) - Separation Agreement among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Raven Power Holdings LLC, C/R Energy Jade, LLC and Sapphire Power Holdings LLC., dated as of June 9, 2014 (Exhibit 2.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- 2(b) - Transaction Agreement among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Talen Energy Merger Sub, Inc., C/R Energy Jade, LLC, Sapphire Power Holdings LLC. and Raven Power Holdings LLC, dated as of June 9, 2014 (Exhibit 2.2 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- 4(a) - Supplemental Indenture No. 16, dated as of June 1, 2014, of PPL Electric Utilities Corporation to The Bank of New York Mellon, as Trustee (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated June 5, 2014)
- [* \[\] 10\(a\)](#) - Amendment No. 5 to Executive Deferred Compensation Plan, dated as of May 8, 2014
- 10(b) - Employee Matters Agreement among PPL Corporation, Talen Energy Corporation, C/R Energy Jade, LLC, Sapphire Power Holdings LLC. and Raven Power Holdings LLC, dated as of June 9, 2014 (Exhibit 10.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- [* 10\(c\)](#) - First Amendment, dated as of July 22, 2014, to Amended and Restated Letter of Credit Issuance and Reimbursement Agreement, dated as of August 30, 2013, by and between PPL Energy Supply, LLC and Canadian Imperial Bank of Commerce, New York Agency
- [* 10\(d\)](#) - \$300,000,000 Revolving Credit Agreement, dated as of July 28, 2014, among PPL Capital Funding, Inc., as the Borrower, PPL Corporation, as the Guarantor, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender
- [* 10\(e\)](#) - \$300,000,000 Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among PPL Electric Utilities Corporation, as the Borrower, the Lenders from time to time thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender
- [* 10\(f\)](#) - \$400,000,000 Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among Kentucky Utilities Company, as the Borrower, the Lenders from time to time thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender
- [* 10\(g\)](#) - \$500,000,000 Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among Louisville Gas and Electric Company, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender
- [* 10\(h\)](#) - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (South West) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank, Ltd., as Joint Coordinators, and Mizuho Bank, Ltd., as Facility Agent, relating to the £245,000,000 Multicurrency Revolving Credit Facility Agreement originally dated January 12, 2012
- [* 10\(i\)](#) - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (East Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300,000,000 Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011
- [* 10\(j\)](#) - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (West Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300,000,000 Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011
- [* 12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [* 12\(b\)](#) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges

- [*12\(c\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(d\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(f\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2014, filed by the following officers for the following companies:

- [*31\(a\)](#) - PPL Corporation's principal executive officer
- [*31\(b\)](#) - PPL Corporation's principal financial officer
- [*31\(c\)](#) - PPL Energy Supply, LLC's principal executive officer
- [*31\(d\)](#) - PPL Energy Supply, LLC's principal financial officer
- [*31\(e\)](#) - PPL Electric Utilities Corporation's principal executive officer
- [*31\(f\)](#) - PPL Electric Utilities Corporation's principal financial officer
- [*31\(g\)](#) - LG&E and KU Energy LLC's principal executive officer
- [*31\(h\)](#) - LG&E and KU Energy LLC's principal financial officer
- [*31\(i\)](#) - Louisville Gas and Electric Company's principal executive officer
- [*31\(j\)](#) - Louisville Gas and Electric Company's principal financial officer
- [*31\(k\)](#) - Kentucky Utilities Company's principal executive officer
- [*31\(l\)](#) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2014, furnished by the following officers for the following companies:

- [*32\(a\)](#) - PPL Corporation's principal executive officer and principal financial officer
- [*32\(b\)](#) - PPL Energy Supply, LLC's principal executive officer and principal financial officer
- [*32\(c\)](#) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- [*32\(d\)](#) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
- [*32\(e\)](#) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
- [*32\(f\)](#) - Kentucky Utilities Company's principal executive officer and principal financial officer

- 101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation
(Registrant)

PPL Energy Supply, LLC
(Registrant)

Date: July 31, 2014

/s/ Stephen K. Breininger
Stephen K. Breininger
Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation
(Registrant)

Date: July 31, 2014

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC
(Registrant)

Louisville Gas and Electric Company
(Registrant)

Kentucky Utilities Company
(Registrant)

Date: July 31, 2014

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

AMENDMENT NO. 5

TO

PPL EXECUTIVE DEFERRED COMPENSATION PLAN

WHEREAS, PPL Services Corporation ("PPL") has adopted the PPL Officers Deferred Compensation Plan ("Plan") effective July 1, 2000; and WHEREAS, the Plan was amended and restated effective November 1, 2003, and subsequently amended by Amendment No. 1, 2, 3 and 4; and WHEREAS, PPL desires to further amend the Plan; NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective January 1, 2014, the following sections of Article 4 is amended to read:

Article IV

Deferred Cash Compensation and Deferred Cash Awards

4.11 The Account of any Participant hired on or after January 1, 2012, with Deferred Cash Compensation and Deferred Cash Awards for the calendar year shall be increased by a Matching Contribution and a Fixed Contribution. The Matching Contribution shall be an amount equal to 100% of the aggregate Deferred Cash Compensation and Deferred Cash Awards that do not exceed 6% Cash Compensation, minus the maximum amount of Matching Contributions that could have been made to the Participant's Accounts in the PPL Retirement Savings Plan for that calendar year if the Participant made the maximum employee contributions permitted. The Fixed Contribution shall be an amount equal to 3% of Cash Compensation and Cash Award minus the amount of the Fixed Contribution made to the Participant's Accounts in the PPL Retirement Savings Plan for that calendar year.

II Except as provided for in this Amendment No. 5, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 5 is executed this ____ day of _____, 2014.

PPL SERVICES CORPORATION

By: _____
William H. Spence
Chairman, President and CEO

FIRST AMENDMENT TO AMENDED AND RESTATED
LETTER OF CREDIT ISSUANCE AND REIMBURSEMENT AGREEMENT

This First Amendment (this "Amendment") to that certain Amended and Restated Letter of Credit Issuance and Reimbursement Agreement, dated as of August 30, 2013 (the "Agreement") by and between PPL Energy Supply, LLC (the "Company") and Canadian Imperial Bank of Commerce, New York Branch, formerly known as Canadian Imperial Bank of Commerce, New York Agency ("CIBC"), is made as of July 22, 2014. All capitalized terms used in this Amendment and not otherwise defined herein shall have the meanings assigned to them in the Agreement.

WHEREAS, Section 9.4 of the Agreement provides that the Agreement may be amended if such amendment is in writing and is signed by the Company and CIBC; and

WHEREAS, the Company has requested that CIBC consent to certain amendments to the Agreement,

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, it is agreed as follows:

1. The following defined terms in Section 2.1 of the Agreement are hereby amended and restated in their entirety as follows:

"2014 Amendment Date" means July 27, 2014.

"Availability Termination Date" means the earliest of (i) the Termination Date, (ii) the Talen Closing Date, (iii) the date that the commitment of CIBC under the Existing Credit Agreement terminates or is reduced to zero, (iv) the date that shall have been advised as such date to the Company in writing by CIBC, being a date not less than sixty (60) days after an effective amendment or waiver of any provisions of the Existing Credit Agreement and (v) the date referred in Section 8.1.

"Termination Date" means July 27, 2015.

2. The following defined terms are hereby included in Section 2.1 of the Agreement as follows:

"Applicable Fee Rate" means, (a) after the Amendment Closing Date until the 2014 Amendment Date, 0.95% per annum and (b) from and after the 2014 Amendment Date, the following percentages per annum, based upon the Debt Rating as set forth below:

Pricing Level	Debt Ratings S&P/Moody's	Applicable Fee Rate
1	BBB-/Baa3 or better	1.125%
2	BB+/Ba1	1.25%
3	BB/Ba2	1.50%
4	BB-/Ba3 or worse	1.75%

The Applicable Fee Rate as of the 2014 Amendment Date shall be at Pricing Level 2. Thereafter, each change in the Applicable Fee Rate resulting from a publicly announced change in the Debt Rating shall be effective, in the case of an upgrade, during the period commencing on the date of delivery by the Company to CIBC of a notice of such upgrade, and ending on the date immediately preceding the effective date of the next such change and, in the case of a downgrade, during the period commencing on the date of the public announcement thereof and ending on the date immediately preceding the effective date of the next such change.

"Debt Rating" means, as of any date of determination, the rating as determined by either S&P or Moody's (collectively, the "Debt Ratings") of the Company's non-credit-enhanced, senior unsecured long-term debt; provided that (a) if the respective Debt Ratings issued by the foregoing rating agencies differ by one level, then the Pricing Level for the higher of such Debt Ratings shall apply (with the Debt Rating for Pricing Level 1 being the highest and the Debt Rating for Pricing Level 4 being the lowest); (b) if there is a split in Debt Ratings of more than one level, then the Pricing Level that is one level lower than the Pricing Level of the higher Debt Rating shall apply; (c) if the Company has only one Debt Rating, the Pricing Level that is one level lower than that of such Debt Rating shall apply; and (d) if the Company does not have any Debt Rating, Pricing Level 4 shall apply.

"Energy Supply Spin-Off" means the proposed transfer, separation and spin-off of PPL Energy Supply, LLC and certain of its assets by PPL Corporation as described in the PPL Corporation's Current Report on Form 8-K dated June 9, 2014 and filed with the Securities Exchange Commission.

"Moody's" means Moody's Investors Service, Inc. and any successor thereto.

"S&P" means Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc., and any successor thereto.

"Talen Closing Date" means the date on which the Energy Supply Spin-Off closes and stock in Talen Energy Corporation is issued to existing shareholders of PPL Corporation.

3. The first sentence of Section 4.5 of the Agreement is hereby amended and replaced in its entirety with the following:

“The Company shall pay to CIBC a fee, quarterly in arrears on the last day of each March, June, September and December falling after the Amendment Closing Date (or, if any such day is not a Business Day, the next succeeding Business Day), and on the Termination Date, at the Applicable Fee Rate on the average Aggregate Stated Amount of all Letters of Credit outstanding on each day during such quarter, and for the number of days in such period.”

4. The last sentence of Article VII of the Agreement is hereby amended and replaced in its entirety with the following:

“With respect to Letters of Credit (if any) that have terms extending, or are extendible beyond, the Termination Date (after giving effect to any auto-renewal or extension periods within such Letters of Credit), and with respect to Letters of Credit that by their terms will remain outstanding after the Talen Closing Date, the Company shall Cash Collateralize all such Letters of Credit no later than the Business Day immediately preceding the Termination Date or the Talen Closing Date, as applicable, in an amount not less than 101.75% of all outstanding Credit Obligations.”

5. All references to December 31, 2012 in Sections 6.4(a), 6.6 and 6.15 of the Agreement are hereby amended and replaced with references to December 31, 2013.

6. All references to June 30, 2013 in Section 6.4(b) of the Agreement are hereby amended and replaced with references to March 31, 2014 and all references to six in Section 6.4(b) of the Agreement are hereby amended and replaced with references to three.

7. Section 6.4(c) of the Agreement is hereby amended and replaced in its entirety with the following:

“Since December 31, 2013, there has been no change in the business, assets, financial condition or operations of the Company and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Company’s ability to perform any of its obligations under this Agreement; it being understood for purposes of this Agreement that the Energy Supply Spin-Off shall not be deemed, as of the time of the consummation thereof or at any time prior to or thereafter, to constitute such a change.”

8. All references to 100% in Section 8.1 of the Agreement are hereby amended and replaced with references to 101.75%.

9. CIBC hereby waives any Event of Default that arises pursuant to Section 8.1(k) of the Agreement solely as a result of the Energy Supply Spin-Off constituting a Change of Control.

10. The Company hereby represents and warrants to CIBC that each of the representations and warranties of the Company in the Agreement are true and correct as if made on and as of the date hereof (or, if expressly stated to have been made as of an earlier date, were true and correct in all material respects as of such earlier date).

11. The Company hereby covenants and agrees that any and all Letters of Credit that, by their terms, will remain outstanding after the Talen Closing Date shall be Cash Collateralized by the Company in accordance with the terms and conditions of Article VII of the Agreement.

12. Except as amended by the provisions hereof, the Agreement shall remain in full force and effect in accordance with its terms.

13. This Amendment constitutes the entire understanding of the parties with respect to the subject matter thereof and supersedes all prior and current understandings and agreements, whether written or oral, with respect to such subject matter.

14. This Amendment may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

15. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date set forth above.

CANADIAN IMPERIAL BANK OF COMMERCE, NEW YORK BRANCH

By: _____
Name:
Title:

By: _____
Name:
Title:

PPL ENERGY SUPPLY, LLC

By: _____
Name:
Title:

\$300,000,000

REVOLVING CREDIT AGREEMENT

dated as of July 28, 2014

among

**PPL CAPITAL FUNDING, INC.,
as the Borrower,**

**PPL CORPORATION,
as the Guarantor,**

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, Issuing Lender and Swingline Lender**

**WELLS FARGO SECURITIES, LLC,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
RBS SECURITIES INC.,
CITIGROUP GLOBAL MARKETS INC.,
J.P. MORGAN SECURITIES LLC
and
MORGAN STANLEY SENIOR FUNDING, INC.,
Joint Lead Arrangers and Joint Bookrunners**

**BANK OF AMERICA, N.A.
and
THE ROYAL BANK OF SCOTLAND PLC,
Syndication Agents**

**CITIGROUP GLOBAL MARKETS INC.,
J.P. MORGAN SECURITIES LLC
and
MORGAN STANLEY SENIOR FUNDING, INC.,
Documentation Agents**

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 - Exhibit D - Forms of Opinion of Counsel for the Loan Parties
 - Exhibit E - Form of Notice of Revolving Increase
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-

REVOLVING CREDIT AGREEMENT (this “Agreement”) dated as of July 28, 2014 is entered into among PPL CAPITAL FUNDING, INC., a Delaware corporation (the “Borrower”), PPL CORPORATION, a Pennsylvania corporation (the “Guarantor”) the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as the Administrative Agent. The parties hereto agree as follows:

RECITALS

The Loan Parties (as hereinafter defined) have requested that the Lenders provide a revolving credit facility in an aggregate principal amount, subject to Section 2.19, not to exceed \$300,000,000. In consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto covenant and agree as follows:

ARTICLE I DEFINITIONS

Section 1.01 Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Additional Commitment Lender” has the meaning set forth in Section 2.08(d)(iv).

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise. In no event shall any Agent or any Lender be deemed to be an Affiliate of the Borrower, the Guarantor or any of their Subsidiaries.

“Agent” means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers and the Documentation Agents.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“Applicable Percentage” means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower's Ratings (S&P / Moody's)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A+ from S&P / A1 from Moody's	0.075%	0.000%	0.875%
Category B	A from S&P / A2 from Moody's	0.100%	0.000%	1.000%
Category C	A- from S&P / A3 from Moody's	0.125%	0.125%	1.125%
Category D	BBB+ from S&P / Baa1 from Moody's	0.175%	0.250%	1.250%
Category E	BBB from S&P / Baa2 from Moody's	0.200%	0.500%	1.500%
Category F	≤BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Asset Sale” means any sale of any assets, including by way of the sale by the Guarantor or any of its Subsidiaries of equity interests in such Subsidiaries; it being understood that the Energy Supply Spin-Off shall not be deemed to constitute an Asset Sale.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Authorized Officer” means the president, the chief operating officer, the chief financial officer, the chief accounting officer, any vice president, the treasurer, the assistant treasurer or the controller of the applicable Loan Party or such other individuals reasonably acceptable to the Administrative Agent as may be designated in writing by the Borrower from time to time.

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day, a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

“Base Rate Borrowing” means a Borrowing comprised of Base Rate Loans.

“Base Rate Lending Office” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“Base Rate Loan” means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrower's Rating” means the senior unsecured long-term debt rating of the Borrower from S&P or Moody's without giving effect to any third party credit enhancement except for a guaranty of the Guarantor (it being understood that all of the Borrower's long term debt is Guaranteed by the Guarantor).

“Borrowing” means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London Business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of Voting Stock of the Guarantor or its successors or (ii) the failure at any time of the Guarantor or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in Appendix A and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 2.19 or Section 9.06(c).

“Commitment Fee” has the meaning set forth in Section 2.07(a).

“Commitment Ratio” means, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“Consolidated Capitalization” means the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Guarantor and minority interests recorded on the Guarantor’s consolidated financial statements (excluding from shareowners’ equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Guarantor on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Guarantor, Consolidated Debt of the Guarantor shall exclude Non-Recourse Debt and Consolidated Capitalization of the Guarantor shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Guarantor and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Guarantor and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Guarantor and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Continuing Lender” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Credit Event” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“Current Termination Date” has the meaning set forth in Section 2.08(d)(ii).

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$150,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Debtor Relief Laws” means the Bankruptcy Code, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses of the definition of “Lender Default” shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to cure as expressly contemplated in the definition of “Lender Default”) upon delivery of written notice of such determination to the Borrower, each Issuing Bank, each Swingline Lender and each Lender.

“Documentation Agents” means Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley Senior Funding, Inc., each in its capacity as a documentation agent in respect of this Agreement.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Election Date” has the meaning set forth in Section 2.08(d)(ii).

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) or (v) an Approved Fund; provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than a Loan Party or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include any Loan Party or any of its Subsidiaries or Affiliates.

“Energy Supply Spin-Off” means the proposed transfer, separation and spin-off of PPL Energy Supply, LLC and certain of its assets by the Guarantor as described in the Guarantor’s Current Report on Form 8-K dated June 9, 2014 and filed with the SEC.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Guarantor or any of its Subsidiaries which arise under Environmental Laws or relate to Hazardous Substances.

“Equity-Linked Securities” means any securities of the Guarantor or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Guarantor or such Subsidiary, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Guarantor or any of its Subsidiaries.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means each of the Loan Parties and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with each of the Loan Parties, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in [Section 7.01](#).

“Extending Lender” means, in the event that the Termination Date is extended in accordance with [Section 2.08\(d\)](#), a Lender which is not a Non-Extending Lender.

“Extension Date” has the meaning set forth in [Section 2.08\(d\)\(ii\)](#).

“Extension Letter” means a letter from the Borrower to the Administrative Agent requesting an extension of the Termination Date substantially in the form of [Exhibit F](#) hereto.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter” means that certain fee letter dated as of June 27, 2014 among the Borrower, Wells Fargo Securities, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc as amended, modified or supplemented from time to time.

“Fronting Fee” has the meaning set forth in [Section 2.07\(b\)](#).

“Fronting Sublimit” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on Appendix B hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“Fund” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course of its activities.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Guarantor” has the meaning set forth in the introductory paragraph hereto.

“Guaranty” means the guaranty of the Guarantor set forth in Article X.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by any of the Loan Parties, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Guarantor or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Guarantor or a Subsidiary of the Guarantor, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Interest Period” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clause (iii) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Issuing Lender” means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity and (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, subject in each case to the Fronting Sublimit.

“JLA Issuing Bank” means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc., Citibank, N.A., JPMorgan Chase Bank, N.A. and Morgan Stanley Bank, N.A.

“Joint Lead Arrangers” means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley Senior Funding, Inc., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

“Lender” means each bank or other lending institution listed in Appendix A as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to (a) fund all or any portion of its Loans within two Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (b) pay to the Administrative Agent, any Issuing Bank, any Swingline Lender or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit or Swingline Loans) within two Business Days of the date when due, or (ii) a Lender having notified the Borrower, the Administrative Agent or any Issuing

Bank or the Swingline Lender in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender's obligation to fund a Loan hereunder and states that such position is based on such Lender's determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), or (iii) the failure, within three Business Days after written request by the Administrative Agent or the Borrower, of a Lender to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that a Lender Default in effect pursuant to this clause (iii) shall be cured upon receipt of such written confirmation by the Administrative Agent and the Borrower) or (iv) a Lender has, or has a direct or indirect parent company that has, (a) become the subject of a proceeding under any Debtor Relief Law, or (b) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity; provided that a Lender Default shall not exist solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender.

“Letter of Credit” means any letter of credit issued pursuant to Section 3.02 under this Agreement by an Issuing Lender on or after the Effective Date.

“Letter of Credit Fee” has the meaning set forth in Section 2.07(b).

“Letter of Credit Liabilities” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender's Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 (or any applicable successor page) as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan, and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“Loan Parties” means the Borrower and the Guarantor.

“London Interbank Offered Rate” means:

(i) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (i), such comparable or successor rate shall be applied in a manner consistent with market practice; provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

(ii) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (ii), such comparable or successor rate shall be applied in a manner consistent with market practice; provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Guarantor or the Guarantor and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Loan Parties taken as a whole to perform their obligations

under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of any Loan Party in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Material Subsidiary” means each Subsidiary of the Guarantor listed on Schedule 5.14 and each other Subsidiary of the Guarantor designated by the Guarantor as a “Material Subsidiary” in writing to the Administrative Agent, in either case, for so long as such Material Subsidiary shall be a Wholly Owned Subsidiary of the Guarantor.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Extending Lender” has the meaning set forth in Section 2.08(d)(ii).

“Non-Recourse Debt” means Debt that is nonrecourse to any Loan Party or any asset of any Loan Party.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” means a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document;

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document; and

(v) in the case of each of clauses (i) through (iv) above, together with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Optional Increase” has the meaning set forth in Section 2.19(a).

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“Patriot Act” has the meaning set forth in Section 9.13.

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Guarantor or any Subsidiary of the Guarantor as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in [Section 9.06\(e\)](#).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to [Section 3.07](#) for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to [Section 3.09](#).

“Replacement Date” has the meaning set forth in [Section 2.08\(b\)](#).

“Replacement Lender” has the meaning set forth in [Section 2.08\(b\)](#).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of [Section 2.08\(b\)](#).

“Revolving” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under [Section 2.01](#), as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to [Section 2.02\(b\)\(i\)](#), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under [Section 2.01](#); provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“Revolving Outstandings” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) the aggregate amount of such Lender’s Letter of Credit Liabilities.

“Revolving Outstandings Excess” has the meaning set forth in [Section 2.09](#).

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill Financial Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Sanctions” means sanctions administered or enforced by OFAC, the U.S. State Department, the European Union or Her Majesty’s Treasury.

“Sanctioned Country” means a country or territory that is, or whose government is, the subject of comprehensive territorial Sanctions (currently, Cuba, Iran, North Korea, Sudan, and Syria).

“Sanctioned Person” means a Person that is, or is owned or controlled by Persons that are, (i) the subject of any Sanctions, or (ii) located, organized or resident in a Sanctioned Country.

“SEC” means the Securities and Exchange Commission.

“Subsidiary” of a Person means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by such Person or one or more Subsidiaries of such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Borrower.

“Swingline Borrowing” means a Borrowing made by the Borrower under [Section 2.02](#), as identified in the Notice of Borrowing with respect thereto.

“Swingline Exposure” means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

“Swingline Lender” means Wells Fargo Bank, in its capacity as Swingline Lender.

“Swingline Loan” means any swingline loan made by the Swingline Lender to the Borrower pursuant to [Section 2.02](#).

“Swingline Sublimit” means the lesser of (a) \$30,000,000 and (b) the aggregate Commitments of all Lenders.

“Swingline Termination Date” means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

“Syndication Agents” means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earliest to occur of (i) July 28, 2019, as may be extended from time to time pursuant to Section 2.08(d), and (ii) the date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Wells Fargo Bank” means Wells Fargo Bank, National Association, and its successors.

“Wells Fargo Securities” means Wells Fargo Securities, LLC, and its successors and assigns.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01 Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

Section 2.02 Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

(b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender’s obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender’s failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender’s Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the

outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

Section 2.03 Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04 Notice to Lenders; Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

Section 2.05 Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender

from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to subsections (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in subsections (a) and (b) above.

Section 2.06 Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause (A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a "Notice of Conversion/Continuation") to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender's pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07 Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the "Commitment Fee") for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender's Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the "Letter of Credit Fee") for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the "Fronting Fee") in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.08 Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Replacement of Lenders; Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such

termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this [Section 2.08\(c\)](#) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date; Optional Extensions.

(i) The Commitments shall terminate on the Termination Date.

(ii) The Borrower may, by sending an Extension Letter to the Administrative Agent (in which case the Administrative Agent shall promptly deliver a copy to each of the Lenders), not less than thirty (30) nor more than ninety (90) days prior to the first or second anniversary of the date hereof (each such anniversary, the "[Extension Date](#)"), or at both times, request that the Lenders extend the Termination Date then in effect (the "[Current Termination Date](#)") so that it will occur one year after the Current Termination Date. Each Lender, acting in its sole discretion, may, by notice to the Administrative Agent given no later than fifteen (15) days prior to the first or second annual anniversary of the date hereof, as applicable (the "[Election Date](#)"), advise the Administrative Agent in writing whether or not it agrees to such extension (each Lender to respond negatively to such request being referred to herein as a "[Non-Extending Lender](#)"); provided, that, any Lender not responding to such request within such time period shall be deemed to be a Non-Extending Lender. The election of any Lender to agree to such extension shall not obligate any other Lender to agree.

(iii) (A) If Lenders holding Commitments that aggregate at least 51% of the aggregate Commitments of the Lenders on or prior to the Election Date shall not have agreed to extend the Termination Date, then the Current Termination Date shall not be so extended and the outstanding principal balance of all loans and other amounts payable hereunder shall be due and payable on the Current Termination Date. (B) If (and only if) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date, then the Termination Date applicable to the Lenders that are Extending Lenders shall, as of the Extension Date, be the day that is one year after the Current Termination Date. In the event of such extension, the Commitment of each Non-Extending Lender shall terminate on the Current Termination Date applicable to such Non-Extending Lender, all Loans and other amounts payable hereunder to such Non-Extending Lender shall become due and payable on such Current Termination Date and the aggregate Commitments of the Lenders hereunder shall be reduced by the aggregate Commitments of Non-Extending Lenders so terminated on and after such Current Termination Date. Each Non-Extending Lender shall be required to maintain its original Commitment up to the Termination Date, or Current Termination Date, as applicable, to which such Non-Extending Lender had previously agreed.

(iv) In the event that the conditions of clause (B) of paragraph (iii) above have been satisfied, the Borrower shall have the right on or before the applicable Extension Date, at its own expense, to require any Non-Extending Lender to transfer and assign without recourse or representation (except as to title and the absence of Liens created by it) (in accordance with and subject to the restrictions contained in Section 9.06(c)) all its interests, rights and obligations under the Loan Documents (including with respect to any Letter of Credit Liabilities) to one or more Eligible Assignees (which may include any Lender) (each, an "[Additional Commitment Lender](#)"), provided, that (x) such Additional Commitment Lender, if not already a Lender hereunder, shall be subject to the approval of the Administrative Agent, the Swingline Lender and the Issuing Lenders (not to be unreasonably withheld), (y) such assignment shall become effective as of the applicable Extension Date and (z) the Additional Commitment Lender shall pay to such Non-Extending Lender in immediately available funds on the effective date of such assignment the principal of and interest accrued to the date of payment on the Loans made by such Non-Extending Lender hereunder and all other amounts accrued for such Non-Extending Lender's account or owed to it hereunder.

(v) Notwithstanding the foregoing, no extension of the Termination Date shall become effective unless, on the Extension Date, (i) the conditions set forth in [Section 4.02](#) shall be satisfied (with all references in such paragraphs to the making of a Loan or issuance of a Letter of Credit being deemed to be references to the extension of the Commitments on the Extension Date), (ii) any necessary governmental, regulatory and third party approvals required to authorize the extension of the Termination Date shall be in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the extension of the Termination Date and (iii) the Administrative Agent shall have received (a) a certificate to that effect, with any necessary governmental, regulatory or third party approvals, if any, attached thereto, dated the Extension Date and executed by an Authorized Officer of the Borrower and (b) opinions of counsel for each of the Loan Parties, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to [Section 2.08\(b\)](#) or [\(c\)](#), or, if the Termination Date has been extended pursuant to [Section 2.08\(d\)](#) with respect to some, but not all, Lenders, the date on which the Current Termination Date with respect to Non-Extending Lenders occurs, the Commitment Ratios of the Continuing Lenders or the Extending Lenders, as applicable, shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders or the Extending Lenders, as applicable, in and obligations of the Continuing Lenders or Extending Lenders, as applicable, in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (as adjusted pursuant to [Sections 2.19](#) and [2.20](#)). The right of the Borrower to effect such a termination pursuant to [Section 2.08\(b\)](#) or [\(c\)](#) is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.09 Maturity of Loans; Mandatory Prepayments.

(a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to [Section 2.09\(a\)\(ii\)](#), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a "[Revolving Outstandings Excess](#)"), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time

when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this [Section 2.09\(a\)\(ii\)](#).

(b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this [Section 2.09](#) shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

Section 2.10 Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to [Section 2.02\(b\)](#), subject to [Section 2.12](#), the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to [Section 2.10\(a\)](#), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

Section 2.11 General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in [Section 9.01](#). The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12 Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to [Section 2.18](#) being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this [Section 2.12](#)) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to [Section 2.06\(c\)](#), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to [Section 2.08\(b\)](#), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13 Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14 Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at

least two (2) Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. (Charlotte, North Carolina time) on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15 Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16 Increased Cost and Reduced Return.

(a) **Increased Costs.** If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall (i) impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office), (ii) subject any Lender or the Issuing Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any Euro-Dollar Loan made by it, or change the basis of taxation of payments to such Lender or the Issuing Lender in respect thereof (other than (A) Taxes, (B) Other Taxes, (C) the imposition of, or any change in the rate of, any taxes described in clauses (i) through (iv) of the definition of Taxes in Section 2.17(a) and (D) Taxes attributable to a Lender's or an Issuing Lender's failure to comply with Section 2.17(e)) or (iii) impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) **Capital Adequacy.** If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) **Notices.** Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.17 Taxes.

(a) **Payments Net of Certain Taxes.** Any and all payments made by or on account of any Loan Party to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office (other than pursuant to an assignment request by any Loan Party under Section 2.08(b) or (d)), (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If any Loan Party shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent,

(i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this [Section 2.17\(a\)](#)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Loan Party shall make such deductions, (iii) such Loan Party shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) such Loan Party shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) **Other Taxes.** In addition, each Loan Party agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "**Other Taxes**").

(c) **Indemnification.** Each Loan Party agrees to jointly and severally indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this [Section 2.17\(c\)](#)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this [Section 2.17\(c\)](#). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) **Refunds or Credits.** If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by any Loan Party or with respect to which any Loan Party has paid additional amounts pursuant to this [Section 2.17](#), it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Loan Parties under this [Section 2.17](#) with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that each Loan Party agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) **Tax Forms and Certificates.** On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a "**Non-U.S. Lender**") shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, (x) certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender and (y) with respect to any other applicable payments under or entered into in connection with any Loan Document establishing an exemption from, or reduction of, United States withholding tax pursuant to the "business profits" or "other income" article of such tax treaty; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; (C) in the case of a Non-U.S. Lender claiming the benefits of the exemption for portfolio interest under Section 871(h) or Section 881(c) of the Internal Revenue Code, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a "10-percent shareholder" of any Loan Party within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a "controlled foreign corporation" that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to any Loan Party within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8ECI, W-8BEN, W-8BEN-E, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Loan Parties and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8BEN, W-8BEN-E, W-8ECI or W-8IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such form or certificate.

(f) **Exclusions.** No Loan Party shall be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to [Section 2.17\(a\)](#), [\(b\)](#) or [\(c\)](#) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) **Mitigation.** If any Loan Party is required to pay additional amounts to or for the account of any Lender pursuant to this [Section 2.17](#), then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a

filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18 Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19 Increases in Commitments.

(a) Subject to the terms and conditions of this Agreement, the Borrower may, during the Availability Period by delivering to the Administrative Agent and the Lenders a Notice of Revolving Increase in the form of Exhibit E, request increases to the Lenders' Commitments (each such request, an "Optional Increase"); provided that: (i) the Borrower may not request any increase to the Commitments after the occurrence and during the continuance of a Default; (ii) each Optional Increase shall be in a minimum amount of \$50,000,000 and (iii) the aggregate amount of all Optional Increases shall be no more than \$100,000,000.

(b) Each Lender may, but shall not be obligated to, participate in any Optional Increase, subject to the approval of each Issuing Lender and the Swingline Lender (such approval not to be unreasonably withheld), and the decision of any Lender to commit to an Optional Increase shall be at such Lender's sole discretion and shall be made in writing. The Borrower may, at its own expense, solicit additional Commitments from third party financial institutions reasonably acceptable to the Administrative Agent, the Swingline Lender and the Issuing Lenders. Any such financial institution (if not already a Lender hereunder) shall become a party to this Agreement as a Lender, pursuant to a joinder agreement in form and substance reasonably satisfactory to the Administrative Agent and the Borrower.

(c) As a condition precedent to the Optional Increase, the Loan Parties shall deliver to the Administrative Agent a certificate of the Loan Parties dated the effective date of the Optional Increase, signed by Authorized Officers of each Loan Party, certifying that: (i) the resolutions adopted by each Loan Party approving or consenting to such Optional Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect, (ii) before and after giving effect to the Optional Increase, (A) the representations and warranties contained in Article V and the other Loan Documents are true and correct in all material respects (except to the extent any such representation and warranty is qualified by materiality or reference to Material Adverse Effect, in which case, such representation and warranty shall be true and correct in all respects) on and as of the effective date of the Optional Increase, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct in all material respects (except to the extent any such representation and warranty was qualified by materiality or reference to Material Adverse Effect, in which case, such representation and warranty was true and correct in all respects) as of such earlier date, and (B) that no Default exists, is continuing, or would result from the Optional Increase and (iii) any necessary governmental, regulatory and third party approvals required to approve the Optional Increase, are attached thereto and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Optional Increase.

(d) The Revolving Outstandings will be reallocated by the Administrative Agent on the effective date of any Optional Increase among the Lenders in accordance with their revised Commitment Ratios, and the Borrower hereby agrees to pay any and all costs (if any) required pursuant to Section 2.12 incurred by any Lender in connection with the exercise of the Optional Increase. Each of the Lenders shall participate in any new Loans made on or after such date in accordance with their respective Commitment Ratios after giving effect to the increase in Commitments contemplated by this Section 2.19.

Section 2.20 Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon

any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

ARTICLE III LETTERS OF CREDIT

Section 3.01 Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

Section 3.02 Letters of Credit.

(a) **Letters of Credit.** Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit denominated in Dollars from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any Affiliate of the Borrower that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate amount of Letter of Credit Liabilities shall not exceed \$150,000,000, (B) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03 Method of Issuance of Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of a Letter of Credit not later than 1:00 P.M. (Charlotte, North Carolina time) at least one Business Day prior to the proposed date of the issuance or extension of Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date, provided that if the Commitments of some, but not all, Lenders shall have been extended pursuant to Section 2.08(d), the "Termination Date" for this purpose shall be the latest Termination Date which is applicable to Commitments aggregating at least \$150,000,000.

Section 3.04 Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (a) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (b) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (c) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (i) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$150,000,000, (ii) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (iii) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of Letters of Credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05 Purchase and Sale of Letter of Credit Participations. Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06 Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07 Reimbursement Obligations. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (a) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (b) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08 Duties of Issuing Lenders to Lenders; Reliance. In determining whether to pay under any Letter of Credit, the applicable Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

Section 3.09 Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings. If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the applicable Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the applicable Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the applicable Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the applicable Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the applicable Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

Section 3.10 Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11 Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;
- (e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the applicable Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or
- (g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12 Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit, unless payment was prohibited by law, regulation or court order. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13 ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

ARTICLE IV CONDITIONS

Section 4.01 Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificate. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of each Loan Party by any Authorized Officer of such Loan Party stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing, and (B) the representations and warranties of such Loan Party contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Secretary's Certificates. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State (or equivalent body) of the jurisdiction of incorporation dated as of a recent date, as to the good standing of each Loan Party and (ii) a certificate of the Secretary or an Assistant Secretary of each Loan Party dated the Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the articles of incorporation of such Loan Party certified by the Secretary of State (or equivalent body) of the jurisdiction of incorporation of such Loan Party and (y) the bylaws of such Loan Party, (B) as to the absence of dissolution or liquidation proceedings by or against such Loan Party, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of such Loan Party authorizing the execution, delivery and performance of the Loan Documents to which such Loan Party is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of such Loan Party executing the Loan Documents to which such Loan Party is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Loan Parties, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, if any, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions; provided that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) need not be obtained or provided until the Borrower makes any such election.

(g) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(h) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(i) Know Your Customer. The Administrative Agent and each Lender shall have received all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including, without limitation, the Patriot Act, as has been reasonably requested in writing.

Section 4.02 Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Loan Parties contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05, Section 5.13 and Section 5.14(a) which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Loan Parties on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Guarantor represents and warrants that, and as to the Borrower, the Borrower represents and warrants that:

Section 5.01 Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the corporate authority to execute and deliver this Agreement and each other Loan Document to which it is a party and perform its obligations hereunder and thereunder. The Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has the corporate authority to execute and deliver this Agreement and each other Loan Document to which it is a party and perform its obligations hereunder and thereunder.

Section 5.02 Authority; No Conflict. The execution, delivery and performance by each Loan Party of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which such Loan Party is a party; provided that any exercise of the option to increase the Commitment as contemplated in Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) shall require further authorization of each Loan Party's governing body and may require additional Governmental Authority approvals.

Section 5.03 Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which such Loan Party is a party constitute the legal, valid and binding obligations of such Loan Party, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04 Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Guarantor and its Consolidated Subsidiaries as of December 31, 2013 and

the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst & Young, LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Guarantor and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Guarantor and its Consolidated Subsidiaries as of March 31, 2014 and the related unaudited consolidated statements of income and cash flows for the three months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Guarantor and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such three-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2013 there has been no change in the business, assets, financial condition or operations of the Guarantor and its Consolidated Subsidiaries, considered as a whole that would materially and adversely affect the Guarantor's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents; it being understood that the Energy Supply Spin-Off shall not be deemed, as of the time of the consummation thereof or at any time prior to or thereafter, to constitute such a change. Since December 31, 2013 there has been no change in the business, assets, financial condition or operations of the Borrower that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05 Litigation. Except as disclosed in or contemplated by the Guarantor's Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2013, or any subsequent report of the Guarantor filed with the SEC on a Form 10-K, 10-Q or 8-K Report or otherwise furnished in writing to the Administrative Agent and each Lender, no litigation, arbitration or administrative proceeding against the Guarantor or any of its Subsidiaries is pending or, to the Guarantor's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of any Loan Party to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of any Loan Party, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06 No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07 ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08 Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by any Loan Party of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals as shall have been obtained prior to the Effective Date and shall be in full force and effect; provided that any exercise of the option to increase the Commitment as contemplated in Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) shall require further authorization of the Loan Parties' governing bodies and may require Governmental Authority approvals.

Section 5.09 Investment Company Act. Neither the Borrower nor the Guarantor is an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or required to register as an investment company under such Act.

Section 5.10 Tax Returns and Payments. Each Loan Party has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which such Loan Party shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11 Compliance with Laws.

(a) To the knowledge of the Guarantor, the Guarantor and its Material Subsidiaries are in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of their respective businesses and the ownership of their respective property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (i) such compliance is being contested in good faith by appropriate proceedings or (ii) non-compliance would not reasonably be expected to materially and adversely affect the ability of the Loan Parties to perform any of their respective obligations under this Agreement, the Notes or any other Loan Document to which they are a party.

(b) To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business, except to the extent (i) such compliance is being contested in good faith by appropriate proceedings or (ii) non-compliance would not reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12 No Default. No Default has occurred and is continuing.

Section 5.13 Environmental Matters.

(a) Except (x) as disclosed in or contemplated by the Guarantor's Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2013, or in any subsequent report of the Guarantor filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, or (y) to the extent that the liabilities of the Guarantor and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) below of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Guarantor or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Guarantor's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Guarantor or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Guarantor or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Guarantor's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, in, from, on or under any property now or previously owned, leased or operated by the Guarantor or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Guarantor or any of its Subsidiaries or, to the Guarantor's or any of its Subsidiaries' knowledge, any property to which the Guarantor or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Guarantor's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Guarantor's Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2013, or in any subsequent report of the Guarantor filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Guarantor's knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Guarantor" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Guarantor or any of its Subsidiaries from the time such business or business entity became a Subsidiary of the Guarantor.

Section 5.14 Material Subsidiaries and Ownership.

(a) As of the Effective Date, (i) Schedule 5.14 states the name of each of the Guarantor's Material Subsidiaries and its jurisdiction or jurisdictions of organization or incorporation, as applicable, (ii) except as disclosed in Schedule 5.14, each such Subsidiary is a Wholly Owned Subsidiary of the Guarantor, and (iii) each of the Guarantor's Material Subsidiaries is in good standing in the jurisdiction or jurisdictions of its organization or incorporation, as applicable, and has all corporate or other organizational powers to carry on its businesses except where failure to do so would not reasonably be expected to have a Material Adverse Effect.

(b) Each of the Guarantor's Material Subsidiaries is duly organized or incorporated and validly existing under the laws of the jurisdiction or jurisdictions of its organization or incorporation, as applicable.

Section 5.15 OFAC. None of the Borrower, the Guarantor any Subsidiary of the Guarantor, nor, to the knowledge of the Guarantor or the Borrower, any director, officer, or Affiliate of the Borrower, the Guarantor or any of its Subsidiaries: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Persons or in Sanctioned Countries, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Countries. The proceeds of any Loan will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country.

Section 5.16 Anti-Corruption. None of the Borrower, the Guarantor or any of its Subsidiaries nor, to the knowledge of the Borrower or the Guarantor, any director, officer, agent, employee or other person acting on behalf of the Borrower or the Guarantor or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "FCPA") or any other applicable anti-corruption law; and the Loan Parties have instituted and maintain policies and procedures designed to ensure continued compliance therewith. No part of the proceeds of the Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity in violation of the FCPA or any other applicable anti-corruption law.

ARTICLE VI COVENANTS

Each Loan Party agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01 Information. The Loan Parties will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website or the Guarantor's website (<http://www.pplweb.com>) or making such information available on IntraLinks, SyndTrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Guarantor is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Guarantor), a consolidated balance sheet of the Guarantor and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Guarantor and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Guarantor is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Guarantor (other than the last quarterly fiscal period of the Guarantor)), a consolidated balance sheet of the Guarantor and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any Authorized Officer of the Guarantor.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of any Authorized Officer of the Guarantor, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the applicable Loan Party is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of an Authorized Officer of the applicable Loan Party setting forth the details thereof and the action which the applicable Loan Party is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon any Authorized Officer obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Guarantor or the Borrower is a Public Reporting Company, promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, and in each case a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Guarantor or any of its Subsidiaries as any Lender may reasonably request.

Each Loan Party hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Loan Parties hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks, SyndTrak or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Loan Parties or their respective securities) (each, a "Public Lender"). Each Loan Party hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to any Loan Party or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated "Public Investor." "Information" means all information received from the Guarantor or any of its Subsidiaries relating to the Guarantor or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Guarantor or any of its Subsidiaries; provided that, in the case of information received from the Guarantor or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02 Maintenance of Insurance. Each Loan Party will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which such Loan Party operates.

Section 6.03 Conduct of Business and Maintenance of Existence. Each Loan Party will (a) continue to engage in businesses of the same general type as now conducted by such Loan Party and, in the case of the Guarantor, its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (b) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04 Compliance with Laws, Etc. Each Loan Party will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) noncompliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05 Books and Records. Each Loan Party (a) will keep, and, in the case of the Guarantor, will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (b) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be

desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to any matters which such Loan Party deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06 Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower for general corporate purposes of the Borrower and its Affiliates, including for working capital purposes and for making investments in or loans to the Guarantor and Affiliates of the Loan Parties. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Affiliates. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07 Merger or Consolidation. No Loan Party will merge with or into or consolidate with or into any other corporation or entity, unless (a) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (b) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of such Loan Party under this Agreement, (c) in the case of the Guarantor, substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (d) in the case of the Borrower, the senior unsecured long-term debt ratings (without giving effect to any third party credit enhancement except for a guaranty of the Guarantor or a permitted successor) from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the Borrower’s Ratings from both Rating Agencies immediately preceding the announcement of such consolidation or merger.

Section 6.08 Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Guarantor and its Material Subsidiaries shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Guarantor and its Consolidated Subsidiaries as of the beginning of the Guarantor’s most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Guarantor and its Subsidiaries; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Guarantor or its Subsidiaries; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Guarantor; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Guarantor or any Subsidiary in a Permitted Business, (ii) are used by the Guarantor or any Subsidiary to repay Debt of the Guarantor or such Subsidiary, or (iii) are retained by the Guarantor or any Subsidiary; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower’s Ratings after giving effect to any such Asset Sale.

Section 6.09 Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Guarantor to Consolidated Capitalization of the Guarantor shall not exceed 70%, measured as of the end of each fiscal quarter.

ARTICLE VII DEFAULTS

Section 7.01 Events of Default. If one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (a) neither Loan Party shall pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) neither Loan Party shall pay when due any interest on the Loans and Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or
- (c) any Loan Party shall fail to observe or perform any of its covenants or agreements contained in Sections 6.05(b), 6.06, 6.07, 6.08 or 6.09; or
- (d) any Loan Party shall fail to observe or perform any of its covenants or agreements contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) any of the Loan Parties shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or
- (f) any representation, warranty or certification made by any Loan Party in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or
- (g) any Loan Party shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or
- (h) any Loan Party shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or
- (i) an involuntary case or other proceeding shall be commenced against any Loan Party seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against any Loan Party under the Bankruptcy Code; or
- (j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the

ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(k) any Loan Party shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against it that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred; or

(m) the Guaranty shall cease to be in full force or effect or shall be found by any judicial proceeding to be unenforceable or invalid; or the Guarantor shall deny or disaffirm in writing the Guarantor's obligations under the Guaranty;

then, and in every such event, while such event is continuing, the Administrative Agent shall (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in Section 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Reimbursement Obligations (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

ARTICLE VIII THE AGENTS

Section 8.01 Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02 Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower, Guarantor and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03 Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04 Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, teletype or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Loan Parties), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or a Loan Party referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06 Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Loan Parties, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and

information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Loan Parties and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Loan Parties. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Loan Parties which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07 Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by each Loan Party or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of any Loan Party or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Loan Parties. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of any Loan Party to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08 Indemnification. To the extent that the Loan Parties, as applicable, for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Loan Parties; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09 Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days' notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and Loan Parties of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document

Section 8.10 Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

ARTICLE IX MISCELLANEOUS

Section 9.01 Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or any Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype (provided, however, that if any notice or other communication sent by electronic mail, posting on an internet webpage or teletype is received by a recipient after such recipient's normal business hours, such notice or other communication shall be deemed received upon the opening of such recipient's next Business Day), (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of any of the Loan Parties and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Loan Parties::

PPL Capital Funding, Inc.
PPL Corporation
Two North Ninth Street
Allentown, Pennsylvania 18101-1179
Attention: Treasurer or Assistant Treasurer
Telephone: 610-774-5151
Facsimile: 610-774-5235

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

if to the Administrative Agent:

Wells Fargo Bank, National Association
1525 West W.T. Harris Boulevard
MAC D1109-019
Charlotte, North Carolina 28262
Attention: Syndication Agency Services
Telephone: 704-590-2706
Facsimile: 704-590-2790
Electronic Mail: agencyrequests@wellsfargo.com

with a copy to:

Wells Fargo Corporate Banking
301 South College Street, TW-14
MAC D1053-144
Charlotte, North Carolina 28288
Attention: Nick Schmiesing
Vice President, Power & Utilities Group
Telephone: 704-383-1864
Facsimile: 704-715-1486
Electronic Mail: Nick.Schmiesing@wellsfargo.com

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Attention: Jason Kyrwood
Telephone: 212-450-4653
Facsimile: 212-450-5425

Section 9.02 No Waivers; Non-Exclusive Remedies. No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03 Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. Each of the Loan Parties agrees to jointly and severally indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees and advisors of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Guarantor, the Borrower or any Subsidiary of the

Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or thereby or referred to herein or therein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. Each of the Loan Parties agrees to jointly and severally indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with (i) any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Guarantor or any of its Subsidiaries or any predecessor of the Guarantor or any of its Subsidiaries or (ii) any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, no Loan Party shall assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04 Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, except as otherwise expressly contemplated by this Agreement, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05 Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Loan Parties and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) extend or increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.09(b), 2.11(a) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, (i) change the definition of Required Lender or this Section 9.05 or Section 9.06(a) or (ii) release the Guarantor from its Obligations under the Guaranty.

Section 9.06 Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that no Loan Party may assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, the Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Loan Parties hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by any Loan Party of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any

Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person except to the extent that such disclosure is necessary to establish that such interest in the Loan or other obligation under the Loan Documents is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consents shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Approved Fund or Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement and its Note to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this Section 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of Section 9.06(c) and this Section 9.06(e) have been satisfied.

Section 9.07 Governing Law; Submission to Jurisdiction. This Agreement, each Note and each Letter of Credit shall be governed by and construed in accordance with the internal laws of the State of New York. Each Loan Party hereby submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each Loan Party irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08 Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09 Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Guarantor's independent public accountants) with the audited consolidated financial statements of the Guarantor and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Guarantor notifies the Administrative Agent that the Guarantor wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Guarantor that the Required Lenders wish to amend Article VI for such purpose), then the Guarantor's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP

became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Guarantor and the Required Lenders.

Section 9.10 Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words “hereof”, “herein”, “hereunder” and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to “Article”, “Section”, “Exhibit”, “Schedule” or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to “Article”, “Section”, “Exhibit”, “Schedule” or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word “will” shall be construed to have the same meaning as the word “shall”. The term “including” shall be construed to have the same meaning as the phrase “including without limitation”.

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person’s successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by “to the best knowledge of” or “known to” (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

(g) Unless otherwise specified, all references herein to times of day shall constitute references to Charlotte, North Carolina time.

Section 9.11 WAIVER OF JURY TRIAL. EACH OF THE LOAN PARTIES HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12 Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender’s or any Agent’s Affiliates and their respective directors, officers, employees, service providers and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Loan Parties’ Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a “tombstone” or other release limited to describing the names of the Loan Parties or their Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13 USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Loan Parties that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the “Patriot Act”), it is required to obtain, verify and record information that identifies the Borrower and the Guarantor, which information includes the name and address of each Loan Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify each Loan Party in accordance with the Patriot Act.

Section 9.14 No Fiduciary Duty. Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the “Lender Parties”), may have economic interests that conflict with those of the Loan Parties, their respective Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the “Borrower Parties”). Each Loan Party agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by this Agreement in the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm’s-length commercial transactions between the Lender Parties, on the one hand, and the Loan Parties, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any

Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. Each Loan Party acknowledges and agrees that it has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. Each Loan Party agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15 Survival. Sections 2.12, 2.16, 2.17 and 9.03 shall survive the Termination Date for the benefit of each Agent and Each Lender, as applicable.

ARTICLE X GUARANTY

Section 10.01 Guaranty. The Guarantor unconditionally, absolutely and irrevocably guarantees to the Administrative Agent, each Lender and each Issuing Lender, as though it was a primary obligor for, the full and punctual payment of the Obligations when due (whether at stated maturity, upon acceleration or otherwise). If the Borrower fails to pay any Obligation punctually when due, the Guarantor agrees that it will forthwith on demand pay the amount not so paid at the place and in the manner specified in the relevant Loan Document. Notwithstanding the foregoing, the liability of the Guarantor individually with respect to its obligations, including any payment made pursuant to, this Guaranty shall be limited to an aggregate amount equal to the maximum amount that would not render the Guarantor's obligations hereunder subject to avoidance under the Bankruptcy Code or any comparable provisions of any applicable state law. This Guaranty is a Guarantee of payment and not merely of collection.

Section 10.02 Guaranty Unconditional. The obligations of the Guarantor hereunder shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

- (a) any change in the amount or purpose of or the time, manner, method, or place of payment or performance of any of the Obligations or any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of the Borrower or any other Person under any Loan Document, by operation of law or otherwise;
- (b) any modification, extension, renewal or amendment of or supplement to any Loan Document or any of the Obligations or any execution or delivery of any additional Loan Documents;
- (c) any release, impairment, non-perfection or invalidity of any direct or indirect security for any obligation of the Borrower or any other Person under any Loan Document;
- (d) any change in the corporate existence, structure or ownership of the Borrower or any other Person or any of their respective Subsidiaries, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Borrower or any other Person or any of their assets or any resulting release or discharge of any obligation (including any of the Obligations) of the Borrower or any other Person under any Loan Document;
- (e) the existence of any claim, set-off, defense, counterclaim, withholding or other right that the Guarantor or the Borrower may have at any time against any Person (including the Administrative Agent, the Lenders and the Issuing Lenders), whether in connection with the Loan Documents or any unrelated transactions; provided that nothing herein shall prevent the assertion of any such claim or defense by separate suit or compulsory counterclaim;
- (f) any avoidance, subordination, invalidity or unenforceability relating to or against the Borrower or any other Person for any reason of any Obligation or any Loan Document, any provision of applicable law or regulation purporting to prohibit the payment of any Obligation by the Borrower or any other Person, or the Borrower denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any Obligation or provision of any Loan Document;
- (g) any failure of the Administrative Agent, any Lender or any Issuing Lender to assert any claim or demand or to exercise or enforce any right or remedy under the provisions of any Loan Document or to assert any breach of or default under any Loan Document or any breach of the Obligations; or
- (h) any other act or omission to act or delay of any kind by the Borrower, any other party to any Loan Document or any other Person, or any other circumstance whatsoever that might, but for the provisions of this clause (h), constitute a legal or equitable discharge of or defense to any obligation of the Guarantor hereunder.

Section 10.03 Discharge Only Upon Payment in Full; Reinstatement in Certain Circumstances. The Guarantor's obligations hereunder shall remain in full force and effect until all Obligations shall have been paid in full, all Commitments have been terminated and all Letters of Credit have either expired, been repaid in full or been cash collateralized. If at any time any payment of any Obligation is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, the Guarantor's obligations hereunder shall be reinstated as though such payment had been due but not made at such time.

Section 10.04 Waiver by Guarantor. The Guarantor irrevocably waives (a) acceptance hereof, presentment, demand for performance, promptness, diligence, notice of non-performance, default, acceleration, protest or dishonor and any notice not provided for herein, (b) any requirement that at any time any action be taken by any Person against the Borrower or any other Person, (c) any right to revoke this Guaranty, and (d) any defense based on any right of set-off, recoupment, counterclaim, withholding or other deduction of any nature against or in respect of the Obligations.

Section 10.05 Subrogation. Upon making payment with respect to any Obligation, the Guarantor shall be subrogated to the rights of the payee against the Borrower with respect to such payment; provided that the Guarantor agrees it will not exercise any rights against the Borrower arising in connection with the Obligations by way of subrogation against the Borrower, or by reason of contribution against any other guarantor of such Obligations until all Obligations shall have been paid in full, all Commitments have been terminated and all Letters of Credit have either expired, been repaid in full or been cash collateralized.

Section 10.06 Stay of Acceleration. If acceleration of the time for payment of any Obligation by the Borrower is stayed, enjoined or prevented for any reason (including but not limited to by reason of the insolvency or receivership of the Borrower or otherwise), all Obligations otherwise subject to acceleration under the terms of any Loan Document shall nonetheless be payable by the Guarantor forthwith on demand by the Administrative Agent.

Section 10.07 Continuing Guaranty. The Guaranty set forth in this Article X is a continuing guaranty, shall be binding on the Guarantor and its

successors and assigns, and shall be enforceable by each holder from time to time of the Obligations (including, without limitation, the Administrative Agent, the Lenders and the Issuing Lenders, each, a “Guaranteed Party”). If all or part of any Guaranteed Party’s interest in any Obligation is assigned or otherwise transferred, the transferor’s rights hereunder, to the extent applicable to the obligation so transferred, shall automatically be transferred with such obligation; and without limitation of the foregoing, any of the Obligations shall be and remain Obligations entitled to the benefit of this Guaranty if any Guaranteed Party assigns or otherwise transfers all or part of its interest in any Obligation or any of its rights or obligations under any Loan Document.

Section 10.08 Default Payments by Borrower. Upon the occurrence and during the continuation of any default under any Obligation, if any amount shall be paid to the Guarantor by or for the account of the Borrower with respect to such Obligation, such amount shall be held in trust for the benefit of each Lender, each Issuing Lender and the Administrative Agent and shall forthwith be paid to the Administrative Agent to be credited and applied to the Obligations when due and payable.

Section 10.09 Duty to Stay Advised. The Guarantor agrees that the Lenders shall have no duty to advise the Guarantor of information known to them regarding the financial condition of the Borrower and the Guarantor hereby assumes responsibility for keeping itself advised of the financial condition of the Borrower.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER:

PPL CAPITAL FUNDING, INC.

By: _____
Name: _____
Title: _____

GUARANTOR:

PPL CORPORATION

By: _____
Name: _____
Title: _____

[Signature Page to Capital Funding Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, Issuing Lender, Swingline Lender and Lender

By: _____
Name: _____
Title: _____
[_____]

By: _____
Name: _____
Title: _____

[Signature Page to Capital Funding Credit Agreement]

COMMITMENTS

Lender	Commitment
Wells Fargo Bank, National Association	\$ 18,500,000.00
Bank of America, N.A.	\$ 18,500,000.00
The Royal Bank of Scotland plc	\$ 18,500,000.00
Citibank, N.A.	\$ 18,500,000.00
JPMorgan Chase Bank, N.A.	\$ 18,500,000.00
Morgan Stanley Bank, N.A.	\$ 18,500,000.00
Barclays Bank PLC	\$ 15,000,000.00
BNP Paribas	\$ 15,000,000.00
Canadian Imperial Bank of Commerce	\$ 15,000,000.00
Credit Suisse AG, Cayman Islands Branch	\$ 15,000,000.00
Goldman Sachs Bank USA	\$ 15,000,000.00
Mizuho Bank, Ltd.	\$ 15,000,000.00
Royal Bank of Canada	\$ 15,000,000.00
SunTrust Bank	\$ 15,000,000.00
The Bank of Nova Scotia	\$ 15,000,000.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$ 15,000,000.00
UBS AG, Stamford Branch	\$ 15,000,000.00
PNC Bank, National Association	\$ 8,000,000.00
The Bank of New York Mellon	\$ 8,000,000.00
U.S. Bank National Association	\$ 8,000,000.00
Total	\$ 300,000,000.00

JLA FRONTING SUBLIMITS

JLA Issuing Banks	Sublimit
Wells Fargo Bank, National Association	\$ 25,000,000.00
Bank of America, N.A.	\$ 25,000,000.00
The Royal Bank of Scotland plc	\$ 25,000,000.00
Citibank, N.A.	\$ 25,000,000.00
JPMorgan Chase Bank, N.A.	\$ 25,000,000.00
Morgan Stanley Bank, N.A.	\$ 25,000,000.00

SCHEDULE 5.14

Material Subsidiaries

<u>Name</u>	<u>Jurisdiction of Organization</u>
LG&E and KU Energy LLC	Kentucky
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Supply, LLC ¹	Delaware
PPL Global, LLC	Delaware

¹ PPL Energy Supply, LLC shall not be deemed a Material Subsidiary upon and after the consummation of the Energy Supply Spin-Off.

\$300,000,000

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

dated as of July 28, 2014

among

**PPL ELECTRIC UTILITIES CORPORATION,
as the Borrower,**

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, Issuing Lender and Swingline Lender**

**WELLS FARGO SECURITIES, LLC,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
RBS SECURITIES INC.,
CITIGROUP GLOBAL MARKETS INC.,
J.P. MORGAN SECURITIES LLC**

and

**MORGAN STANLEY SENIOR FUNDING, INC.,
Joint Lead Arrangers and Joint Bookrunners**

BANK OF AMERICA, N.A.

and

**THE ROYAL BANK OF SCOTLAND PLC,
Syndication Agents**

**CITIGROUP GLOBAL MARKETS INC.,
J.P. MORGAN SECURITIES LLC
and
MORGAN STANLEY SENIOR FUNDING, INC.,
Documentation Agents**

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 - Exhibit B - Form of Note
 - Exhibit C - Form of Assignment and Assumption Agreement
 - Exhibit D - Forms of Opinion of Counsel for the Borrower
 - Exhibit E - Form of Notice of Revolving Increase
 - Exhibit F - Form of Extension Letter
-

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this “Agreement”) dated as of July 28, 2014 is entered into among PPL ELECTRIC UTILITIES CORPORATION, a Pennsylvania corporation (the “Borrower”), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as the Administrative Agent. The parties hereto agree as follows:

RECITALS

The Borrower is a party to that certain \$300,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the “Existing Credit Agreement”); and

The Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

In consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto covenant and agree as follows:

**ARTICLE I
DEFINITIONS**

Section 1.01 Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Additional Commitment Lender” has the meaning set forth in Section 2.08(d)(iv).

“Additional Letter of Credit” means any letter of credit issued under this Agreement by an Issuing Lender on or after the Effective Date.

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise. In no event shall any Agent or any Lender be deemed to be an Affiliate of the Borrower or any of its Subsidiaries.

“Agent” means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers and the Documentation Agents.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Amendment Fee” has the meaning set forth in Section 4.01(j).

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“Applicable Percentage” means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower’s Ratings (S&P /Moody’s)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A+ from S&P / A1 from Moody’s	0.075%	0.000%	0.875%
Category B	A from S&P / A2 from Moody’s	0.100%	0.000%	1.000%
Category C	A- from S&P / A3 from Moody’s	0.125%	0.125%	1.125%
Category D	BBB+ from S&P / Baa1 from Moody’s	0.175%	0.250%	1.250%
Category E	BBB from S&P / Baa2 from Moody’s	0.200%	0.500%	1.500%
Category F	≤BBB- from S&P / Baa3 from Moody’s	0.250%	0.625%	1.625%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Asset Sale” means any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Automatic Extension” has the meaning set forth in the definition of Initial Termination Date.

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day, a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

“Base Rate Borrowing” means a Borrowing comprised of Base Rate Loans.

“Base Rate Lending Office” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“Base Rate Loan” means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrower’s Rating” means the senior secured long-term debt rating of the Borrower from S&P or Moody’s.

“Borrowing” means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London Business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee’s balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in Appendix A and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 2.19 or Section 9.06(c).

“Commitment Fee” has the meaning set forth in Section 2.07(a).

“Commitment Ratio” means, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“Consenting Lender” has the meaning set forth in Section 9.15.

“Consolidated Capitalization” means the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowners’ equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except

that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Continuing Lender” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Credit Event” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“Current Termination Date” has the meaning set forth in Section 2.08(d)(ii).

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Debtor Relief Laws” means the Bankruptcy Code, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses of the definition of “Lender Default” shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to cure as expressly contemplated in the definition of “Lender Default”) upon delivery of written notice of such determination to the Borrower, each Issuing Bank, each Swingline Lender and each Lender.

“Documentation Agents” means Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley Senior Funding, Inc., each in its capacity as a documentation agent in respect of this Agreement.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Election Date” has the meaning set forth in Section 2.08(d)(ii).

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) or (v) an Approved Fund; provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws or relate to Hazardous Substances.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“Existing Credit Agreement” has the meaning set forth in the recitals hereto.

“Existing Letters of Credit” means the letters of credit issued before the Effective Date pursuant to the Existing Credit Agreement and set forth on Schedule 1.01A hereto.

“Extending Lender” means, in the event that the Termination Date is extended in accordance with Section 2.08(d), a Lender which is not a Non-Extending Lender.

“Extension Date” has the meaning set forth in Section 2.08(d)(ii).

“Extension Letter” means a letter from the Borrower to the Administrative Agent requesting an extension of the Termination Date substantially in the form of Exhibit F hereto.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter” means that certain fee letter dated as of June 27, 2014 among the Borrower, Wells Fargo Securities, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc, as amended, modified or supplemented from time to time.

“FERC” means the Federal Energy Regulatory Commission.

“Fronting Fee” has the meaning set forth in Section 2.07(b).

“Fronting Sublimit” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on Appendix B hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“Fund” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course of its activities.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply

funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Initial Termination Date” means October 18, 2018; provided, that, the Initial Termination Date shall be deemed to be July 28, 2019 (the “Automatic Extension”), upon the satisfaction, on or prior to December 31, 2014, of the conditions set forth in Section 4.03.

“Interest Period” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clause (iii) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Issuing Lender” means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity, (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, and (iii) each issuer of an Existing Letter of Credit, subject in each case to the Fronting Sublimit.

“JLA Issuing Bank” means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc., Citibank, N.A., JPMorgan Chase Bank, N.A. and Morgan Stanley Bank, N.A.

“Joint Lead Arrangers” means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley Senior Funding, Inc., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

“Lender” means each bank or other lending institution listed in Appendix A as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to (a) fund all or any portion of its Loans within two Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (b) pay to the Administrative Agent, any Issuing Bank, any Swingline Lender or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit or Swingline Loans) within two Business Days of the date when due, or (ii) a Lender having notified the Borrower, the Administrative Agent or any Issuing Bank or the Swingline Lender in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender’s obligation to fund a Loan hereunder and states that such position is based on such Lender’s determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), or (iii) the failure, within three Business Days after written request by the Administrative Agent or the Borrower, of a Lender to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that a Lender Default in effect pursuant to this clause (iii) shall be cured upon receipt of such written confirmation by the Administrative Agent and the Borrower) or (iv) a Lender has, or has a direct or indirect parent company that has, (a) become the subject of a proceeding under any Debtor Relief Law, or (b) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity; provided that a Lender Default shall not exist solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender.

“Letter of Credit” means an Existing Letter of Credit or an Additional Letter of Credit, and “Letters of Credit” means any combination of the

foregoing.

“Letter of Credit Fee” has the meaning set forth in Section 2.07(b).

“Letter of Credit Liabilities” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 (or any applicable successor page) as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan, and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“London Interbank Offered Rate” means:

(i) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (i), such comparable or successor rate shall be applied in a manner consistent with market practice; provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

(ii) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (ii), such comparable or successor rate shall be applied in a manner consistent with market practice; provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Mult employer Plan” means at any time an employee pension benefit plan within the meaning of Section 401(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of

such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Extending Lender” has the meaning set forth in Section 2.08(d)(ii).

“Non-Recourse Debt” means Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” means a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document;

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document; and

(v) in the case of each of clauses (i) through (iv) above, together with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Optional Increase” has the meaning set forth in Section 2.19(a).

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“Patriot Act” has the meaning set forth in Section 9.13.

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934.

“PUC” means the Pennsylvania Public Utility Commission.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“Replacement Date” has the meaning set forth in Section 2.08(b).

“Replacement Lender” has the meaning set forth in Section 2.08(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person

“Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

“Revolving” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“Revolving Outstandings” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) the aggregate amount of such Lender’s Letter of Credit Liabilities.

“Revolving Outstandings Excess” has the meaning set forth in Section 2.09.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill Financial Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Sanctions” means sanctions administered or enforced by OFAC, the U.S. State Department, the European Union or Her Majesty’s Treasury.

“Sanctioned Country” means a country or territory that is, or whose government is, the subject of comprehensive territorial Sanctions (currently, Cuba, Iran, North Korea, Sudan, and Syria).

“Sanctioned Person” means a Person that is, or is owned or controlled by Persons that are, (i) the subject of any Sanctions, or (ii) located, organized or resident in a Sanctioned Country.

“SEC” means the Securities and Exchange Commission.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Swingline Borrowing” means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of Borrowing with respect thereto.

“Swingline Exposure” means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

“Swingline Lender” means Wells Fargo Bank, in its capacity as Swingline Lender.

“Swingline Loan” means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

“Swingline Sublimit” means the lesser of (a) \$10,000,000 and (b) the aggregate Commitments of all Lenders.

“Swingline Termination Date” means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

“Syndication Agents” means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earlier to occur of (i) the Initial Termination Date, as may be extended from time to time pursuant to Section 2.08(d), and (ii) the date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Wells Fargo Bank” means Wells Fargo Bank, National Association, and its successors.

“Wells Fargo Securities” means Wells Fargo Securities, LLC, and its successors and assigns.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01 Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

Section 2.02 Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

(b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender’s obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender’s failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender’s Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded

in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

Section 2.03 Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04 Notice to Lenders; Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders . Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

Section 2.05 Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to subsections (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once

again be evidenced as described in subsections (a) and (b) above.

Section 2.06 Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause (A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a "Notice of Conversion/Continuation") to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender's pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07 Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the "Commitment Fee") for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender's Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the "Letter of Credit Fee") for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the "Fronting Fee") in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or

amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.08 Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Replacement of Lenders; Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date; Optional Extensions.

(i) The Commitments shall terminate on the Termination Date.

(ii) The Borrower may, by sending an Extension Letter to the Administrative Agent (in which case the Administrative Agent shall promptly deliver a copy to each of the Lenders), not less than thirty (30) nor more than ninety (90) days prior to the first or second anniversary of the

date hereof (each such anniversary, the “Extension Date”), or at both times, request that the Lenders extend the Termination Date then in effect (the “Current Termination Date”) so that it will occur one year after the Current Termination Date. Each Lender, acting in its sole discretion, may, by notice to the Administrative Agent given no later than fifteen (15) days prior to the first or second annual anniversary of the date hereof, as applicable (the “Election Date”), advise the Administrative Agent in writing whether or not it agrees to such extension (each Lender to respond negatively to such request being referred to herein as a “Non-Extending Lender”); provided, that, any Lender not responding to such request within such time period shall be deemed to be a Non-Extending Lender. The election of any Lender to agree to such extension shall not obligate any other Lender to agree.

(iii) (A) If Lenders holding Commitments that aggregate at least 51% of the aggregate Commitments of the Lenders on or prior to the Election Date shall not have agreed to extend the Termination Date, then the Current Termination Date shall not be so extended and the outstanding principal balance of all loans and other amounts payable hereunder shall be due and payable on the Current Termination Date. (B) If (and only if) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date, then the Termination Date applicable to the Lenders that are Extending Lenders shall, as of the Extension Date, be the day that is one year after the Current Termination Date. In the event of such extension, the Commitment of each Non-Extending Lender shall terminate on the Current Termination Date applicable to such Non-Extending Lender, all Loans and other amounts payable hereunder to such Non-Extending Lender shall become due and payable on such Current Termination Date and the aggregate Commitments of the Lenders hereunder shall be reduced by the aggregate Commitments of Non-Extending Lenders so terminated on and after such Current Termination Date. Each Non-Extending Lender shall be required to maintain its original Commitment up to the Termination Date, or Current Termination Date, as applicable, to which such Non-Extending Lender had previously agreed.

(iv) In the event that the conditions of clause (B) of paragraph (iii) above have been satisfied, the Borrower shall have the right on or before the applicable Extension Date, at its own expense, to require any Non-Extending Lender to transfer and assign without recourse or representation (except as to title and the absence of Liens created by it) (in accordance with and subject to the restrictions contained in Section 9.06(c)) all its interests, rights and obligations under the Loan Documents (including with respect to any Letter of Credit Liabilities) to one or more Eligible Assignees (which may include any Lender) (each, an “Additional Commitment Lender”), provided, that (x) such Additional Commitment Lender, if not already a Lender hereunder, shall be subject to the approval of the Administrative Agent, the Swingline Lender and the Issuing Lenders (not to be unreasonably withheld), (y) such assignment shall become effective as of the applicable Extension Date and (z) the Additional Commitment Lender shall pay to such Non-Extending Lender in immediately available funds on the effective date of such assignment the principal of and interest accrued to the date of payment on the Loans made by such Non-Extending Lender hereunder and all other amounts accrued for such Non-Extending Lender’s account or owed to it hereunder.

(v) Notwithstanding the foregoing, no extension of the Termination Date pursuant to this Section 2.08(d) shall become effective unless, on the Extension Date, (i) the conditions set forth in Section 4.02 shall be satisfied (with all references in such paragraphs to the making of a Loan or issuance of a Letter of Credit being deemed to be references to the extension of the Commitments on the Extension Date), (ii) any necessary governmental, regulatory and third party approvals, including, without limitation any PUC and/or FERC approval required to authorize the extension of the Termination Date shall be in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the extension of the Termination Date and (iii) the Administrative Agent shall have received (a) a certificate to that effect, with any necessary governmental, regulatory or third party approvals attached thereto, dated the Extension Date and executed by a Responsible Officer of the Borrower and (b) opinions of counsel for the Borrower, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), or, if the Termination Date has been extended pursuant to Section 2.08(d) with respect to some, but not all, Lenders, the date on which the Current Termination Date with respect to Non-Extending Lenders occurs, the Commitment Ratios of the Continuing Lenders or the Extending Lenders, as applicable, shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders or the Extending Lenders, as applicable, in and obligations of the Continuing Lenders or Extending Lenders, as applicable, in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (as adjusted pursuant to Sections 2.19 and 2.20). The right of the Borrower to effect such a termination pursuant to Section 2.08(b) or (c) is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.09 Maturity of Loans; Mandatory Prepayments.

(a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a “Revolving Outstandings Excess”), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

(b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

Section 2.10 Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

Section 2.11 General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12 Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13 Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14 Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. (Charlotte, North Carolina time) on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15 Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of

such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16 Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall (i) impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office), (ii) subject any Lender or the Issuing Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any Euro-Dollar Loan made by it, or change the basis of taxation of payments to such Lender or the Issuing Lender in respect thereof (other than (A) Taxes, (B) Other Taxes, (C) the imposition of, or any change in the rate of, any taxes described in clauses (i) through (iv) of the definition of Taxes in Section 2.17(a) and (D) Taxes attributable to a Lender's or an Issuing Lender's failure to comply with Section 2.17(e)) or (iii) impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.17 Taxes.

(a) Payments Net of Certain Taxes. Any and all payments made by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17(a)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "Other Taxes").

(c) Indemnification. The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with

respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this [Section 2.17\(c\)](#). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) **Refunds or Credits.** If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this [Section 2.17](#), it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this [Section 2.17](#) with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) **Tax Forms and Certificates.** On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a "Non-U.S. Lender") shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, (x) certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender and (y) with respect to any other applicable payments under or entered into in connection with any Loan Document, establishing an exemption from, or reduction of, United States withholding tax pursuant to the "business profits" or "other income" article of such tax treaty; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; (C) in the case of a Non-U.S. Lender claiming the benefit of the exemption for portfolio interest under Section 871(h) or 881(c) of the Code, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a "10-percent shareholder" of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a "controlled foreign corporation" that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8ECI, W-8BEN, W-8BEN-E, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8BEN, W-8BEN-E, W-8ECI or W-8IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such form or certificate.

(f) **Exclusions.** The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to [Section 2.17\(a\)](#), [\(b\)](#) or [\(c\)](#) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) **Mitigation.** If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this [Section 2.17](#), then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) **Confidentiality.** Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18 **Base Rate Loans Substituted for Affected Euro-Dollar Loans.** If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to [Section 2.15](#) or (b) any Lender has demanded compensation under [Section 2.16\(a\)](#) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19 Increases in Commitments.

(a) Subject to the terms and conditions of this Agreement, the Borrower may, during the Availability Period by delivering to the Administrative Agent and the Lenders a Notice of Revolving Increase in the form of Exhibit E, request increases to the Lenders' Commitments (each such request, an "Optional Increase"); provided that: (i) the Borrower may not request any increase to the Commitments after the occurrence and during the continuance of a Default; (ii) each Optional Increase shall be in a minimum amount of \$50,000,000 and (iii) the aggregate amount of all Optional Increases shall be no more than \$100,000,000.

(b) Each Lender may, but shall not be obligated to, participate in any Optional Increase, subject to the approval of each Issuing Lender and the Swingline Lender (such approval not to be unreasonably withheld), and the decision of any Lender to commit to an Optional Increase shall be at such Lender's sole discretion and shall be made in writing. The Borrower may, at its own expense, solicit additional Commitments from third party financial institutions reasonably acceptable to the Administrative Agent, the Swingline Lender and the Issuing Lenders. Any such financial institution (if not already a Lender hereunder) shall become a party to this Agreement as a Lender, pursuant to a joinder agreement in form and substance reasonably satisfactory to the Administrative Agent and the Borrower.

(c) As a condition precedent to the Optional Increase, the Borrower shall deliver to the Administrative Agent a certificate of the Borrower dated the effective date of the Optional Increase, signed by a Responsible Officer of the Borrower, certifying that: (i) the resolutions adopted by the Borrower approving or consenting to such Optional Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect, (ii) before and after giving effect to the Optional Increase, (A) the representations and warranties contained in Article V and the other Loan Documents are true and correct in all material respects (except to the extent any such representation and warranty is qualified by materiality or reference to Material Adverse Effect, in which case, such representation and warranty shall be true and correct in all respects) on and as of the effective date of the Optional Increase, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct in all material respects (except to the extent any such representation and warranty was qualified by materiality or reference to Material Adverse Effect, in which case, such representation and warranty was true and correct in all respects) as of such earlier date, and (B) that no Default exists, is continuing, or would result from the Optional Increase and (iii) any necessary governmental, regulatory and third party approvals, including, without limitation any PUC and/or FERC approval required to approve the Optional Increase, are attached thereto and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Optional Increase.

(d) The Revolving Outstandings will be reallocated by the Administrative Agent on the effective date of any Optional Increase among the Lenders in accordance with their revised Commitment Ratios, and the Borrower hereby agrees to pay any and all costs (if any) required pursuant to Section 2.12 incurred by any Lender in connection with the exercise of the Optional Increase. Each of the Lenders shall participate in any new Loans made on or after such date in accordance with their respective Commitment Ratios after giving effect to the increase in Commitments contemplated by this Section 2.19.

Section 2.20 Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or

any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under [Section 2.07\(b\)](#) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with [Section 2.20\(a\)](#), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with [Section 3.05](#) (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

ARTICLE III LETTERS OF CREDIT

Section 3.01 Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

Section 3.02 Letters of Credit.

(a) Existing Letters of Credit. On the Effective Date, each Issuing Lender (as defined in the Existing Credit Agreement) that has issued an Existing Letter of Credit shall be deemed, without further action by any party to this Agreement, to have issued such Existing Letter of Credit under this Agreement pursuant to the terms and subject to the conditions of this Article III; provided, that immediately after each Letter of Credit is deemed to have been issued, the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments.

(b) Additional Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit denominated in Dollars from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any of its Subsidiaries that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate amount of Letter of Credit Liabilities shall not exceed \$150,000,000, (B) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03 Method of Issuance of Additional Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of an Additional Letter of Credit not later than 1:00 P.M. (Charlotte, North Carolina time) at least one Business Day prior to the proposed date of the issuance or extension of Additional Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date, provided that if the Commitments of some, but not all, Lenders shall have been extended pursuant to [Section 2.08\(d\)](#), the "Termination Date" for this purpose shall be the latest Termination Date which is applicable to Commitments aggregating at least \$150,000,000.

Section 3.04 Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Additional Letter of Credit shall, in addition to the conditions precedent set forth in [Article IV](#), be subject to the conditions precedent that (a) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (b) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (c) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (i) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$150,000,000, (ii) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (iii) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this [Section 3.04](#), no Issuing Lender shall be under any obligation to issue any Additional Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Additional Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Additional Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Additional Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05 Purchase and Sale of Letter of Credit Participations. Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under [Section 2.07\(b\)](#) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06 Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in

accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07 Reimbursement Obligations. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (a) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (b) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08 Duties of Issuing Lenders to Lenders: Reliance. In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

Section 3.09 Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings. If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

Section 3.10 Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11 Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances

whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;
- (e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or
- (g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12 Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit, unless payment was prohibited by law, regulation or court order. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13 ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

ARTICLE IV CONDITIONS

Section 4.01 Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificate. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or any Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of the Commonwealth of the Commonwealth of Pennsylvania, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto are true, correct and complete copies of (x) the Borrower's articles of incorporation certified by the Secretary of the Commonwealth of the Commonwealth of Pennsylvania and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect

on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the order(s) of the PUC (the "PUC Order") and any required approvals of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions; provided that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) or Section 4.03 need not be obtained or provided until the Borrower makes any such election.

(g) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(h) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(i) Know Your Customer. The Administrative Agent and each Lender shall have received all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including, without limitation, the Patriot Act, as has been reasonably requested in writing.

(j) Amendment Fee. The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the "Amendment Fee") as set forth in the Fee Letter, on or before the Effective Date.

Section 4.02 Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

Section 4.03 Conditions to Automatic Extension. The Automatic Extension shall be effective upon the satisfaction, on or prior to December 31, 2014, of the following conditions:

(a) any necessary governmental, regulatory and third party approvals, including, without limitation any PUC and/or FERC approval required to authorize the Automatic Extension shall be in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Automatic Extension;

(b) the Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower certifying (i) that attached thereto are true, correct and complete copies of any necessary governmental, regulatory or third party approvals required to authorize the Automatic Extension and (ii) that no action has been taken by any competent authority which could restrain or prevent the Automatic Extension or impose materially adverse conditions upon the consummation of the Automatic Extension; and

(c) the Administrative Agent shall have received opinions of counsel for the Borrower, addressed to the Administrative Agent and each Lender in form and substance satisfactory to the Administrative Agent.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01 Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02 Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party; provided that any exercise of the option to increase the Commitment as contemplated in Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) or Section 4.03 may require further authorization of the Borrower's Board of Directors, or approvals of the PUC and/or FERC.

Section 5.03 Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04 Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2013 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst and Young LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of March 31, 2014 and the related unaudited consolidated statements of income and cash flows for the three months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such three-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2013 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05 Litigation. Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2013, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06 No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07 ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08 Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the PUC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect; provided, that any exercise of the option to increase the Commitment as contemplated in Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) or Section 4.03 may require additional approvals of the PUC and/or FERC.

Section 5.09 Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or required to register as an investment company under such Act.

Section 5.10 Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11 Compliance with Laws.

(a) To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (i) such compliance is being contested in good faith by appropriate proceedings or (ii) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12 No Default. No Default has occurred and is continuing.

Section 5.13 Environmental Matters.

(a) Except (x) as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2013, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, or (y) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) below of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material

Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2013, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation..

Section 5.14 OFAC. None of the Borrower, any Subsidiary of the Borrower, nor, to the knowledge of the Borrower, any director, officer, or Affiliate of the Borrower or any of its Subsidiaries: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Persons or in Sanctioned Countries, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Countries. The proceeds of any Loan will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country.

Section 5.15 Anti-Corruption. None of the Borrower or any of its Subsidiaries nor, to the knowledge of the Borrower, any director, officer, agent, employee or other person acting on behalf of the Borrower or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "FCPA") or any other applicable anti-corruption law; and the Borrower have instituted and maintain policies and procedures designed to ensure continued compliance therewith. No part of the proceeds of the Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity in violation of the FCPA or any other applicable anti-corruption law.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01 Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website or PPL Corporation's website (<http://www.pplweb.com>) or making such information available on IntraLinks, SyndTrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, and in each case a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks, SyndTrak or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated "Public Investor." "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02 Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03 Conduct of Business and Maintenance of Existence. The Borrower will (a) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (b) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04 Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) noncompliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05 Books and Records. The Borrower (a) will keep, and, will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (b) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to "visit", "inspect", "discuss" and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06 Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under

the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Subsidiaries, including for working capital purposes and for making investments in or loans to Subsidiaries. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Subsidiaries including to support issuances of tax exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07 Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (a) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (b) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (c) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (d) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08 Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower's most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower's Ratings after giving effect to any such Asset Sale.

Section 6.09 Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

ARTICLE VII DEFAULTS

Section 7.01 Events of Default. If one or more of the following events (each an "Event of Default") shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on the Loans and Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in Sections 6.05(b), 6.06, 6.07, 6.08 or 6.09; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or
- (f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or
- (g) the Borrower shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or
- (h) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or
- (i) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower under the Bankruptcy Code; or
- (j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer

Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(k) the Borrower shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in Section 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Reimbursement Obligations (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

ARTICLE VIII THE AGENTS

Section 8.01 Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02 Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03 Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04 Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, teletype or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06 Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may

come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07 Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08 Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09 Resignation: Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days' notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document

Section 8.10 Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

ARTICLE IX MISCELLANEOUS

Section 9.01 Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or any Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype (provided, however, that if any notice or other communication sent by electronic mail, posting on an internet webpage or teletype is received by a recipient after such recipient's normal business hours, such notice or other communication shall be deemed received upon the opening of such recipient's next Business Day), (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

PPL Electric Utilities Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Mark F. Wilten
Telephone: 610-774-5151
Facsimile: 610-774-5235

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine
Telephone: 610-774-7445
Facsimile: 610-774-6726

if to the Administrative Agent:

Wells Fargo Bank, National Association
1525 West W.T. Harris Boulevard
MAC D1109-019
Charlotte, North Carolina 28262
Attention: Syndication Agency Services
Telephone: 704-590-2706
Facsimile: 704-590-2790
Electronic Mail: agencyrequests@wellsfargo.com

with a copy to:

Wells Fargo Corporate Banking
301 South College Street, TW-14
MAC D1053-144
Charlotte, North Carolina 28288
Attention: Nick Schmiesing
Vice President, Power & Utilities Group
Telephone: 704-383-1864
Facsimile: 704-715-1486
Electronic Mail: Nick.Schmiesing@wellsfargo.com

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Attention: Jason Kyrwood
Telephone: 212-450-4653
Facsimile: 212-450-5425

Section 9.02 No Waivers; Non-Exclusive Remedies. No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03 Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless

from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04 Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, except as otherwise expressly contemplated by this Agreement, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05 Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) extend or increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.09(b), 2.11(a) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06 Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, the Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person except to the extent that such disclosure is necessary to establish that such

interest in the Loan or other obligation under the Loan Documents is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an “Assignee”) all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consents shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Approved Fund or Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement and its Note to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower’s agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the “Register”) on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower’s obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this Section 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of Section 9.06(c) and this Section 9.06(e) have been satisfied.

Section 9.07 Governing Law; Submission to Jurisdiction. This Agreement, each Note and each Letter of Credit shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08 Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09 Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower’s independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower’s compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10 Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words “hereof”, “herein”, “hereunder” and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to “Article”, “Section”, “Exhibit”, “Schedule” or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to “Article”, “Section”, “Exhibit”, “Schedule” or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word “will” shall be construed to have the same meaning as the word “shall”. The term “including” shall be construed to have the same meaning as the phrase “including without limitation”.

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person’s successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by “to the best knowledge of” or “known to” (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

(g) Unless otherwise specified, all references herein to times of day shall constitute references to Charlotte, North Carolina time.

Section 9.11 WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12 Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender’s or Agent’s Affiliates and their respective directors, officers, employees, service providers and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower’s Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a “tombstone” or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13 USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the “Patriot Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14 No Fiduciary Duty. Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the “Lender Parties”), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the “Borrower Parties”). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm’s-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15 Survival. Sections 2.12, 2.16, 2.17 and 9.03 shall survive the Termination Date for the benefit of each Agent and each Lender, as applicable.

Section 9.16 Amendment and Restatement of Existing Credit Agreement. Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the "Consenting Lenders") shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder and its commitment hereunder shall be terminated; provided that, for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Consenting Lenders shall be redetermined based on the Commitments set forth in the Appendix A and the participations of the Consenting Lenders in, and the obligations of the Consenting Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in Appendix B.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER

PPL ELECTRIC UTILITIES CORPORATION

By: _____
Name:
Title:

[Signature Page to PEU Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, Issuing Lender,
Swingline Lender and Lender

By: _____
Name:
Title:

[_____]

By: _____
Name:
Title:

[Signature Page to PEU Credit Agreement]

COMMITMENTS

Lender	Commitment
Wells Fargo Bank, National Association	\$ 18,500,000.00
Bank of America, N.A.	\$ 18,500,000.00
The Royal Bank of Scotland plc	\$ 18,500,000.00
Citibank, N.A.	\$ 18,500,000.00
JPMorgan Chase Bank, N.A.	\$ 18,500,000.00
Morgan Stanley Bank, N.A.	\$ 18,500,000.00
Barclays Bank PLC	\$ 15,000,000.00
BNP Paribas	\$ 15,000,000.00
Canadian Imperial Bank of Commerce	\$ 15,000,000.00
Credit Suisse AG, Cayman Islands Branch	\$ 15,000,000.00
Goldman Sachs Bank USA	\$ 15,000,000.00
Mizuho Bank, Ltd.	\$ 15,000,000.00
Royal Bank of Canada	\$ 15,000,000.00
SunTrust Bank	\$ 15,000,000.00
The Bank of Nova Scotia	\$ 15,000,000.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$ 15,000,000.00
UBS AG, Stamford Branch	\$ 15,000,000.00
PNC Bank, National Association	\$ 8,000,000.00
The Bank of New York Mellon	\$ 8,000,000.00
U.S. Bank National Association	\$ 8,000,000.00
Total	\$ 300,000,000.00

JLA FRONTING SUBLIMITS

<u>JLA Issuing Banks</u>	<u>Sublimit</u>
Wells Fargo Bank, National Association	\$ 25,000,000.00
Bank of America, N.A.	\$ 25,000,000.00
The Royal Bank of Scotland plc	\$ 25,000,000.00
Citibank, N.A.	\$ 25,000,000.00
JPMorgan Chase Bank, N.A.	\$ 25,000,000.00
Morgan Stanley Bank N.A.	\$ 25,000,000.00

Schedule 1.01A

Existing Letters of Credit

LC Number	Beneficiary	LC Amount	Expiry Date
SM204073	Zurich American Insurance Company	\$759,000.00	7/15/2015
SM234822	Commonwealth of Pennsylvania	\$152,500.00	7/31/2014
SM235498	PJM Interconnection	\$1.00	8/19/2014

\$400,000,000

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

dated as of July 28, 2014

among

KENTUCKY UTILITIES COMPANY,

as the Borrower,

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, Issuing Lender and Swingline Lender**

**WELLS FARGO SECURITIES, LLC,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
RBS SECURITIES INC.,
CITIGROUP GLOBAL MARKETS INC.,
J.P. MORGAN SECURITIES LLC**

and

**MORGAN STANLEY SENIOR FUNDING, INC.,
Joint Lead Arrangers and Joint Bookrunners**

BANK OF AMERICA, N.A.

and

**THE ROYAL BANK OF SCOTLAND PLC,
Syndication Agents**

**CITIGROUP GLOBAL MARKETS INC.,
J.P. MORGAN SECURITIES LLC**

and

**MORGAN STANLEY SENIOR FUNDING, INC.,
Documentation Agents**

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Exhibits:

- Exhibit A-1 - Form of Notice of Borrowing
 - Exhibit A-2 - Form of Notice of Conversion/Continuation
 - Exhibit A-3 - Form of Letter of Credit Request
 - Exhibit B - Form of Note
 - Exhibit C - Form of Assignment and Assumption Agreement
 - Exhibit D - Forms of Opinion of Counsel for the Borrower
 - Exhibit E - Form of Notice of Revolving Increase
 - Exhibit F - Form of Extension Letter
-

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this “Agreement”) dated as of July 28, 2014 is entered into among KENTUCKY UTILITIES COMPANY, a Kentucky corporation and a Virginia corporation (the “Borrower”), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as the Administrative Agent. The parties hereto agree as follows:

RECITALS

The Borrower is a party to that certain \$400,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the “Existing Credit Agreement”); and

The Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

In consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto covenant and agree as follows:

ARTICLE I DEFINITIONS

Section 1.01 Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Additional Commitment Lender” has the meaning set forth in Section 2.08(d)(iv).

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise. In no event shall any Agent or any Lender be deemed to be an Affiliate of the Borrower or any of its Subsidiaries.

“Agent” means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers and the Documentation Agents.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Amendment Fee” has the meaning set forth in Section 4.01(i).

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“Applicable Percentage” means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower’s Ratings (S&P /Moody’s)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A+ from S&P / A1 from Moody’s	0.075%	0.000%	0.875%
Category B	A from S&P / A2 from Moody’s	0.100%	0.000%	1.000%
Category C	A- from S&P / A3 from Moody’s	0.125%	0.125%	1.125%
Category D	BBB+ from S&P / Baa1 from Moody’s	0.175%	0.250%	1.250%
Category E	BBB from S&P / Baa2 from Moody’s	0.200%	0.500%	1.500%
Category F	≤BBB- from S&P / Baa3 from Moody’s	0.250%	0.625%	1.625%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Asset Sale” means any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day, a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

“Base Rate Borrowing” means a Borrowing comprised of Base Rate Loans.

“Base Rate Lending Office” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“Base Rate Loan” means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrower’s Rating” means the senior secured long-term debt rating of the Borrower from S&P or Moody’s.

“Borrowing” means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London Business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee’s balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in Appendix A and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 2.19 or Section 9.06(c).

“Commitment Fee” has the meaning set forth in Section 2.07(a).

“Commitment Ratio” means, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“Consenting Lender” has the meaning set forth in Section 9.15.

“Consolidated Capitalization” means the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowners’ equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Continuing Lender” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Credit Event” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“Current Termination Date” has the meaning set forth in Section 2.08(d)(ii).

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Debtor Relief Laws” means the Bankruptcy Code, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses of the definition of “Lender Default” shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to cure as expressly contemplated in the definition of “Lender Default”) upon delivery of written notice of such determination to the Borrower, each Issuing Bank, each Swingline Lender and each Lender.

“Documentation Agents” means Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley Senior Funding, Inc., each in its capacity as a documentation agent in respect of this Agreement.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Election Date” has the meaning set forth in Section 2.08(d)(ii).

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) or (v) an Approved Fund; provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws or relate to Hazardous Substances.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“Existing Credit Agreement” has the meaning set forth in the recitals hereto.

“Extending Lender” means, in the event that the Termination Date is extended in accordance with Section 2.08(d), a Lender which is not a Non-Extending Lender.

“Extension Date” has the meaning set forth in Section 2.08(d)(ii).

“Extension Letter” means a letter from the Borrower to the Administrative Agent requesting an extension of the Termination Date substantially in the form of Exhibit F hereto.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter” means that certain fee letter dated as of June 27, 2014 among the Borrower, Wells Fargo Securities, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc, as amended, modified or supplemented from time to time.

“FERC” means the Federal Energy Regulatory Commission.

“Fronting Fee” has the meaning set forth in Section 2.07(b).

“Fronting Sublimit” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on Appendix B hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“Fund” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course of its activities.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Interest Period” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clause (iii) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Issuing Lender” means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity and (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, subject in each case to the Fronting Sublimit.

“JLA Issuing Bank” means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc., Citibank, N.A., JPMorgan Chase Bank, N.A. and Morgan Stanley Bank, N.A.

“Joint Lead Arrangers” means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley Senior Funding, Inc., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

“KPSC” means the Kentucky Public Service Commission.

“Lender” means each bank or other lending institution listed in Appendix A as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to (a) fund all or any portion of its Loans within two Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (b) pay to the Administrative Agent, any Issuing Bank, any Swingline Lender or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit or Swingline Loans) within two Business Days of the date when due, or (ii) a Lender having notified the Borrower, the Administrative Agent or any Issuing Bank or the Swingline Lender in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender’s obligation to fund a Loan hereunder and states that such position is based on such Lender’s determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), or (iii) the failure, within three Business Days after written request by the Administrative Agent or the Borrower, of a Lender to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that a Lender Default in effect pursuant to this clause (iii) shall be cured upon receipt of such written confirmation by the Administrative Agent and the Borrower) or (iv) a Lender has, or has a direct or indirect parent company that has, (a) become the subject of a proceeding under any Debtor Relief Law, or (b) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity; provided that a Lender Default shall not exist solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender.

“Letter of Credit” means any letter of credit issued pursuant to Section 3.02 under this Agreement by an Issuing Lender on or after the Effective Date.

“Letter of Credit Fee” has the meaning set forth in Section 2.07(b).

“Letter of Credit Liabilities” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 (or any applicable successor page) as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan, and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“London Interbank Offered Rate” means:

(i) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (i), such comparable or successor rate shall be applied in a manner consistent with market practice; provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

(ii) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (ii), such comparable or successor rate shall be applied in a manner consistent with market practice; provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Extending Lender” has the meaning set forth in Section 2.08(d)(ii).

“Non-Recourse Debt” means Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” means a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document;

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document; and

(v) in the case of each of clauses (i) through (iv) above, together with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Optional Increase” has the meaning set forth in Section 2.19(a).

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“Patriot Act” has the meaning set forth in Section 9.13.

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“Replacement Date” has the meaning set forth in Section 2.08(b).

“Replacement Lender” has the meaning set forth in Section 2.08(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person

“Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

“Revolving” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“Revolving Outstandings” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) the aggregate amount of such Lender’s Letter of Credit Liabilities.

“Revolving Outstandings Excess” has the meaning set forth in Section 2.09.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill Financial Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Sanctions” means sanctions administered or enforced by OFAC, the U.S. State Department, the European Union or Her Majesty’s Treasury.

“Sanctioned Country” means a country or territory that is, or whose government is, the subject of comprehensive territorial Sanctions (currently, Cuba, Iran, North Korea, Sudan, and Syria).

“Sanctioned Person” means a Person that is, or is owned or controlled by Persons that are, (i) the subject of any Sanctions, or (ii) located, organized or resident in a Sanctioned Country.

“SEC” means the Securities and Exchange Commission.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Swingline Borrowing” means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of Borrowing with respect thereto.

“Swingline Exposure” means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

“Swingline Lender” means Wells Fargo Bank, in its capacity as Swingline Lender.

“Swingline Loan” means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

“Swingline Sublimit” means the lesser of (a) \$20,000,000 and (b) the aggregate Commitments of all Lenders.

“Swingline Termination Date” means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

“Syndication Agents” means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earlier to occur of (i) July 28, 2019, as may be extended from time to time pursuant to Section 2.08(d), and (ii) the date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“TRA” means the Tennessee Regulatory Authority.

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“VSCC” means the Virginia State Corporation Commission.

“Wells Fargo Bank” means Wells Fargo Bank, National Association, and its successors.

“Wells Fargo Securities” means Wells Fargo Securities, LLC, and its successors and assigns.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01 Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

Section 2.02 Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

(b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender’s obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender’s failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender’s Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender’s participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender’s participating interest was outstanding and funded).

Section 2.03 Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04 Notice to Lenders; Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

Section 2.05 Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to subsections (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in subsections (a) and (b) above.

Section 2.06 Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause (A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a “Notice of Conversion/Continuation”) to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender’s pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07 Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the “Commitment Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender’s Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the “Letter of Credit Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the “Fronting Fee”) in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Replacement of Lenders; Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(e) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date; Optional Extensions.

(i) The Commitments shall terminate on the Termination Date.

(ii) The Borrower may, by sending an Extension Letter to the Administrative Agent (in which case the Administrative Agent shall promptly deliver a copy to each of the Lenders), not less than thirty (30) nor more than ninety (90) days prior to the first or second anniversary of the date hereof (each such anniversary, the "Extension Date"), or at both times, request that the Lenders extend the Termination Date then in effect (the "Current Termination Date") so that it will occur one year after the Current Termination Date. Each Lender, acting in its sole discretion, may, by notice to the Administrative Agent given no later than fifteen (15) days prior to the first or second annual anniversary of the date hereof, as applicable (the "Election Date"), advise the Administrative Agent in writing whether or not it agrees to such extension (each Lender to respond negatively to such request being referred to herein as a "Non-Extending Lender"); provided, that, any Lender not responding to such request within such time period shall be deemed to be a Non-Extending Lender. The election of any Lender to agree to such extension shall not obligate any other Lender to agree.

(iii) (A) If Lenders holding Commitments that aggregate at least 51% of the aggregate Commitments of the Lenders on or prior to the Election Date shall not have agreed to extend the Termination Date, then the Current Termination Date shall not be so extended and the outstanding principal balance of all loans and other amounts payable hereunder shall be due and payable on the Current Termination Date. (B) If (and only if) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date, then the Termination Date applicable to the Lenders that are Extending Lenders shall, as of the Extension Date, be the day that is one year after the Current Termination Date. In the event of such extension, the Commitment of each Non-Extending Lender shall terminate on the Current Termination Date applicable to such Non-Extending Lender, all Loans and other amounts payable hereunder to such Non-Extending Lender shall become due and payable on such Current Termination Date and the aggregate Commitments of the Lenders hereunder shall be reduced by the aggregate Commitments of Non-Extending Lenders so terminated on and after such Current Termination Date. Each Non-Extending Lender shall be required to maintain its original Commitment up to the Termination Date, or Current Termination Date, as applicable, to which such Non-Extending Lender had previously agreed.

(iv) In the event that the conditions of clause (B) of paragraph (iii) above have been satisfied, the Borrower shall have the right on or before the applicable Extension Date, at its own expense, to require any Non-Extending Lender to transfer and assign without recourse or representation (except as to title and the absence of Liens created by it) (in accordance with and subject to the restrictions contained in Section 9.06(c)) all its interests, rights and obligations under the Loan Documents (including with respect to any Letter of Credit Liabilities) to one or more Eligible Assignees (which may include any Lender) (each, an "Additional Commitment Lender"), provided, that (x) such Additional Commitment Lender, if not already a Lender hereunder, shall be subject to the approval of the Administrative Agent, the Swingline Lender and the Issuing Lenders (not to be unreasonably withheld), (y) such assignment shall become effective as of the applicable Extension Date and (z) the Additional Commitment Lender shall pay to such Non-Extending Lender in immediately available funds on the effective date of such assignment the principal of and interest accrued to the date of payment on the Loans made by such Non-Extending Lender hereunder and all other amounts accrued for such Non-Extending Lender's account or owed to it hereunder.

(v) Notwithstanding the foregoing, no extension of the Termination Date shall become effective unless, on the Extension Date, (i) the conditions set forth in Section 4.02 shall be satisfied (with all references in such paragraphs to the making of a Loan or issuance of a Letter of Credit being deemed to be references to the extension of the Commitments on the Extension Date), (ii) any necessary governmental, regulatory and third party approvals, including, without limitation any KPSC, TRA, VSCC and/or FERC approval required to authorize the extension of the Termination Date shall be in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the extension of the Termination Date and (iii) the Administrative Agent shall have received (a) a certificate to that effect, with any necessary governmental, regulatory or third party approvals attached thereto, dated the Extension Date and executed by a Responsible Officer of the Borrower and (b) opinions of counsel for the Borrower, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), or, if the Termination Date has been extended pursuant to Section 2.08(d) with respect to some, but not all, Lenders, the date on which the Current Termination Date with respect to Non-Extending Lenders occurs, the Commitment Ratios of the Continuing Lenders or the Extending Lenders, as applicable, shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders or the Extending Lenders, as applicable, in and obligations of the Continuing Lenders or Extending Lenders, as applicable, in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (as adjusted pursuant to Sections 2.19 and 2.20). The right of the Borrower to effect such a termination pursuant to Section 2.08(b) or (c) is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.09 Maturity of Loans; Mandatory Prepayments.

(a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a "Revolving Outstandings Excess"), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

(b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

Section 2.10 Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

Section 2.11 General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12 Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13 Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14 Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. (Charlotte, North Carolina time) on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15 Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16 Increased Cost and Reduced Return.

(a) **Increased Costs.** If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall (i) impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office), (ii) subject any Lender or the Issuing Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any Euro-Dollar Loan made by it, or change the basis of taxation of payments to such Lender or the Issuing Lender in respect thereof (other than (A) Taxes, (B) Other Taxes, (C) the imposition of, or any change in the rate of, any taxes described in clauses (i) through (iv) of the definition of Taxes in [Section 2.17\(a\)](#) and (D) Taxes attributable to a Lender's or an Issuing Lender's failure to comply with [Section 2.17\(e\)](#)) or (iii) impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) **Capital Adequacy.** If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) **Notices.** Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.17 Taxes.

(a) **Payments Net of Certain Taxes.** Any and all payments made by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "**Taxes**"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this [Section 2.17\(a\)](#)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) **Other Taxes.** In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "**Other Taxes**").

(c) **Indemnification.** The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this [Section 2.17\(c\)](#)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this [Section 2.17\(c\)](#). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) **Refunds or Credits.** If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this [Section 2.17](#), it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this [Section 2.17](#) with respect to the Taxes or Other Taxes giving rise to such

refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a “Non-U.S. Lender”) shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, (x) certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender and (y) with respect to any other applicable payments under or entered into in connection with any Loan Document, establishing an exemption from, or reduction of, United States withholding tax pursuant to the “business profits” or “other income” article of such tax treaty; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; (C) in the case of a Non-U.S. Lender claiming the benefit of the exemption for portfolio interest under Section 871(h) or 881(c) of the Code, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a “bank” within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a “10-percent shareholder” of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a “controlled foreign corporation” that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8ECI, W-8BEN, W-8BEN-E, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), “FATCA” shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8BEN, W-8BEN-E, W-8ECI or W-8IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18 Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days’ prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19

Increases in Commitments.

(a) Subject to the terms and conditions of this Agreement, the Borrower may, during the Availability Period by delivering to the Administrative Agent and the Lenders a Notice of Revolving Increase in the form of Exhibit E, request increases to the Lenders' Commitments (each such request, an "Optional Increase"); provided that: (i) the Borrower may not request any increase to the Commitments after the occurrence and during the continuance of a Default; (ii) each Optional Increase shall be in a minimum amount of \$50,000,000 and (iii) the aggregate amount of all Optional Increases shall be no more than \$100,000,000.

(b) Each Lender may, but shall not be obligated to, participate in any Optional Increase, subject to the approval of each Issuing Lender and the Swingline Lender (such approval not to be unreasonably withheld), and the decision of any Lender to commit to an Optional Increase shall be at such Lender's sole discretion and shall be made in writing. The Borrower may, at its own expense, solicit additional Commitments from third party financial institutions reasonably acceptable to the Administrative Agent, the Swingline Lender and the Issuing Lenders. Any such financial institution (if not already a Lender hereunder) shall become a party to this Agreement as a Lender, pursuant to a joinder agreement in form and substance reasonably satisfactory to the Administrative Agent and the Borrower.

(c) As a condition precedent to the Optional Increase, the Borrower shall deliver to the Administrative Agent a certificate of the Borrower dated the effective date of the Optional Increase, signed by a Responsible Officer of the Borrower, certifying that: (i) the resolutions adopted by the Borrower approving or consenting to such Optional Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect, (ii) before and after giving effect to the Optional Increase, (A) the representations and warranties contained in Article V and the other Loan Documents are true and correct in all material respects (except to the extent any such representation and warranty is qualified by materiality or reference to Material Adverse Effect, in which case, such representation and warranty shall be true and correct in all respects) on and as of the effective date of the Optional Increase, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct in all material respects (except to the extent any such representation and warranty was qualified by materiality or reference to Material Adverse Effect, in which case, such representation and warranty was true and correct in all respects) as of such earlier date, and (B) that no Default exists, is continuing, or would result from the Optional Increase and (iii) any necessary governmental, regulatory and third party approvals, including, without limitation any KPSC, TRA, VSCC and/or FERC approval required to approve the Optional Increase, are attached thereto and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Optional Increase.

(d) The Revolving Outstandings will be reallocated by the Administrative Agent on the effective date of any Optional Increase among the Lenders in accordance with their revised Commitment Ratios, and the Borrower hereby agrees to pay any and all costs (if any) required pursuant to Section 2.12 incurred by any Lender in connection with the exercise of the Optional Increase. Each of the Lenders shall participate in any new Loans made on or after such date in accordance with their respective Commitment Ratios after giving effect to the increase in Commitments contemplated by this Section 2.19.

Section 2.20

Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by

the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

ARTICLE III LETTERS OF CREDIT

Section 3.01 Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

Section 3.02 Letters of Credit.

(a) Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit denominated in Dollars from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any of its Subsidiaries that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate amount of Letter of Credit Liabilities shall not exceed \$200,000,000, (B) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03 Method of Issuance of Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of a Letter of Credit not later than 1:00 P.M. (Charlotte, North Carolina time) at least one Business Day prior to the proposed date of the issuance or extension of Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date, provided that if the Commitments of some, but not all, Lenders shall have been extended pursuant to Section 2.08(d), the "Termination Date" for this purpose shall be the latest Termination Date which is applicable to Commitments aggregating at least \$200,000,000.

Section 3.04 Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (a) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (b) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (c) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (i) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$200,000,000, (ii) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (iii) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05 Purchase and Sale of Letter of Credit Participations. Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06 Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07 Reimbursement Obligations. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (a) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (b) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such

day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08 Duties of Issuing Lenders to Lenders; Reliance. In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

Section 3.09 Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings. If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

Section 3.10 Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11 Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of

Credit or any document related hereto or thereto or any unrelated transaction;

(e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or

(g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12 Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit, unless payment was prohibited by law, regulation or court order. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13 ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

ARTICLE IV CONDITIONS

Section 4.01 Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificate. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or any Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky, dated as of a recent date, as to the good standing of the Borrower, (ii) a certificate of the Secretary of State of the Commonwealth of Virginia, dated as of a recent date, as to the good standing of the Borrower and (iii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto are true, correct and complete copies of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and the Secretary of State of the Commonwealth of Virginia and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the orders of the KPSC (the "KPSC Order"), TRA (the "TRA Order"), VSCC (the "VSCC Order") and any required approvals of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions; provided that any such

approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) need not be obtained or provided until the Borrower makes any such election.

(g) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(h) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(i) Know Your Customer. The Administrative Agent and each Lender shall have received all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including, without limitation, the Patriot Act, as has been reasonably requested in writing.

(j) Amendment Fee. The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the "Amendment Fee") as set forth in the Fee Letter, on or before the Effective Date.

Section 4.02 Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01 Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and the Commonwealth of Virginia and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02 Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party; provided that any exercise of the option to increase the Commitment as contemplated in Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) may require further authorization of the Borrower's Board of Directors, or approvals of the KPSC, TRA, VSCC and/or FERC.

Section 5.03 Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04 Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2013 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst and Young LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of March 31, 2014 and the related unaudited consolidated statements of income and cash flows for the three months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such three-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2013 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05 Litigation. Except as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.05(b) above, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the

Administrative Agent and each Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06 No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07 ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08 Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the KPSC Order, TRA Order and VSCC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect; provided, that any exercise of the option to increase the Commitment as contemplated in Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) may require additional approvals of the KPSC, TRA, VSCC and/or FERC.

Section 5.09 Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or required to register as an investment company under such Act.

Section 5.10 Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11 Compliance with Laws.

(a) To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (i) such compliance is being contested in good faith by appropriate proceedings or (ii) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12 No Default. No Default has occurred and is continuing.

Section 5.13 Environmental Matters.

(a) Except (x) as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.04(b) above, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, or (y) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) below of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.04(b) above, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a

Subsidiary of PPL Corporation, a Pennsylvania corporation..

Section 5.14 OFAC. None of the Borrower, any Subsidiary of the Borrower, nor, to the knowledge of the Borrower, any director, officer, or Affiliate of the Borrower or any of its Subsidiaries: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Persons or in Sanctioned Countries, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Countries. The proceeds of any Loan will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country.

Section 5.15 Anti-Corruption. None of the Borrower or any of its Subsidiaries nor, to the knowledge of the Borrower, any director, officer, agent, employee or other person acting on behalf of the Borrower or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "FCPA") or any other applicable anti-corruption law; and the Borrower have instituted and maintain policies and procedures designed to ensure continued compliance therewith. No part of the proceeds of the Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity in violation of the FCPA or any other applicable anti-corruption law.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01 Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website or PPL Corporation's website (<http://www.pplweb.com>) or making such information available on IntraLinks, SyndTrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, and in each case a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks,

SyndTrak or another similar electronic system (the “Platform”) and (b) certain of the Lenders may be “public-side” Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a “Public Lender”). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked “PUBLIC” which, at a minimum, shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Borrower Materials “PUBLIC,” the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked “PUBLIC” are permitted to be made available through a portion of the Platform designated “Public Investor;” and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked “PUBLIC” as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated “Public Investor.” “Information” means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02 Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03 Conduct of Business and Maintenance of Existence. The Borrower will (a) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (b) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04 Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) noncompliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05 Books and Records. The Borrower (a) will keep, and, will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (b) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06 Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Subsidiaries, including for working capital purposes and for making investments in or loans to Subsidiaries. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Subsidiaries including to support issuances of tax exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07 Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (a) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (b) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (c) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (d) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08 Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower’s most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower’s Ratings after giving effect to any such Asset Sale.

Section 6.09 Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

ARTICLE VII DEFAULTS

Section 7.01 Events of Default. If one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on the Loans and Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in Sections 6.05(b), 6.06, 6.07, 6.08 or 6.09; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or
- (f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or
- (g) the Borrower shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or
- (h) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or
- (i) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower under the Bankruptcy Code; or
- (j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or
- (k) the Borrower shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or
- (l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in Section 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Reimbursement Obligations (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

ARTICLE VIII THE AGENTS

Section 8.01 Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan

Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02 Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03 Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04 Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, teletype or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06 Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07 Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08 Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses,

damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09 Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days' notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document

Section 8.10 Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

ARTICLE IX MISCELLANEOUS

Section 9.01 Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or any Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype (provided, however, that if any notice or other communication sent by electronic mail, posting on an internet webpage or teletype is received by a recipient after such recipient's normal business hours, such notice or other communication shall be deemed received upon the opening of such recipient's next Business Day), (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: Treasurer
Telephone: 502-627-4956
Facsimile: 502-627-4742

with a copy to:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: General Counsel
Telephone: 502-627-3450
Facsimile: 502-627-3367

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151

Facsimile: 610-774-5235

if to the Administrative Agent:

Wells Fargo Bank, National Association
1525 West W.T. Harris Boulevard
MAC D1109-019
Charlotte, North Carolina 28262
Attention: Syndication Agency Services
Telephone: 704-590-2706
Facsimile: 704-590-2790
Electronic Mail: agency.services.requests@wellsfargo.com

with a copy to:

Wells Fargo Corporate Banking
301 South College Street, TW-14
MAC D1053-144
Charlotte, North Carolina 28288
Attention: Nick Schmiesing
Vice President, Power & Utilities Group
Telephone: 704-383-1864
Facsimile: 704-715-1486
Electronic Mail: Nick.Schmiesing@wellsfargo.com

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Attention: Jason Kyrwood
Telephone: 212-450-4653
Facsimile: 212-450-5425

Section 9.02 No Waivers; Non-Exclusive Remedies. No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03 Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions

contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04 Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, except as otherwise expressly contemplated by this Agreement, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05 Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) extend or increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.09(b), 2.11(a) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06 Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, the Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person except to the extent that such disclosure is necessary to establish that such interest in the Loan or other obligation under the Loan Documents is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consents shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Approved Fund or Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers;

provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement and its Note to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this Section 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of Section 9.06(c) and this Section 9.06(e) have been satisfied.

Section 9.07 Governing Law; Submission to Jurisdiction. This Agreement, each Note and each Letter of Credit shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08 Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09 Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10 Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word “will” shall be construed to have the same meaning as the word “shall”. The term “including” shall be construed to have the same meaning as the phrase “including without limitation”.

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person’s successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by “to the best knowledge of” or “known to” (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

(g) Unless otherwise specified, all references herein to times of day shall constitute references to Charlotte, North Carolina time.

Section 9.11 WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12 Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender’s or Agent’s Affiliates and their respective directors, officers, employees, service providers and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower’s Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a “tombstone” or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13 USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the “Patriot Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14 No Fiduciary Duty. Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the “Lender Parties”), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the “Borrower Parties”). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm’s-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15 Survival. Sections 2.12, 2.16, 2.17 and 9.03 shall survive the Termination Date for the benefit of each Agent and each Lender, as applicable.

Section 9.16 Amendment and Restatement of Existing Credit Agreement. Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the “Consenting Lenders”) shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder and its commitment hereunder shall be terminated; provided that, for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Consenting Lenders shall be redetermined based on the Commitments set forth in the Appendix A and the participations of the Consenting Lenders in, and the obligations of the Consenting Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in Appendix B.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER:

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:

[Signature Page to KU Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, Issuing Lender,
Swingline Lender and Lender

By: _____
Name:
Title:

[_____]

By: _____
Name:
Title:

[Signature Page to KU Credit Agreement]

COMMITMENTS

Lender	Commitment
Wells Fargo Bank, National Association	\$ 24,666,666.67
Bank of America, N.A.	\$ 24,666,666.67
The Royal Bank of Scotland plc	\$ 24,666,666.67
Citibank, N.A.	\$ 24,666,666.67
JPMorgan Chase Bank, N.A.	\$ 24,666,666.67
Morgan Stanley Bank, N.A.	\$ 24,666,666.67
Barclays Bank PLC	\$ 20,000,000.00
BNP Paribas	\$ 20,000,000.00
Canadian Imperial Bank of Commerce	\$ 20,000,000.00
Credit Suisse AG, Cayman Islands Branch	\$ 20,000,000.00
Goldman Sachs Bank USA	\$ 20,000,000.00
Mizuho Bank, Ltd.	\$ 20,000,000.00
Royal Bank of Canada	\$ 20,000,000.00
SunTrust Bank	\$ 20,000,000.00
The Bank of Nova Scotia	\$ 20,000,000.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$ 20,000,000.00
UBS AG, Stamford Branch	\$ 20,000,000.00
PNC Bank, National Association	\$ 10,666,666.66
The Bank of New York Mellon	\$ 10,666,666.66
U.S. Bank National Association	\$ 10,666,666.66
Total	\$ 400,000,000.00

JLA FRONTING SUBLIMITS

JLA Issuing Banks	Sublimit
Wells Fargo Bank, National Association	\$ 33,300,000.00
Bank of America, N.A.	\$ 33,300,000.00
The Royal Bank of Scotland plc	\$ 33,300,000.00
Citibank, N.A.	\$ 33,300,000.00
JPMorgan Chase Bank, N.A.	\$ 33,300,000.00
Morgan Stanley Bank, N.A.	\$ 33,300,000.00

\$500,000,000

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

dated as of July 28, 2014

among

LOUISVILLE GAS AND ELECTRIC COMPANY,
as the Borrower,

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, Issuing Lender and Swingline Lender

WELLS FARGO SECURITIES, LLC,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
RBS SECURITIES INC.,
CITIGROUP GLOBAL MARKETS INC.,
J.P. MORGAN SECURITIES LLC
and
MORGAN STANLEY SENIOR FUNDING, INC.,
Joint Lead Arrangers and Joint Bookrunners

BANK OF AMERICA, N.A.
and
THE ROYAL BANK OF SCOTLAND PLC,
Syndication Agents

CITIGROUP GLOBAL MARKETS INC.,
J.P. MORGAN SECURITIES LLC
and
MORGAN STANLEY SENIOR FUNDING, INC.,
Documentation Agents

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Appendices:

- Appendix A - Commitments
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Exhibits:

- Exhibit A-1 - Form of Notice of Borrowing
 - Exhibit A-2 - Form of Notice of Conversion/Continuation
 - Exhibit A-3 - Form of Letter of Credit Request
 - Exhibit B - Form of Note
 - Exhibit C - Form of Assignment and Assumption Agreement
 - Exhibit D - Forms of Opinion of Counsel for the Borrower
 - Exhibit E - Form of Notice of Revolving Increase
 - Exhibit F - Form of Extension Letter
-

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this “Agreement”) dated as of July 28, 2014 is entered into among LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the “Borrower”), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as the Administrative Agent. The parties hereto agree as follows:

RECITALS

The Borrower is a party to that certain \$500,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the “Existing Credit Agreement”); and

The Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

In consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto covenant and agree as follows:

ARTICLE I DEFINITIONS

Section 1.01 Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Additional Commitment Lender” has the meaning set forth in Section 2.08(d)(iv).

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise. In no event shall any Agent or any Lender be deemed to be an Affiliate of the Borrower or any of its Subsidiaries.

“Agent” means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers and the Documentation Agents.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Amendment Fee” has the meaning set forth in Section 4.01(j).

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“Applicable Percentage” means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower’s Ratings (S&P/Moody’s)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A+ from S&P / A1 from Moody’s	0.075%	0.000%	0.875%
Category B	A from S&P / A2 from Moody’s	0.100%	0.000%	1.000%
Category C	A- from S&P / A3 from Moody’s	0.125%	0.125%	1.125%
Category D	BBB+ from S&P / Baa1 from Moody’s	0.175%	0.250%	1.250%
Category E	BBB from S&P / Baa2 from Moody’s	0.200%	0.500%	1.500%
Category F	≤ BBB- from S&P / Baa3 from Moody’s	0.250%	0.625%	1.625%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Asset Sale” means any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day, a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

“Base Rate Borrowing” means a Borrowing comprised of Base Rate Loans.

“Base Rate Lending Office” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“Base Rate Loan” means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrower’s Rating” means the senior secured long-term debt rating of the Borrower from S&P or Moody’s.

“Borrowing” means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London Business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee’s balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in Appendix A and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 2.19 or Section 9.06(c).

“Commitment Fee” has the meaning set forth in Section 2.07(a).

“Commitment Ratio” means, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“Consenting Lender” has the meaning set forth in Section 9.15.

“Consolidated Capitalization” means the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowners’ equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Continuing Lender” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Credit Event” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“Current Termination Date” has the meaning set forth in Section 2.08(d)(ii).

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Debtor Relief Laws” means the Bankruptcy Code, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses of the definition of “Lender Default” shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to cure as expressly contemplated in the definition of “Lender Default”) upon delivery of written notice of such determination to the Borrower, each Issuing Bank, each Swingline Lender and each Lender.

“Documentation Agents” means Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley Senior Funding, Inc., each in its capacity as a documentation agent in respect of this Agreement.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Election Date” has the meaning set forth in Section 2.08(d)(i).

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) or (v) an Approved Fund; provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws or relate to Hazardous Substances.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“Existing Credit Agreement” has the meaning set forth in the recitals hereto.

“Extending Lender” means, in the event that the Termination Date is extended in accordance with Section 2.08(d), a Lender which is not a Non-Extending Lender.

“Extension Date” has the meaning set forth in Section 2.08(d)(ii).

“Extension Letter” means a letter from the Borrower to the Administrative Agent requesting an extension of the Termination Date substantially in the form of Exhibit F hereto.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter” means that certain fee letter dated as of June 27, 2014 among the Borrower, Wells Fargo Securities, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc, as amended, modified or supplemented from time to time.

“FERC” means the Federal Energy Regulatory Commission.

“Fronting Fee” has the meaning set forth in Section 2.07(b).

“Fronting Sublimit” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on Appendix B hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“Fund” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course of its activities.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Interest Period” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clause (iii) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Issuing Lender” means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity and (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, subject in each case to the Fronting Sublimit.

“JLA Issuing Bank” means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc., Citibank, N.A., JPMorgan Chase Bank, N.A. and Morgan Stanley Bank, N.A.

“Joint Lead Arrangers” means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley Senior Funding, Inc., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

“KPSC” means the Kentucky Public Service Commission.

“Lender” means each bank or other lending institution listed in Appendix A as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to (a) fund all or any portion of its Loans within two Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (b) pay to the Administrative Agent, any Issuing Bank, any Swingline Lender or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit or Swingline Loans) within two Business Days of the date when due, or (ii) a Lender having notified the Borrower, the Administrative Agent or any Issuing Bank or the Swingline Lender in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender’s obligation to fund a Loan hereunder and states that such position is based on such Lender’s determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), or (iii) the failure, within three Business Days after written request by the Administrative Agent or the Borrower, of a Lender to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that a Lender Default in effect pursuant to this clause (iii) shall be cured upon receipt of such written confirmation by the Administrative Agent and the Borrower) or (iv) a Lender has, or has a direct or indirect parent company that has, (a) become the subject of a proceeding under any Debtor Relief Law, or (b) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity; provided that a Lender Default shall not exist solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender.

“Letter of Credit” means any letter of credit issued pursuant to Section 3.02 under this Agreement by an Issuing Lender on or after the Effective Date.

“Letter of Credit Fee” has the meaning set forth in Section 2.07(b).

“Letter of Credit Liabilities” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 (or any applicable successor page) as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan, and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“London Interbank Offered Rate” means:

(i) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (i), such comparable or successor rate shall be applied in a manner consistent with market practice; provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

(ii) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (ii), such comparable or successor rate shall be applied in a manner consistent with market practice; provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Extending Lender” has the meaning set forth in Section 2.08(d)(ii).

“Non-Recourse Debt” means Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” means a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document;

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document; and

(v) in the case of each of clauses (i) through (iv) above, together with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Optional Increase” has the meaning set forth in Section 2.19(a).

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“Patriot Act” has the meaning set forth in Section 9.13.

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“Replacement Date” has the meaning set forth in Section 2.08(b).

“Replacement Lender” has the meaning set forth in Section 2.08(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person

“Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

“Revolving” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“Revolving Outstandings” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) the aggregate amount of such Lender’s Letter of Credit Liabilities.

“Revolving Outstandings Excess” has the meaning set forth in Section 2.09.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill Financial Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Sanctions” means sanctions administered or enforced by OFAC, the U.S. State Department, the European Union or Her Majesty’s Treasury.

“Sanctioned Country” means a country or territory that is, or whose government is, the subject of comprehensive territorial Sanctions (currently, Cuba, Iran, North Korea, Sudan, and Syria).

“Sanctioned Person” means a Person that is, or is owned or controlled by Persons that are, (i) the subject of any Sanctions, or (ii) located, organized or resident in a Sanctioned Country.

“SEC” means the Securities and Exchange Commission.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Swingline Borrowing” means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of Borrowing with respect thereto.

“Swingline Exposure” means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

“Swingline Lender” means Wells Fargo Bank, in its capacity as Swingline Lender.

“Swingline Loan” means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

“Swingline Sublimit” means the lesser of (a) \$20,000,000 and (b) the aggregate Commitments of all Lenders.

“Swingline Termination Date” means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

“Syndication Agents” means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earlier to occur of (i) July 28, 2019, as may be extended from time to time pursuant to Section 2.08(d), and (ii) the date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Wells Fargo Bank” means Wells Fargo Bank, National Association, and its successors.

“Wells Fargo Securities” means Wells Fargo Securities, LLC, and its successors and assigns.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01 Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

Section 2.02 Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

(b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender’s obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender’s failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender’s Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender’s participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender’s participating interest was outstanding and funded).

Section 2.03 Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a “Notice of Borrowing”) not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04 Notice to Lenders; Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

Section 2.05 Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to subsections (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in subsections (a) and (b) above.

Section 2.06 Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date

such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause (A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a "Notice of Conversion/Continuation") to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender's pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07 Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the "Commitment Fee") for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender's Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the "Letter of Credit Fee") for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the "Fronting Fee") in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.08 Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to

time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) **Replacement of Lenders; Optional Termination of Commitments (Non-Pro-Rata).** If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a “Retiring Lender”), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a “Replacement Lender” and, collectively, the “Replacement Lenders”) reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the “Replacement Date”) following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) **Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata).** At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) **Termination Date; Optional Extensions.**

(i) The Commitments shall terminate on the Termination Date.

(ii) The Borrower may, by sending an Extension Letter to the Administrative Agent (in which case the Administrative Agent shall promptly deliver a copy to each of the Lenders), not less than thirty (30) nor more than ninety (90) days prior to the first or second anniversary of the date hereof (each such anniversary, the “Extension Date”), or at both times, request that the Lenders extend the Termination Date then in effect (the “Current Termination Date”) so that it will occur one year after the Current Termination Date. Each Lender, acting in its sole discretion, may, by notice to the Administrative Agent given no later than fifteen (15) days prior to the first or second annual anniversary of the date hereof, as applicable (the “Election Date”), advise the Administrative Agent in writing whether or not it agrees to such extension (each Lender to respond negatively to such request being referred to herein as a “Non-Extending Lender”); provided, that, any Lender not responding to such request within such time period shall be deemed to be a Non-Extending Lender. The election of any Lender to agree to such extension shall not obligate any other Lender to agree.

(iii) (A) If Lenders holding Commitments that aggregate at least 51% of the aggregate Commitments of the Lenders on or prior to the Election Date shall not have agreed to extend the Termination Date, then the Current Termination Date shall not be so extended and the outstanding principal balance of all loans and other amounts payable hereunder shall be due and payable on the Current Termination Date. (B) If

(and only if) Lenders holding Commitments that aggregate at least 51% of the aggregate Revolving Commitments of the Lenders on or prior to the Election Date shall have agreed to extend the Current Termination Date, then the Termination Date applicable to the Lenders that are Extending Lenders shall, as of the Extension Date, be the day that is one year after the Current Termination Date. In the event of such extension, the Commitment of each Non-Extending Lender shall terminate on the Current Termination Date applicable to such Non-Extending Lender, all Loans and other amounts payable hereunder to such Non-Extending Lender shall become due and payable on such Current Termination Date and the aggregate Commitments of the Lenders hereunder shall be reduced by the aggregate Commitments of Non-Extending Lenders so terminated on and after such Current Termination Date. Each Non-Extending Lender shall be required to maintain its original Commitment up to the Termination Date, or Current Termination Date, as applicable, to which such Non-Extending Lender had previously agreed.

(iv) In the event that the conditions of clause (B) of paragraph (iii) above have been satisfied, the Borrower shall have the right on or before the applicable Extension Date, at its own expense, to require any Non-Extending Lender to transfer and assign without recourse or representation (except as to title and the absence of Liens created by it) (in accordance with and subject to the restrictions contained in Section 9.06(c)) all its interests, rights and obligations under the Loan Documents (including with respect to any Letter of Credit Liabilities) to one or more Eligible Assignees (which may include any Lender) (each, an "Additional Commitment Lender"), provided, that (x) such Additional Commitment Lender, if not already a Lender hereunder, shall be subject to the approval of the Administrative Agent, the Swingline Lender and the Issuing Lenders (not to be unreasonably withheld), (y) such assignment shall become effective as of the applicable Extension Date and (z) the Additional Commitment Lender shall pay to such Non-Extending Lender in immediately available funds on the effective date of such assignment the principal of and interest accrued to the date of payment on the Loans made by such Non-Extending Lender hereunder and all other amounts accrued for such Non-Extending Lender's account or owed to it hereunder.

(v) Notwithstanding the foregoing, no extension of the Termination Date shall become effective unless, on the Extension Date, (i) the conditions set forth in Section 4.02 shall be satisfied (with all references in such paragraphs to the making of a Loan or issuance of a Letter of Credit being deemed to be references to the extension of the Commitments on the Extension Date), (ii) any necessary governmental, regulatory and third party approvals, including, without limitation any KPSC and/or FERC approval required to authorize the extension of the Termination Date shall be in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the extension of the Termination Date and (iii) the Administrative Agent shall have received (a) a certificate to that effect, with any necessary governmental, regulatory or third party approvals attached thereto, dated the Extension Date and executed by a Responsible Officer of the Borrower and (b) opinions of counsel for the Borrower, addressed to the Administrative Agent and each Lender, dated the Extension Date, in form and substance satisfactory to the Administrative Agent.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), or, if the Termination Date has been extended pursuant to Section 2.08(d) with respect to some, but not all, Lenders, the date on which the Current Termination Date with respect to Non-Extending Lenders occurs, the Commitment Ratios of the Continuing Lenders or the Extending Lenders, as applicable, shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders or the Extending Lenders, as applicable, in and obligations of the Continuing Lenders or Extending Lenders, as applicable, in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (as adjusted pursuant to Sections 2.19 and 2.20). The right of the Borrower to effect such a termination pursuant to Section 2.08(b) or (c) is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.09 Maturity of Loans; Mandatory Prepayments.

(a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a "Revolving Outstandings Excess"), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

(b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

Section 2.10 Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with

accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

Section 2.11 General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12 Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13 Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14 Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. (Charlotte, North Carolina time) on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15 Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16 Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall (i) impose, modify or deem applicable any reserve (including, without

limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office), (ii) subject any Lender or the Issuing Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any Euro-Dollar Loan made by it, or change the basis of taxation of payments to such Lender or the Issuing Lender in respect thereof (other than (A) Taxes, (B) Other Taxes, (C) the imposition of, or any change in the rate of, any taxes described in clauses (i) through (iv) of the definition of Taxes in [Section 2.17\(a\)](#) and (D) Taxes attributable to a Lender's or an Issuing Lender's failure to comply with [Section 2.17\(e\)](#)) or (iii) impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) **Capital Adequacy.** If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) **Notices.** Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.17 Taxes.

(a) **Payments Net of Certain Taxes.** Any and all payments made by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "**Taxes**"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this [Section 2.17\(a\)](#)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) **Other Taxes.** In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "**Other Taxes**").

(c) **Indemnification.** The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this [Section 2.17\(c\)](#)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this [Section 2.17\(c\)](#). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) **Refunds or Credits.** If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this [Section 2.17](#), it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this [Section 2.17](#) with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); **provided, however,** that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a "Non-U.S. Lender") shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, (x) certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender and (y) with respect to any other applicable payments under or entered into in connection with any Loan Document, establishing an exemption from, or reduction of, United States withholding tax pursuant to the "business profits" or "other income" article of such tax treaty; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; (C) in the case of a Non-U.S. Lender claiming the benefit of the exemption for portfolio interest under Section 871(h) or 881(c) of the Code, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a "10-percent shareholder" of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a "controlled foreign corporation" that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8ECI, W-8BEN, W-8BEN-E, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8BEN, W-8BEN-E, W-8ECI or W-8IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18 Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19 Increases in Commitments.

(a) Subject to the terms and conditions of this Agreement, the Borrower may, during the Availability Period by delivering to the Administrative Agent and the Lenders a Notice of Revolving Increase in the form of Exhibit E, request increases to the Lenders' Commitments (each such request, an "Optional Increase"); provided that: (i) the Borrower may not request any increase to the Commitments after the occurrence and during the continuance of a Default; (ii) each Optional Increase shall be in a minimum amount of \$50,000,000 and (iii) the aggregate amount of all Optional Increases shall be no more than \$100,000,000.

(b) Each Lender may, but shall not be obligated to, participate in any Optional Increase, subject to the approval of each Issuing Lender and the Swingline Lender (such approval not to be unreasonably withheld), and the decision of any Lender to commit to an Optional Increase shall be at such Lender's sole discretion and shall be made in writing. The Borrower may, at its own expense, solicit additional Commitments from third party financial institutions reasonably acceptable to the Administrative Agent, the Swingline Lender and the Issuing Lenders. Any such financial institution (if not already a Lender hereunder) shall become a party to this Agreement as a Lender, pursuant to a joinder agreement in form and substance reasonably satisfactory to the Administrative Agent and the Borrower.

(c) As a condition precedent to the Optional Increase, the Borrower shall deliver to the Administrative Agent a certificate of the Borrower dated the effective date of the Optional Increase, signed by a Responsible Officer of the Borrower, certifying that: (i) the resolutions adopted by the Borrower approving or consenting to such Optional Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect, (ii) before and after giving effect to the Optional Increase, (A) the representations and warranties contained in Article V and the other Loan Documents are true and correct in all material respects (except to the extent any such representation and warranty is qualified by materiality or reference to Material Adverse Effect, in which case, such representation and warranty shall be true and correct in all respects) on and as of the effective date of the Optional Increase, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct in all material respects (except to the extent any such representation and warranty was qualified by materiality or reference to Material Adverse Effect, in which case, such representation and warranty was true and correct in all respects) as of such earlier date, and (B) that no Default exists, is continuing, or would result from the Optional Increase and (iii) any necessary governmental, regulatory and third party approvals, including, without limitation any KPSC and/or FERC approval required to approve the Optional Increase, are attached thereto and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Optional Increase.

(d) The Revolving Outstandings will be reallocated by the Administrative Agent on the effective date of any Optional Increase among the Lenders in accordance with their revised Commitment Ratios, and the Borrower hereby agrees to pay any and all costs (if any) required pursuant to Section 2.12 incurred by any Lender in connection with the exercise of the Optional Increase. Each of the Lenders shall participate in any new Loans made on or after such date in accordance with their respective Commitment Ratios after giving effect to the increase in Commitments contemplated by this Section 2.19.

Section 2.20 Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be

required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

ARTICLE III LETTERS OF CREDIT

Section 3.01 Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

Section 3.02 Letters of Credit.

(a) Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit denominated in Dollars from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any of its Subsidiaries that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate amount of Letter of Credit Liabilities shall not exceed \$250,000,000, (B) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03 Method of Issuance of Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of a Letter of Credit not later than 1:00 P.M. (Charlotte, North Carolina time) at least one Business Day prior to the proposed date of the issuance or extension of Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date, provided that if the Commitments of some, but not all, Lenders shall have been extended pursuant to Section 2.08(d), the "Termination Date" for this purpose shall be the latest Termination Date which is applicable to Commitments aggregating at least \$250,000,000.

Section 3.04 Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (a) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (b) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (c) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (i) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$250,000,000, (ii) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (iii) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05 Purchase and Sale of Letter of Credit Participations. Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06 Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07 Reimbursement Obligations. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (a) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (b) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to

this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08 Duties of Issuing Lenders to Lenders; Reliance. In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

Section 3.09 Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings. If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

Section 3.10 Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11 Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;
- (e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such

Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or

(g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12 Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit, unless payment was prohibited by law, regulation or court order. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13 ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

ARTICLE IV CONDITIONS

Section 4.01 Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificate. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or any Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto are true, correct and complete copies of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the order(s) of the KPSC (the "KPSC Order") and any required approvals of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions; provided that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) need not be obtained or provided until the Borrower makes any such election.

(g) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(h) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell

LLP described in [Section 9.03](#) which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(i) [Know Your Customer](#). The Administrative Agent and each Lender shall have received all documentation and other information required by regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations, including, without limitation, the Patriot Act, as has been reasonably requested in writing.

(j) [Amendment Fee](#). The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the “[Amendment Fee](#)”) as set forth in the Fee Letter, on or before the Effective Date.

Section 4.02 [Conditions to All Credit Events](#). The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by [Section 2.03](#), or receipt by an Issuing Lender of a Letter of Credit Request as required by [Section 3.03](#);

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in [Section 5.04\(c\)](#), [Section 5.05](#) and [Section 5.13](#), which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01 [Status](#). The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02 [Authority; No Conflict](#). The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party; [provided](#) that any exercise of the option to increase the Commitment as contemplated in [Section 2.19](#) or extend the Termination Date as contemplated by [Section 2.08\(d\)](#) may require further authorization of the Borrower’s Board of Directors, or approvals of the KPSC and/or FERC.

Section 5.03 [Legality; Etc](#). This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors’ rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04 [Financial Condition](#).

(a) [Audited Financial Statements](#). The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2013 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst and Young LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) [Interim Financial Statements](#). The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of March 31, 2014 and the related unaudited consolidated statements of income and cash flows for the three months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such three-month period (subject to normal year-end audit adjustments).

(c) [Material Adverse Change](#). Since December 31, 2013 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower’s ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05 [Litigation](#). Except as disclosed in or contemplated by the Borrower’s Annual Report on Form 10-K for the year ended December 31, 2013, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower’s knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06 [No Violation](#). No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any “margin stock” within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such “margin stock”.

Section 5.07 ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08 Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the KPSC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect; provided, that any exercise of the option to increase the Commitment as contemplated in Section 2.19 or extend the Termination Date as contemplated by Section 2.08(d) may require additional approvals of the KPSC and/or FERC.

Section 5.09 Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or required to register as an investment company under such Act.

Section 5.10 Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11 Compliance with Laws.

(a) To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (i) such compliance is being contested in good faith by appropriate proceedings or (ii) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12 No Default. No Default has occurred and is continuing.

Section 5.13 Environmental Matters.

(a) Except (x) as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2013, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, or (y) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) below of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2013, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation..

Section 5.14 OFAC. None of the Borrower, any Subsidiary of the Borrower, nor, to the knowledge of the Borrower, any director, officer, or Affiliate of the Borrower or any of its Subsidiaries: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Persons or in Sanctioned Countries, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Countries. The proceeds of any Loan will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country.

Section 5.15 Anti-Corruption. None of the Borrower or any of its Subsidiaries nor, to the knowledge of the Borrower, any director, officer, agent, employee or other person acting on behalf of the Borrower or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "FCPA") or any

other applicable anti-corruption law; and the Borrower have instituted and maintain policies and procedures designed to ensure continued compliance therewith. No part of the proceeds of the Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity in violation of the FCPA or any other applicable anti-corruption law.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01 Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website or PPL Corporation's website (<http://www.pplweb.com>) or making such information available on IntraLinks, SyndTrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, and in each case a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks, SyndTrak or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated "Public Investor." "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or

any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02 Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03 Conduct of Business and Maintenance of Existence. The Borrower will (a) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (b) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04 Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) noncompliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05 Books and Records. The Borrower (a) will keep, and, will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (b) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to "visit", "inspect", "discuss" and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06 Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Subsidiaries, including for working capital purposes and for making investments in or loans to Subsidiaries. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Subsidiaries including to support issuances of tax exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07 Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (a) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (b) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (c) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (d) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08 Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower's most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower's Ratings after giving effect to any such Asset Sale.

Section 6.09 Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

ARTICLE VII DEFAULTS

Section 7.01 Events of Default. If one or more of the following events (each an "Event of Default") shall have occurred and be continuing:

(a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or

(b) the Borrower shall fail to pay when due any interest on the Loans and Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or

(c) the Borrower shall fail to observe or perform any covenant or agreement contained in Sections 6.05(b), 6.06, 6.07, 6.08 or 6.09; or

(d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or

(e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or

(f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(g) the Borrower shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or

(h) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(i) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower under the Bankruptcy Code; or

(j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(k) the Borrower shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in Section 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Reimbursement Obligations (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

ARTICLE VIII THE AGENTS

Section 8.01 Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02 Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03 Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04 Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, teletype or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06 Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07 Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08 Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09 Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days' notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent

hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document

Section 8.10 Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

ARTICLE IX MISCELLANEOUS

Section 9.01 Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or any Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, telecopy, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or telecopy (provided, however, that if any notice or other communication sent by electronic mail, posting on an internet webpage or telecopy is received by a recipient after such recipient's normal business hours, such notice or other communication shall be deemed received upon the opening of such recipient's next Business Day), (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or telecopy numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the borrower:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202
Attention: Treasurer
Telephone: 502-627-4956
Facsimile: 502-627-4742

with a copy to:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202
Attention: General Counsel
Telephone: 502-627-3450
Facsimile: 502-627-3367

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151
Facsimile: 610-774-5235

if to the Administrative Agent:

Wells Fargo Bank, National Association
1525 West W.T. Harris Boulevard
MAC D1109-019
Charlotte, North Carolina 28262
Attention: Syndication Agency Services
Telephone: 704-590-2706
Facsimile: 704-590-2790
Electronic Mail: agencyrequests@wellsfargo.com

with a copy to:

Wells Fargo Corporate Banking
301 South College Street, TW-14
MAC D1053-144
Charlotte, North Carolina 28288
Attention: Nick Schmiesing
Vice President, Power & Utilities Group
Telephone: 704-383-1864
Facsimile: 704-715-1486
Electronic Mail: Nick.Schmiesing@wellsfargo.com

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Attention: Jason Kyrwood
Telephone: 212-450-4653
Facsimile: 212-450-5425

Section 9.02 No Waivers; Non-Exclusive Remedies. No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03 Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an “Indemnitee”) and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee’s own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04 Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, except as otherwise expressly contemplated by this Agreement, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05 Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or

waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) extend or increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.09(b), 2.11(a) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06 Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, the Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person except to the extent that such disclosure is necessary to establish that such interest in the Loan or other obligation under the Loan Documents is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consents shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Approved Fund or Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement and its Note to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this Section 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of Section 9.06(c) and this Section 9.06(e) have been satisfied.

Section 9.07 Governing Law; Submission to Jurisdiction. This Agreement, each Note and each Letter of Credit shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08 Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09 Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10 Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

(g) Unless otherwise specified, all references herein to times of day shall constitute references to Charlotte, North Carolina time.

Section 9.11 WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12 Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender's or Agent's Affiliates and their respective directors, officers, employees, service providers and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower's Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13 USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14 No Fiduciary Duty. Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the "Lender Parties"), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Borrower Parties"). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15 Survival. Sections 2.12, 2.16, 2.17 and 9.03 shall survive the Termination Date for the benefit of each Agent and each Lender, as applicable.

Section 9.16 Amendment and Restatement of Existing Credit Agreement. Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the "Consenting Lenders") shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder and its commitment hereunder shall be terminated; provided that, for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Consenting Lenders shall be redetermined based on the Commitments set forth in the Appendix A and the participations of the Consenting Lenders in, and the obligations of the Consenting Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in Appendix B.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER:

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

[Signature Page to LGE Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, Issuing Lender, Swingline Lender and Lender

By: _____
Name:
Title:

[_____]

By: _____
Name:
Title:

[Signature Page to LGE Credit Agreement]

COMMITMENTS

Lender	Commitment
Wells Fargo Bank, National Association	\$ 30,833,333.33
Bank of America, N.A.	\$ 30,833,333.33
The Royal Bank of Scotland plc	\$ 30,833,333.33
Citibank, N.A.	\$ 30,833,333.33
JPMorgan Chase Bank, N.A.	\$ 30,833,333.33
Morgan Stanley Bank, N.A.	\$ 30,833,333.33
Barclays Bank PLC	\$ 25,000,000.00
BNP Paribas	\$ 25,000,000.00
Canadian Imperial Bank of Commerce	\$ 25,000,000.00
Credit Suisse AG, Cayman Islands Branch	\$ 25,000,000.00
Goldman Sachs Bank USA	\$ 25,000,000.00
Mizuho Bank, Ltd.	\$ 25,000,000.00
Royal Bank of Canada	\$ 25,000,000.00
SunTrust Bank	\$ 25,000,000.00
The Bank of Nova Scotia	\$ 25,000,000.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$ 25,000,000.00
UBS AG, Stamford Branch	\$ 25,000,000.00
PNC Bank, National Association	\$ 13,333,333.34
The Bank of New York Mellon	\$ 13,333,333.34
U.S. Bank National Association	\$ 13,333,333.34
Total	\$ 500,000,000.00

JLA FRONTING SUBLIMITS

JLA Issuing Banks	Sublimit
Wells Fargo Bank, National Association	\$ 41,700,000.00
Bank of America, N.A.	\$ 41,700,000.00
The Royal Bank of Scotland plc	\$ 41,700,000.00
Citibank, N.A.	\$ 41,700,000.00
JPMorgan Chase Bank, N.A.	\$ 41,700,000.00
Morgan Stanley Bank, N.A.	\$ 41,700,000.00

EXECUTION VERSION

AMENDMENT AND RESTATEMENT AGREEMENT

DATED JULY 2014

BETWEEN

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC
as the Company

THE MANDATED LEAD ARRANGERS

JOINT COORDINATORS

THE LENDERS

and

THE FACILITY AGENT

RELATING TO A MULTICURRENCY REVOLVING FACILITIES AGREEMENT ORIGINALLY DATED 12 JANUARY 2012

Allen & Overy LLP

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THIS AGREEMENT is dated July 2014 and made

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC** (registered number 02366894) (the **Company**);
- (2) **THE MANDATED LEAD ARRANGERS** (as defined in the Original Revolving Facility Agreement);
- (3) **THE JOINT COORDINATORS** (as defined in the Original Revolving Facility Agreement);
- (4) **THE LENDERS** (as defined in the Original Revolving Facility Agreement); and
- (5) **MIZUHO BANK, LTD.** as facility agent (the **Facility Agent**).

IT IS AGREED as follows:

1. INTERPRETATION

1.1 Definitions

- (a) In this Agreement:

Amended and Restated Revolving Facility Agreement means the Original Revolving Facility Agreement as amended and restated by this Agreement.

Arrangement and Participation Fee Letter means the coordination arrangement and participation fee letter dated on or prior to the Effective Date between the Company, the Facility Agent and the Arrangers governing the upfront fees payable by the Company pursuant to clause 25.2 (Arrangement and participation fees) of the Amended and Restated Revolving Facility Agreement.

Co-ordination Fee Letter means the coordination fee letter dated on or prior to the Effective Date between the Company and the Joint Co-ordinators governing the co-ordination fee payable by the Company pursuant to clause 25.3 (Co-ordination fee) of the Amended and Restated Revolving Facility Agreement.

Effective Date means the date on which the Facility Agent confirms to the Effective Date Lenders and the Company that it has received each of the documents and other evidence listed in Schedule 2 (Conditions Precedent to the Effective Date) in form and substance satisfactory to the Facility Agent acting on the instructions of the Effective Date Lenders (acting reasonably).

Effective Date Commitments means, in relation to each Effective Date Lender, the Commitments set out opposite its name in schedule 1 (The Original Parties) to the Amended and Restated Revolving Facility Agreement.

Effective Date Lenders means each entity listed in Schedule 1 (Effective Date Lenders) being the Lenders, under the Original Revolving Facility Agreement as at the Effective Date.

Original Revolving Facility Agreement means the revolving facility agreement originally dated 12 January 2012 between, among others, the Company and the Facility Agent.

Party means a party to this Agreement.

- (b) Capitalised terms defined in the Amended and Restated Revolving Facility Agreement have, unless expressly defined in this Agreement, the same meaning in this Agreement.

1.2 Construction

The provisions of clause 1.2 (Construction) of the Amended and Restated Revolving Facility Agreement apply to this Agreement as though they were set out in full in this Agreement except that references to the Amended and Restated Revolving Facility Agreement are to be construed as references to this Agreement.

1.3 Third party rights

- (a) A person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or enjoy the benefit of any term of this Agreement.
- (b) Notwithstanding any term of this Agreement, the consent of any person who is not a Party is not required to rescind or vary this Agreement at any time.

1.4 Finance Document

This Agreement is a Finance Document under and as defined in the Original Revolving Facility Agreement and the Amended and Restated Revolving Facility Agreement.

2. REPRESENTATIONS

- (a) On the date of this Agreement, by reference to the facts and circumstances then existing:
- (i) the Repeating Representations (as defined in the Original Revolving Facility Agreement) are deemed to be made by the Company as if references to “this Agreement” in or incorporated in the Repeating Representations are construed as references to this Agreement and to the Original Revolving Facility Agreement;
 - (ii) the Company represents and warrants that no Default is continuing or is reasonably likely to result from the making of any Loan or the entry into, the performance of, or any transaction contemplated by, any Finance Document; and
 - (iii) the Company makes each of the representations and warranties to be made by it set out in clause 18.16 (No misleading information) of the Amended and Restated Revolving Facility Agreement, as if those representations and warranties were set out in full in this Agreement.
- (b) The representations and warranties made pursuant to paragraph (a) above are made to each Party (other than the Company).
- (c) On the Effective Date, the Company makes each of the representations and warranties to be made by it set out in clause 18 (Representations) of the Amended and Restated Revolving Facility Agreement to each Finance Party under the Amended and Restated Revolving Facility Agreement.

3. RESTATEMENT

- (a) The Original Revolving Facility Agreement will be amended and restated with effect from the Effective Date so that it reads and is construed for all purposes as set out in Schedule 3 (Amended and Restated Revolving Facility Agreement).
- (b) The Original Revolving Facility Agreement will not be amended and restated in the manner contemplated by this Agreement unless and until the Effective Date occurs.

4. COMMITMENTS

On the Effective Date the Commitments of each Effective Date Lender will be its Effective Date Commitments.

5. JOINT COORDINATORS

With effect from the Effective Date, HSBC Bank plc and Mizuho Bank, Ltd., will act as joint coordinators.

6. FEES

The Company must pay to the Arrangers, the Joint Co-ordinators and the Facility Agent fees in the amounts and at the times set out in the relevant Fee Letters.

7. CONFIRMATIONS

On the Effective Date the Company:

- (i) confirms its acceptance of the Amended and Restated Revolving Facility Agreement; and
- (ii) agrees that it is bound by the terms of the Amended and Restated Revolving Facility Agreement.

8. MISCELLANEOUS

8.1 Continuing obligations

- (a) The provisions of the Original Revolving Facility Agreement and the other Finance Documents shall, save as amended by this Agreement, continue in full force and effect.
- (b) No waiver is given by this Agreement, and the Lenders expressly reserve all their rights and remedies in respect of any breach of, or other Default under and as defined in, the Original Revolving Facility Agreement, the Amended and Restated Facility Agreement or any other Finance Document.

8.2 Further assurance

The Company shall at the request of the Facility Agent and at its own expense do all such acts and things reasonably necessary or desirable to give effect to the amendments effected or to be effected pursuant to this Agreement.

8.3 Incorporation of terms

The provisions of clause 36 (Notices), clause 34 (Severability), clause 28.7 (Waivers and remedies cumulative) and clause 39 (Enforcement) of the Amended and Restated Revolving Facility Agreement shall be incorporated into this Agreement as if set out in full in this Agreement and as if references in those clauses to “this Agreement” or “the Finance Documents” were references to this Agreement.

8.4 Counterparts

This Agreement may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

9. GOVERNING LAW

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

THIS AGREEMENT has been entered into on the date stated at the beginning of this Agreement.

SCHEDULE 1

EFFECTIVE DATE LENDERS

Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)

Barclays Bank PLC

HSBC Bank plc

Lloyds Bank plc

Mizuho Bank, Ltd.

Royal Bank of Canada

The Royal Bank of Scotland plc

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

SCHEDULE 2

CONDITIONS PRECEDENT TO THE EFFECTIVE DATE

Corporate documents

- (a) A certified copy of the constitutional documents of the Company.
- (b) A certified copy of a resolution of the board of directors or a committee of the board of directors of the Company approving the terms of, and the transactions contemplated by, the Finance Documents.
- (c) A specimen of the signature of each person authorised on behalf of the Company to execute or witness the execution of any Finance Document or to sign or send any document or notice in connection with any Finance Document.
- (d) A certificate of the Company (signed by a director) confirming that borrowing the Total Commitments would not cause any borrowing limit binding on the Company to be exceeded.
- (e) A certificate of an authorised signatory of the Company certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

Finance documents

- (a) This Agreement executed by the Company.
- (b) The Arrangement and Participation Fee Letter executed by the Company.
- (c) The Co-ordination Fee Letter executed by the Company.

Legal opinions

A legal opinion of Clifford Chance LLP, legal advisers to the Arranger and the Facility Agent addressed to the Finance Parties.

Other documents and evidence

- (a) Evidence that all fees and expenses then due and payable from the Company under the Finance Documents have been or will be paid no later than the Effective Date.
- (b) The Original Financial Statements.

SCHEDULE 3

AMENDED AND RESTATED REVOLVING FACILITY AGREEMENT

DATED 12 JANUARY 2012

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC
AS THE COMPANY

HSBC BANK PLC
AND
MIZUHO BANK, LTD.
AS JOINT COORDINATORS

ABBNEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER
GLOBAL BANKING & MARKETS)
BARCLAYS BANK PLC
HSBC BANK PLC
LLOYDS BANK PLC
MIZUHO BANK, LTD.
ROYAL BANK OF CANADA
THE ROYAL BANK OF SCOTLAND PLC
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.
AS BOOKRUNNERS AND MANDATED LEAD ARRANGERS

AND

MIZUHO BANK, LTD.
AS FACILITY AGENT

£245,000,000 MULTICURRENCY REVOLVING
FACILITY AGREEMENT

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THIS AGREEMENT is dated 12 January 2012 and has been amended and restated by an amendment and restatement agreement dated July 2014.

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC** (registered number 02366894) (the “**Company**”);
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as joint coordinators (the “**Joint Coordinators**”);
- (3) **ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS), BARCLAYS BANK PLC, HSBC BANK PLC, LLOYDS BANK PLC, MIZUHO BANK, LTD., ROYAL BANK OF CANADA, THE ROYAL BANK OF SCOTLAND PLC** and **THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.** as bookrunners and mandated lead arrangers (the “**Arrangers**”);
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the “**Original Lenders**”); and
- (5) **MIZUHO BANK, LTD.** as facility agent (the “**Facility Agent**”).

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

“**Acceptable Bank**” means:

- (a) an Effective Date Lender (as defined in the Amendment Agreement);
- (b) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor’s Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody’s Investor Services Limited or a comparable rating from an internationally recognised credit rating agency; or
- (c) any other bank or financial institution approved by the Facility Agent (acting reasonably).

“**Acceptable Jurisdiction**” means:

- (a) the United States of America;
- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of A- or higher by Standard & Poor’s Rating Services or A3 or higher from Moody’s Investor Services Limited or A- or higher from Fitch Ratings Ltd.

“**Act**” means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

“**Administrative Party**” means an Arranger or the Facility Agent.

“**Affiliate**” means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term “**Affiliate**” shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty’s Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty’s Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

“**Agent’s Spot Rate of Exchange**” means the Facility Agent’s spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on a particular day.

“**Amendment Agreement**” means the amendment and restatement agreement dated 29 July 2014 between the parties to this Agreement at such time.

“**Ancillary Commencement Date**” means, in relation to an Ancillary Facility, the date on which that Ancillary Facility is first made available, which date shall be a Business Day within the Availability Period.

“**Ancillary Commitment**” means, in relation to an Ancillary Lender and an Ancillary Facility, the maximum Base Currency Amount which that Ancillary Lender has agreed (whether or not subject to satisfaction of conditions precedent) to make available from time to time under an Ancillary Facility and which has been authorised as such under Clause 8 (*Ancillary Facilities*), to the extent that amount is not cancelled or reduced under this Agreement or the Ancillary Documents relating to that Ancillary Facility.

“**Ancillary Document**” means each document relating to or evidencing the terms of an Ancillary Facility.

“**Ancillary Facility**” means any ancillary facility made available by an Ancillary Lender in accordance with Clause 8 (*Ancillary Facilities*).

“**Ancillary Lender**” means each Lender (or Affiliate of a Lender) which makes available an Ancillary Facility in accordance with Clause 8 (*Ancillary Facilities*).

“**Ancillary Outstandings**” means, at any time, in relation to an Ancillary Lender and an Ancillary Facility then in force the aggregate of the equivalents (as calculated by that Ancillary Lender) in the Base Currency of the following amounts outstanding under that Ancillary Facility:

- (a) the principal amount under each overdraft facility and on-demand short term loan facility (net of any Available Credit Balance);
- (b) the face amount of each guarantee, bond and letter of credit under that Ancillary Facility; and
- (c) the amount fairly representing the aggregate exposure (excluding interest and similar charges) of that Ancillary Lender under each other type of accommodation provided under that Ancillary Facility,

in each case as determined by such Ancillary Lender, acting reasonably in accordance with its normal banking practice and in accordance with the relevant Ancillary Document.

“**Applicable Accounting Principles**” means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

“**Authority**” means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

“**Available Commitment**” means a Lender’s Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans and the Base Currency Amount of the aggregate of its (and its Affiliate’s) Ancillary Commitments; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date and the Base Currency Amount of its (and its Affiliate’s) Ancillary Commitment in relation to any new Ancillary Facility that is due to be made available on or before the proposed Drawdown Date,

other than that Lender’s participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date and that Lender’s (and its Affiliate’s) Ancillary Commitments to the extent that they are due to be reduced or cancelled on or before the proposed Drawdown Date.

“**Available Credit Balance**” means, in relation to an Ancillary Facility, credit balances on any account of the Company with the Ancillary Lender making available that Ancillary Facility to the extent that those credit balances are freely available to be set off by that Ancillary Lender against liabilities owed to it by the Company under that Ancillary Facility.

“**Available Facility**” means the aggregate for the time being of each Lender’s Available Commitment.

“**Availability Period**” means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

“**Balancing and Settlement Code**” means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

“**Balancing and Settlement Code Framework Agreement**” means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which the Company is a party and by which the Balancing and Settlement Code is made binding upon the Company.

“**Base Currency**” means Sterling.

“**Base Currency Amount**” means:

- (a) in relation to a Loan, the amount specified in the Request delivered by the Company for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent’s Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request adjusted to reflect any repayment, prepayment, consolidation or division of the Loan, or as the case may be, cancellation or reduction of an Ancillary Facility; and
- (b) in relation to an Ancillary Commitment, the amount specified as such in the notice delivered to the Facility Agent by the Company pursuant to Clause 8.2 (*Availability*) (or, if the amount specified is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent’s Spot Rate of Exchange on the date which is three Business Days before the Ancillary Commencement Date for that Ancillary Facility or, if later, the date the Facility Agent receives the notice of the Ancillary Commitment in accordance with the terms of this Agreement).

“**Basel III**” means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in “Basel III: A global regulatory framework for more resilient banks and banking systems”, “Basel III: International framework for liquidity risk measurement, standards and monitoring” and “Guidance for national authorities operating the countercyclical capital buffer” published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systematically important banks contained in “Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text” published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to “Basel III”.

“**Break Costs**” means the amount (if any), calculated in accordance with Clause 26.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

“**Business Day**” means a day (other than a Saturday or a Sunday) on which commercial banks are open in London and:

- (a) if on that day a payment in or a purchase of a currency (other than euro) is to be made, the principal financial centre of the country of that currency; or
- (b) if on that day a payment in or purchase of euro is to be made, which is also a TARGET Day.

“**Code**” means the US Internal Revenue Code of 1986.

“**Commitment**” means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading “Commitment” in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and
- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

“**Compliance Certificate**” means a certificate substantially in the form of Schedule 5 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

“**Confidential Information**” means all information relating to the Company, the Group, the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Group or any of its advisers; or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 30 (*Confidentiality and disclosure of information*); or

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- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Group or any of its advisers; or
 - (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

“**Confidentiality Undertaking**” means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Company and the Facility Agent.

“**Contribution Notice**” means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

“**CRD IV**” means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

“**CTA**” means the Corporation Tax Act 2009.

“**Debt Purchase Transaction**” means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of, any Commitment or amount outstanding under this Agreement.

“**Default**” means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

“Defaulting Lender” means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event, and payment is made within 5 Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

“Designated Gross Amount” means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Gross Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

“Designated Net Amount” means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Net Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

“Disruption Event” means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or

- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:
 - (i) from performing its payment obligations under the Finance Documents; or
 - (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

“**Dodd-Frank**” means the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 stat. 1376 (2010) and all requests, rules, guidelines or directives in connection therewith.

“**Drawdown Date**” means each date on which a Loan is made.

“**Environment**” means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

“**Environmental Claim**” means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

“**Environmental Law**” means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

“**euro or euros or ?**” means the single currency of the Participating Member States.

“**EURIBOR**” means in relation to any Loan in euro:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the Term of that Loan; and
 - (ii) it is not possible to calculate an Interpolated Screen Rate for that Loan,

the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the offering of deposits in euro and for a period equal in length to the Term for that Loan.

“**Event of Default**” means an event specified as such in this Agreement.

“**Facility**” means the revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

“**Facility Office**” means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days’ notice,

as the office(s) through which it will perform its obligations under this Agreement.

“**FATCA**” means:

- (a) sections 1471 to 1474 of the Code or any associated regulations or other official guidance;
- (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above; or
- (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

“**FATCA Application Date**” means:

- (a) in relation to a “withholdable payment” described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a “withholdable payment” described in section 1473(1)(A)(ii) of the Code (which relates to “gross proceeds” from the disposition of property of a type that can produce interest from sources within the US), 1 January 2017; or
- (c) in relation to a “passthru payment” described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2017,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

“**FATCA Deduction**” means a deduction or withholding from a payment under a Finance Document required by FATCA.

“**FATCA Exempt Party**” means a Party that is entitled to receive payments free from any FATCA Deduction.

“**Fee Letter**” means:

- (a) any letter entered into by reference to the Facility between one or more Administrative Parties and the Company setting out the amount of certain fees referred to in the Agreement; and
- (b) any agreement setting out fees payable to a Finance Party referred to in Clause 25 (*Fees*) of this Agreement or under any other Finance Document.

“**Final Maturity Date**” means, subject to Clause 6 (Extension Option), the fifth anniversary of the date of this Agreement.

“**Finance Document**” means:

- (a) this Agreement;
- (b) any Ancillary Document;
- (c) a Fee Letter;
- (d) a Transfer Certificate; or
- (e) any other document designated as such by the Facility Agent and the Company.

“**Finance Party**” means a Lender, an Ancillary Lender or an Administrative Party.

“**Financial Indebtedness**” means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;

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- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
 - (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
 - (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
 - (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

“**Financial Support Direction**” means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

“**Funding Rate**” means any rate notified by a Lender to the Facility Agent pursuant to Clause 13 (*Market Disruption*).

“**Gross Outstandings**” means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft but calculated on the basis that the words “(net of any Available Credit Balance)” in paragraph (a) of the definition of “Ancillary Outstandings” were deleted.

“**Group**” means the Company and its Subsidiaries.

“**Holding Company**” means in relation to a person, any other person in respect of which it is a Subsidiary.

“**Impaired Agent**” means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of “Defaulting Lender”; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,

and payment is made within 5 Business Days of its due date; or

(ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

“**Increase Confirmation**” means a confirmation substantially in the form set out in Schedule 6 (*Form of Increase Confirmation*).

“**Increase Lender**” has the meaning given to that term in Clause 2.2.1 (*Increase*).

“**Increased Cost**” means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Finance Party’s (or its Affiliate’s) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

“**Insolvency Event**” in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;

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- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
 - (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
 - (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
 - (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
 - (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

“**Interpolated Screen Rate**” means, in relation to LIBOR or EURIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and
 - (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,
- each as of the Specified Time on the Quotation Day for the currency of that Loan.

“**ITA**” means the Income Tax Act 2007.

“**Legal Reservations**” means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Company is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

“Lender” means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 29 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

“LIBOR” means, in relation to any Loan:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the currency of that Loan; or
 - (ii) no Screen Rate is available for the Term of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan,the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the currency of that Loan and for a period equal in length to the Term of that Loan.

“Licence” means:

- (a) the electricity distribution licence made and treated as granted to the Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 which permit the Company to distribute electricity in the area it is certified to operate in.

“LMA” means the Loan Market Association.

“Loan” means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

“**Majority Lenders**” means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated $66\frac{2}{3}$ per cent. or more of the Total Commitments immediately before the reduction.

“**Margin**” means, **provided that**:

- (a) at least one of Moody’s Investor Services Limited (“**Moody’s**”) and Standard & Poor’s Ratings Services (“**Standard & Poor’s**”) has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company; and
- (b) no Event of Default is outstanding,

prior to but excluding the Effective Date (as defined in the Amendment Agreement) (and for the avoidance of doubt, for the purpose of calculating interest on an overnight basis, from the date immediately preceding the Effective Date to the Effective Date) the rate set out in the table below:

Rating (Moody’s)	Rating (Standard & Poor’s)	Margin (per annum)
Less than Baa3	Less than BBB-	1.15%
Baa3	BBB-	0.95%
Baa2	BBB	0.85%
Baa1	BBB+	0.75%
A3 or higher	A- or higher	0.65%

from (and including) the Effective Date (as defined in the Amendment Agreement) the rate set out in the table below, provided that on the Effective Date the Margin shall be 0.50%:

Rating (Moody’s)	Rating (Standard & Poor’s)	Margin (per annum)
Less than Baa3	Less than BBB-	0.90%
Baa3	BBB-	0.70%
Baa2	BBB	0.55%
Baa1	BBB+	0.45%
A3 or higher	A- or higher	0.35%

If the current Moody's and Standard & Poor's ratings in respect of the Company imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, or if an Event of Default is outstanding, the applicable Margin shall be 0.90% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Company or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Company to the Facility Agent (acting reasonably)) or waived.

"Material Adverse Effect" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Company to perform its payment obligations under the Finance Documents or its obligations under Clauses 20.3 (*Interest Cover*) or 20.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

"Material Subsidiary" means, at any time, a Subsidiary of the Company whose gross assets or gross revenues (on a consolidated basis and excluding intra-Group items) then equal or exceed 10 per cent. of the gross assets or gross revenues of the Group.

For this purpose:

- (a) the gross assets or gross revenues of a Subsidiary of the Company will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest audited financial statements of the Group have been based;
- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited financial statements of the Group have been prepared, the gross assets or gross revenues of that Subsidiary will be determined from its latest financial statements;
- (c) the gross assets or gross revenues of the Group will be determined from the Company's latest audited financial statements, adjusted (where appropriate) to reflect the gross assets or gross revenues of any company or business subsequently acquired or disposed of; and

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- (d) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Company, it will immediately cease to be a Material Subsidiary and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; the subsequent financial statements of those Subsidiaries and the Group will be used to determine whether those Subsidiaries are Material Subsidiaries or not.

If there is a dispute as to whether or not a company is a Material Subsidiary, a certificate of the auditors of the Company will be, in the absence of manifest error, conclusive.

“**Maturity Date**” means the last day of the Term of a Loan.

“**Multi-account Overdraft**” means an Ancillary Facility which is an overdraft facility comprising more than one account.

“**Net Outstandings**” means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft.

“**New Lender**” has the meaning given to that term in Clause 29 (*Changes to the Parties*).

“**Non-Consenting Lender**” means any Lender who does not and continues not to consent or agree to the Company’s or the Facility Agent’s (at the request of the Company) request to give a consent in relation to, or agree to a waiver or amendment of, any provisions of the Finance Documents where Lenders whose Commitments aggregate either:

- (a) in the case the consent, waiver or amendment in question requires the approval of all the Lenders, Lenders whose Commitments aggregate more than 85% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 85% of the Total Commitments prior to that reduction); or
- (b) in the case the consent, waiver or amendment in question requires the approval of the Majority Lenders, Lenders whose Commitments aggregate more than 60% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 60% of the Total Commitments prior to that reduction),

have consented or agreed to such waiver or amendment.

“**OFGEM**” means the Office of Gas and Electricity Markets.

“**Optional Currency**” means any currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

“**Original Financial Statements**” means the audited consolidated financial statements of the Company for the year ended 31 March 2014.

“**Participating Member State**” means a member state of the European Union that has the euro as its lawful currency under the legislation of the European Union relating to Economic and Monetary Union.

“**Party**” means a party to this Agreement.

“**Pensions Regulator**” means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

“**PPL**” means PPL Corporation, a company incorporated in Pennsylvania, U.S.A. whose head office is in Two North Ninth Street, Allentown, PA18101, Pennsylvania, U.S.A., registered number 2570936.

“**Pre-approved Currency**” means U.S.\$ and euro.

“**Pro Rata Share**” means:

- (a) for the purpose of determining a Lender’s share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

“**PUHCA**” means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

“**Qualifying Lender**” has the meaning given to such term in Clause 14.1 (*Definitions*).

“**Quasi-Security Interest**” has the meaning given to such term in Clause 21.5 (*Negative Pledge*).

“**Quotation Day**” means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;
- (b) (if the currency is euro) two TARGET Days before the first day of that period; or
- (c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Quotation Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

“**Reference Bank Rate**” means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

- (a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or
- (b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market, in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

“**Reference Bank Quotation**” means any quotation supplied to the Facility Agent by a Reference Bank.

“**Reference Banks**” means the principal London offices of such banks as may be appointed by the Facility Agent in consultation with the Company and with the consent of the bank so appointed.

“**Related Fund**” in relation to a fund (the “**first fund**”), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

“**Relevant Interbank Market**” means in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

“**Repeating Representations**” means each of the representations and warranties set out in Clause 18.2 (*Status*) to Clause 18.8 (*Financial Statements*) (inclusive), Clause 18.10 (*Litigation*), Clause 18.12 (*Non-Violation of other Agreements*) and Clause 18.13 (*Governing law and enforcement*).

“**Representative**” means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

“**Request**” means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

“**Rollover Loan**” means one or more Loans:

- (a) made or to be made on the same day that a maturing Loan is due to be repaid;

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- (b) the aggregate amount of which is equal to or less than the amount of the maturing Loan;
 - (c) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of a currency*)); and
 - (d) made or to be made to the Company for the purpose of refinancing that maturing Loan.

“**Screen Rate**” means:

- (a) in relation to LIBOR, the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for the relevant currency and period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate); and
- (b) in relation to EURIBOR, the euro interbank offered rate administered by the Banking Federation of the European Union (or any other person which takes over the administration of that rate) for the relevant period displayed on page EURIBOR01 of the Reuters screen (or any replacement Reuters page which displays that rate),

or, in each case, on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Company.

“**Secretary of State**” means the Secretary of State for Business, Innovation and Skills.

“**Security Interest**” means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

“**Specified Time**” means a time determined in accordance with Schedule 7 (*Timetables*).

“**Sterling**” and “**£**” mean the lawful currency of the United Kingdom.

“**Subordination Deed**” means a document in the form set out in Schedule 8 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

“**Subsidiary**” means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

“**TARGET2**” means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single platform and which was launched on 19 November 2007.

“**TARGET Day**” means any day on which TARGET2 is open for the settlement of payments in euro.

“**Tax**” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

“**Tax Deduction**” means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

“**Tax Payment**” means either an increase in a payment made by the Company to a Finance Party under Clause 14.2 (*Tax gross-up*) or a payment under Clause 14.3 (*Tax indemnity*).

“**Term**” means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

“**Total Commitments**” means the aggregate of the Commitments being £245,000,000 at the date of this Agreement.

“**Transfer Certificate**” means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

“**Transfer Date**” means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

“**U.K.**” means the United Kingdom.

“**Unpaid Sum**” means any sum due and payable but unpaid by the Company under the Finance Documents.

“**US**” means the United States of America.

“**U.S. Dollars**” and “**U.S.\$**” means the lawful currency for the time being of the United States of America.

“**VAT**” means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2 **Construction**

1.2.1 The following definitions have the meanings given to them in Clause 20 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;
- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
- (b) **assets** includes present and future properties, revenues and rights of every description;
- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
- (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
- (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
- (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
- (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
- (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the

force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;

- (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
- (j) a currency is a reference to the lawful currency for the time being of the relevant country;
- (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
- (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
- (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
- (n) a person includes its successors in title, permitted assigns and permitted transferees;
- (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
- (p) a time of day is a reference to London time.

1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:

- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
- (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
- (c) notwithstanding sub-clause 1.2.3(a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.

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- 1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.
- 1.2.5 Unless the contrary intention appears:
- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
 - (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
 - (c) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is or may be outstanding under the Finance Documents.
- 1.2.6 The headings in this Agreement do not affect its interpretation.
- 1.2.7 The Company providing cash cover for an Ancillary Facility means the Company paying an amount in the currency of the Ancillary Facility to an interest-bearing account in the name of the Company and the following conditions being met:
- (a) the account is with the Ancillary Lender for which that cash cover is to be provided;
 - (b) until no amount is or may be outstanding under that Ancillary Facility, withdrawals from the account may only be made to pay the relevant Finance Party amounts due and payable to it under this Agreement in respect of that Ancillary Facility; and
 - (c) the Company has executed a security document over that account, in form and substance satisfactory to the Ancillary Lender with which that account is held, creating a first ranking security interest over that account.
- 1.2.8 The Company repaying or prepaying any Ancillary Outstandings means:
- (a) the Company providing cash cover in respect of the Ancillary Outstandings;
 - (b) the maximum amount payable under the Ancillary Facility being reduced or cancelled in accordance with its terms; or
 - (c) the Ancillary Lender being satisfied (acting reasonably) that it has no further liability under that Ancillary Facility, and the amount by which Ancillary Outstandings are repaid or prepaid under paragraphs (a) and (b) above is the amount of the relevant cash cover or reduction or cancellation.
- 1.2.9 An amount borrowed includes any amount utilised under an Ancillary Facility.

2. **THE FACILITY**

2.1 **The Facility**

2.1.1 Subject to the terms of this Agreement, the Lenders make available to the Company a multicurrency revolving credit facility in an aggregate amount the Base Currency Amount of which is equal to the Total Commitments.

2.1.2 Subject to the terms of this Agreement and the Ancillary Documents, an Ancillary Lender may make all or part of its Commitment available to the Company as an Ancillary Facility.

2.2 **Increase**

2.2.1 The Company may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 10.6.4 of Clause 10.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with:
 - (i) Clause 10.1 (*Mandatory prepayment – illegality*); or
 - (ii) sub-clause 10.6.2 of Clause 10.6 (*Involuntary prepayment and cancellation*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in the Base Currency of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an “**Increase Lender**”) selected by the Company (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;
- (d) the Company and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Company and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;

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- (e) each Increase Lender shall become a Party as a “Lender” and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender;
 - (f) the Commitments of the other Lenders shall continue in full force and effect; and
 - (g) any increase in the Total Commitments shall take effect on the date specified by the Company in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.
- 2.2.2 An increase in the Total Commitments will only be effective on:
- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
 - (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Company and the Increase Lender.
- 2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.
- 2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Company shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Company shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.5 The Company may pay to the Increase Lender a fee in the amount and at the times agreed between the Company and the Increase Lender in a letter between the Company and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.6 Clause 29.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
- (a) an “**Existing Lender**” were references to all the Lenders immediately prior to the relevant increase;

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- (b) the “**New Lender**” were references to that “**Increase Lender**”; and
 - (c) a “**re-transfer**” and “**re-assignment**” were references to respectively a “**transfer**” and “**assignment**.”

2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

2.3 **Nature of a Finance Party’s rights and obligations**

Unless otherwise agreed by all the Finance Parties:

- 2.3.1 the obligations of a Finance Party under the Finance Documents are several;
- 2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;
- 2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
- 2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;
- 2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and
- 2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. **PURPOSE**

3.1 **Purpose**

The Company shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group and in compliance with the Licence, but not in the case of any utilisation of any Ancillary Facility towards any prepayment of any Loan.

3.2 **No obligation to monitor**

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. **CONDITIONS PRECEDENT**

4.1 **Conditions precedent documents**

A Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received (or waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Company and the Lenders upon being so satisfied.

4.2 Further conditions precedent

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

- 4.2.1 the Repeating Representations are correct in all material respects; and
- 4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

4.3 Conditions relating to Optional Currencies

- 4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:
 - (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Drawdown Date for that Loan; and
 - (b) it is euros or U.S. Dollars or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.
- 4.3.2 If the Facility Agent has received a written request from the Company for a currency to be approved under paragraph (b) of sub-clause 4.3.1 above, the Facility Agent will confirm to the Company by the Specified Time:
 - (a) whether or not the Lenders have granted their approval; and
 - (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.

4.4 Maximum number

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 20 Loans outstanding.

5. UTILISATION

5.1 Giving of Requests

- 5.1.1 The Company may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.
- 5.1.2 Each Request is irrevocable.

5.2 Completion of Requests

- 5.2.1 A Request for a Loan will not be regarded as having been duly completed unless:
 - (a) the Drawdown Date is a Business Day falling within the Availability Period;

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- (b) the currency and amount of the Loan comply with Clause 5.3 (*Currency and amount*); and
 - (c) the proposed Term complies with this Agreement.

5.2.2 Only one Loan may be requested in a Request.

5.3 **Currency and amount**

5.3.1 The currency specified in a Request must be either the Base Currency or an Optional Currency.

5.3.2 The amount of the proposed Loan must be:

- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility (or such other amount as the Facility Agent may agree); or
- (b) if the currency selected is an Optional Currency, the minimum amount (and if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of sub-clause 4.3.2 of Clause 4.3 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility.

5.4 **Advance of Loan**

5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.

5.4.2 If the conditions set out in this Agreement have been met, and subject to Clause 9.2 (*Cashless Rollover*), each Lender shall make its participation in each Loan available by no later than 2.00pm on the Drawdown Date through its Facility Office.

5.4.3 Save as set out in sub-clause 5.4.4 below, the amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.

5.4.4 If a Loan is made to repay Ancillary Outstandings, each Lender's participation in that Loan will be in an amount (as determined by the Facility Agent) which will result as nearly as possible in the aggregate amount of its participation in the Loans then outstanding bearing the same proportion to the aggregate amount of the Loans then outstanding as its Commitment bears to the Total Commitments.

5.4.5 No Lender is obliged to participate in a Loan if as a result:

- (a) the Base Currency Amount of its share in the aggregate amount of the Loans would exceed its Commitment; or
- (b) the Base Currency Amount of the Loans would exceed the Total Commitments.

5.4.6 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount, currency and the Base Currency Amount of each Loan, the amount of its participation in that Loan and, if different, the amount of that participation to be made available in accordance with Clause 17 (*Payments*), in each case by the Specified Time.

6. **EXTENSION OPTION**

6.1 The Company may by notice to the Facility Agent (the **Initial Extension Request**) not more than 60 days and not less than 30 days before the first anniversary of the date of the Amendment Agreement (the **First Anniversary**), request that the Final Maturity Date be extended for a further period of one year.

6.2 The Company may by notice to the Facility Agent (the **Second Extension Request**) no more than 60 days and not less than 30 days before the second anniversary of the date of the Amendment Agreement (the **Second Anniversary**), request that the Final Maturity Date:

- (a) with respect to Lenders who have agreed to the Initial Extension Request, be extended for a further period of one year; and/or
- (b) if no Initial Extension Request has been made, or with respect to Lenders who refused the Initial Extension Request:
 - (i) be extended for a period of one year; or
 - (ii) be extended for a period of two years,as selected by the Company in the notice to the Facility Agent.

6.3 The Facility Agent must promptly notify the Lenders of any Initial Extension Request or Second Extension Request (an **Extension Request**).

6.4 Each Lender may, in its sole discretion, agree to any Extension Request. Each Lender that agrees to an Extension Request by the date falling 15 days before, the relevant anniversary of the date of this Agreement, will extend its Commitment for a further period of one year or two years, as set out in the relevant Extension Request, from the then current Final Maturity Date and the Final Maturity Date of that Lender will be extended accordingly.

6.5 If any Lender fails to reply to an Extension Request on or before the date falling 15 days before the relevant anniversary of the date of this Agreement, it will be deemed to have refused that Extension Request and its Commitment will not be extended.

6.6 Subject to Clause 6.8 below, each Extension Request is irrevocable.

6.7 If one or more (but not all) of the Lenders agree to an Extension Request, then the Facility Agent must notify the Company and the Lenders which have agreed to the extension, identifying in that notification which Lenders have not agreed to the Extension Request.

- 6.8 The Company may, on the basis that one or more of the Lenders have not agreed to the Extension Request and no later than the date falling 5 days before the relevant anniversary of the date of this Agreement, withdraw the request by notice to the Facility Agent which will promptly notify the Lenders.
7. **OPTIONAL CURRENCIES**
- 7.1 **Selection**
- 7.1.1 The Company must select the currency of a Loan in its Request. The Company may select the Base Currency or an Optional Currency for a Loan.
- 7.1.2 Unless the Facility Agent otherwise agrees, the Loans may not be denominated at any one time in more than three currencies.
- 7.2 **Revocation of currency**
- 7.2.1 Notwithstanding any other term of this Agreement, if before the Specified Time on any Quotation Day the Facility Agent receives notice from a Lender that:
- (a) the Optional Currency requested is not readily available to it in the relevant interbank market in the amount and for the period required; or
 - (b) participating in a Loan in the proposed Optional Currency might contravene any law or regulation applicable to it,
- the Facility Agent must give notice to the Company to that effect promptly and in any event before the Specified Time on that day.
- 7.2.2 In this event:
- (a) that Lender must participate in the Loan in the Base Currency (in an amount equal to that Lender's proportion of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's proportion of the Base Currency Amount of the Rollover Loan that is due to be made); and
 - (b) the share of that Lender in the Loan and any other similarly affected Lender(s) will be treated as a separate Loan denominated in the Base Currency during that Term.
- 7.2.3 Any part of a Loan treated as a separate Loan under this sub-clause will not be taken into account for the purposes of any limit on the number of Loans or currencies outstanding at any one time.
- 7.2.4 A Loan will still be treated as a Rollover Loan if it is not denominated in the same currency as the maturing Loan by reason only of the operation of this sub-clause.

7.3 **Optional Currency equivalents**

Except as expressly provided in this Agreement, the equivalent in the Base Currency of a Loan or part of a Loan in an Optional Currency for the purposes of calculating:

7.3.1 whether any limit under this Agreement has been exceeded;

7.3.2 the amount of a Loan;

7.3.3 the share of a Lender in a Loan;

7.3.4 the amount of any repayment of a Loan; or

7.3.5 the undrawn amount of a Lender's Commitment,

is its Base Currency Amount.

8. **ANCILLARY FACILITIES**

8.1 **Type of Facility**

An Ancillary Facility may be by way of:

8.1.1 a multicurrency overdraft facility;

8.1.2 a multicurrency guarantee, bonding, documentary or stand-by letter of credit facility;

8.1.3 a short term multicurrency loan facility;

8.1.4 a derivatives facility;

8.1.5 a foreign exchange facility; or

8.1.6 any other multicurrency facility or accommodation required in connection with the business of the Group and which is agreed by the Company with an Ancillary Lender.

8.2 **Availability**

8.2.1 If the Company and a Lender agree and except as otherwise provided in this Agreement, the Lender may provide all or part of its Commitment as an Ancillary Facility.

8.2.2 An Ancillary Facility shall not be made available unless, not later than three Business Days prior to the Ancillary Commencement Date for an Ancillary Facility, the Facility Agent has received from the Company:

(a) a notice in writing of the establishment of an Ancillary Facility and specifying:

(i) the proposed Ancillary Commencement Date and expiry date of the Ancillary Facility;

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- (ii) the proposed type of Ancillary Facility to be provided;
 - (iii) the proposed Ancillary Lender;
 - (iv) the proposed Ancillary Commitment, the maximum amount of the Ancillary Facility and, in the case of a Multi-account Overdraft, its Designated Gross Amount and its Designated Net Amount;
 - (v) the proposed currency of the Ancillary Facility (if not denominated in the Base Currency); and
- (b) any other information which the Facility Agent may reasonably request in connection with the Ancillary Facility.

8.2.3 The Facility Agent shall promptly notify the Ancillary Lender and the other Lenders of the establishment of an Ancillary Facility.

8.2.4 Subject to compliance with sub-clause 8.2.2 above:

- (a) the Lender concerned will become an Ancillary Lender; and
 - (b) the Ancillary Facility will be available,
- with effect from the date agreed by the Company and the Ancillary Lender.

8.3 **Terms of Ancillary Facilities**

8.3.1 Except as provided below, the terms of any Ancillary Facility will be those agreed by the Ancillary Lender and the Company.

8.3.2 Those terms:

- (a) must be based upon normal commercial terms at that time (except as varied by this Agreement);
- (b) may only allow the Company to use the Ancillary Facility;
- (c) may not allow the Ancillary Outstandings to exceed the Ancillary Commitment;
- (d) may not allow the Ancillary Commitment of a Lender to exceed the Available Commitment of that Lender (before taking into account the effect of the Ancillary Facility on that Available Commitment); and
- (e) must require that the Ancillary Commitment is reduced to nil, and that all Ancillary Outstandings are repaid not later than the Final Maturity Date (or such earlier date as the Commitment of the relevant Ancillary Lender (or its Affiliate) is reduced to zero).

8.3.3 If there is any inconsistency between any term of an Ancillary Facility and any term of this Agreement, this Agreement shall prevail except for (i) Clause 24.3

(Calculations) which shall not prevail for the purposes of calculating fees, interest or commission relating to an Ancillary Facility; (ii) an Ancillary Facility comprising more than one account where the terms of the Ancillary Documents shall prevail to the extent required to permit the netting of balances on those accounts; and (iii) where the relevant term of this Agreement would be contrary to, or inconsistent with, the law governing the relevant Ancillary Document, in which case that term of this Agreement shall not prevail.

8.3.4 Interest, commission and fees on Ancillary Facilities are dealt with in Clause 25.6 (*Interest, commission and fees on Ancillary Facilities*).

8.4 **Repayment of Ancillary Facility**

8.4.1 An Ancillary Facility shall cease to be available on the Final Maturity Date or such earlier date on which its expiry date occurs or on which it is cancelled in accordance with the terms of this Agreement.

8.4.2 If an Ancillary Facility expires or is cancelled in accordance with its terms the Ancillary Commitment of the Ancillary Lender shall be reduced to zero.

8.4.3 No Ancillary Lender may demand repayment or prepayment of any Ancillary Outstandings prior to the expiry date of the relevant Ancillary Facility unless:

- (a) required to reduce the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount;
- (b) the Total Commitments have been cancelled in full, or all outstanding Loans have become due and payable in accordance with the terms of this Agreement;
- (c) it becomes unlawful in any applicable jurisdiction for the Ancillary Lender to perform any of its obligations as contemplated by this Agreement or to fund, issue or maintain its participation in its Ancillary Facility (or it becomes unlawful for any Affiliate of the Ancillary Lender for the Ancillary Lender to do so); or
- (d) both:
 - (i) the Available Commitments; and
 - (ii) the notice of the demand given by the Ancillary Lender,would not prevent the Company funding the repayment of those Ancillary Outstandings in full by way of Loan.

8.4.4 If a Loan is made to repay Ancillary Outstandings in full, the relevant Ancillary Commitment shall be reduced to zero.

8.5 **Limitations on Ancillary Outstandings**

The Company shall procure that:

8.5.1 the Ancillary Outstandings under any Ancillary Facility shall not exceed the Ancillary Commitment applicable to that Ancillary Facility; and

8.5.2 in relation to a Multi-account Overdraft:

(a) the Ancillary Outstandings shall not exceed the Designated Net Amount applicable to that Multi-account Overdraft; and

(b) the Gross Outstandings shall not exceed the Designated Gross Amount applicable to that Multi-account Overdraft.

8.6 **Information**

The Company and each Ancillary Lender shall, promptly upon request by the Facility Agent, supply the Facility Agent with any information relating to the operation of an Ancillary Facility (including the Ancillary Outstandings) as the Facility Agent may reasonably request from time to time. The Company consents to all such information being released to the Facility Agent and the other Finance Parties.

8.7 **Affiliates of Lenders as Ancillary Lenders**

8.7.1 Subject to the terms of this Agreement, an Affiliate of a Lender may become an Ancillary Lender. In such case, the Lender and its Affiliate shall be treated as a single Lender whose Commitment is the amount set out opposite the relevant Lender's name in Schedule 1 (*Original Parties*) and/or the amount of any Commitment transferred to or assumed by that Lender under this Agreement, to the extent (in each case) not cancelled, reduced or transferred by it under this Agreement.

8.7.2 The Company shall specify any relevant Affiliate of a Lender in any notice delivered by the Company to the Facility Agent pursuant to paragraph 8.2.2(a) of Clause 8.2 (*Availability*).

8.7.3 If a Lender assigns all of its rights and benefits or transfers all of its rights and obligations to a New Lender, its Affiliate shall cease to have any obligations under this Agreement or any Ancillary Document.

8.7.4 Where this Agreement or any other Finance Document imposes an obligation on an Ancillary Lender and the relevant Ancillary Lender is an Affiliate of a Lender which is not a party to that document, the relevant Lender shall ensure that the obligation is performed by its Affiliate.

8.8 **Commitment amounts**

Notwithstanding any other term of this Agreement, each Lender shall ensure that at all times its Commitment is not less than its Ancillary Commitment or the Ancillary Commitment of its Affiliate.

8.9 **Amendments and Waivers – Ancillary Facilities**

No amendment or waiver of a term of any Ancillary Facility shall require the consent of any Finance Party other than the relevant Ancillary Lender unless such amendment or waiver itself relates to or gives rise to a matter which would require an amendment of or under this Agreement (including, for the avoidance of doubt, under this Clause). In such a case, the provisions of this Agreement with regard to amendments and waivers will apply.

9. **REPAYMENT**

9.1 **Repayment of Loans**

9.1.1 The Company must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.

9.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 9.1.1 above may be re-borrowed.

9.2 **Cashless Rollover**

9.2.1 Without prejudice to the Company's obligation under Clause 9.1 above, if one or more Loans are to be made available to the Company:

- (a) on the same day that a maturing Loan is due to be repaid by the Company;
- (b) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of currency*)); and
- (c) in whole or in part for the purpose of refinancing the maturing Loan,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (i) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
 - (A) the Company will only be required to pay an amount in cash in the relevant currency equal to that excess; and
 - (B) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (ii) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
 - (A) the Company will not be required to make any payment in cash; and

- (B) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation in the maturing Loan.

10. **PREPAYMENT AND CANCELLATION**

10.1 **Mandatory prepayment - illegality**

10.1.1 A Lender must notify the Company promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.

10.1.2 After notification under clause 10.1.1 above:

- (a) the Company must repay or prepay the share of that Lender in each Loan made to it on the date specified in clause 10.1.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.

10.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:

- (a) the Business Day following receipt by the Company of notice from the Lender under sub-clause 10.1.1 above; or
- (b) if later, the latest date allowed by the relevant law.

10.2 **Mandatory prepayment - change of control**

If, except in the context of a group reorganisation where the Company continues to be controlled directly or indirectly by PPL, the Company becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Company (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 839 of the Taxes Act) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

10.2.1 within five days of such date, the Company shall give notice of such change of control to the Facility Agent;

10.2.2 the Lenders and the Company shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;

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- 10.2.3 if no such agreement is reached within the said period of 45 days then:
- (a) any Lender may on 10 days' notice to the Facility Agent and to the Company require the repayment of its share in each Loan and the repayment of its Ancillary Outstandings and cancel its Commitment; and
 - (b) the Majority Lenders may on 10 days' notice to the Company require repayment in full of all outstanding Loans and Ancillary Outstandings and cancel the Total Commitments; and
- 10.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 10.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 10.2.3.

10.3 **Voluntary prepayment**

- 10.3.1 The Company may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.
- 10.3.2 A prepayment of part of a Loan drawn in US Dollars must be in a minimum amount of \$5,000,000 and an integral multiple of U.S. \$1,000,000.
- 10.3.3 A prepayment of part of a Loan drawn in Sterling must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.3.4 A prepayment of part of a Loan drawn in euros must be in a minimum amount of ?5,000,000 and an integral multiple of ?1,000,000.

10.4 **Automatic cancellation**

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

10.5 **Voluntary cancellation**

- 10.5.1 The Company may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.
- 10.5.2 Partial cancellation of the Total Commitments must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.5.3 Any cancellation in part shall be applied against the Commitment of each Lender pro rata.

10.6 **Involuntary prepayment and cancellation**

- 10.6.1 If the Company is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.

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- 10.6.2 After notification under sub-clause 10.6.1 above:
- (a) the Company must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 10.6.3 below; and
 - (b) the Commitments of that Lender will be immediately cancelled.
- 10.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Company in its notification.
- 10.6.4
- (a) If any Lender becomes a Defaulting Lender, the Company may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent 5 Business Days' notice of cancellation of the Available Commitment of that Lender.
 - (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
 - (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

10.7 **Re-borrowing of Loans**

Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

10.8 **Miscellaneous provisions**

- 10.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.
- 10.8.2 All prepayments made under Clause 10.2 (*Mandatory prepayment - change of control*) shall be applied *pro rata* to each Lender's participation in such Loan.
- 10.8.3 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- 10.8.4 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.
- 10.8.5 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- 10.8.6 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

11. **INTEREST**

11.1 **Calculation of interest**

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

11.1.1 Margin; and

11.1.2 LIBOR or, in relation to any Loan in euro, EURIBOR.

11.2 **Payment of interest**

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

11.3 **Interest on overdue amounts**

11.3.1 If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.

11.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting reasonably):

(a) select successive Terms of any duration of up to three months; and

(b) determine the appropriate Quotation Day for that Term.

11.3.3 Notwithstanding sub-clause 11.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

(a) the first Term for that overdue amount will be the unexpired portion of that Term; and

(b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 11.3.2 above.

11.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

11.4 **Notification of rates of interest**

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

12. **TERMS**

12.1 **Selection**

12.1.1 Each Loan has one Term only.

12.1.2 The Company must select the Term for a Loan in the relevant Request.

12.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or for a period of one to thirty days or any other period agreed between the Company and the Lenders.

12.1.4 The Company shall not use its right under paragraph 12.1.3 above to select for a Loan a Term of less than one month's duration more than six times in any calendar year.

12.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan.

12.2 **No overrunning the Final Maturity Date**

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

12.3 **Other adjustments**

12.3.1 The Facility Agent and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.

12.3.2 Subject to Clause 12.3.3 below, if two or more Terms end on the same date, those Loans will, unless the Company specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.

12.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Company requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the Base Currency Amounts specified in that Request, having an aggregate Base Currency Amount equal to the Base Currency Amount of the Loan immediately before its division.

12.4 **Notification**

The Facility Agent must notify the Company and the Lenders of the duration of each Term promptly after ascertaining its duration.

13. **MARKET DISRUPTION**

13.1 **Failure of a Reference Bank to supply a rate**

Subject to the other provisions of this Clause, if LIBOR or, if applicable, EURIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the applicable LIBOR or EURIBOR will be determined on the basis of the quotations of the remaining Reference Banks.

13.2 **Market disruption**

13.2.1 In this Clause, each of the following events is a **market disruption event**:

- (a) at or about noon on the Quotation Day for the relevant Term, LIBOR or if applicable EURIBOR is to be determined by reference to the Reference Banks and none or only one of the Reference Banks supplies a rate to the Facility Agent to determine LIBOR or, if applicable, EURIBOR for the relevant currency and Term; or
- (b) before close of business in London on the Quotation Day for the relevant Term, the Facility Agent receives notification from a Lender or Lenders whose participations in the relevant Loan exceed 50% of that Loan that the cost to it (or them) of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR or, if applicable, EURIBOR for the relevant Term.

13.2.2 The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.

13.2.3 After notification under sub-clause 13.2.1(a) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin; and
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select.

13.3 **Alternative basis of interest or funding**

13.3.1 If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

13.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

14. **TAX GROSS-UP AND INDEMNITIES**

14.1 **Definitions**

14.1.1 In this Agreement:

“Qualifying Lender” means:

(a) a Lender (other than a Lender within paragraph (b) below) which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:

(i) a Lender:

(A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document; or

(B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made,

and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

(ii) a Lender which is:

(A) a company resident in the United Kingdom for United Kingdom tax purposes;

(B) a partnership each member of which is:

(1) a company so resident in the United Kingdom; or

(2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

(C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company; or

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- (iii) a Treaty Lender; or
 - (b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.

“**Tax Confirmation**” means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.

“**Tax Credit**” means a credit against, relief or remission for, or repayment of any Tax.

“**Treaty Lender**” means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender’s participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
 - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Company and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

“**Treaty State**” means a jurisdiction having a double taxation agreement (a “**Treaty**”) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

“**UK Non-Bank Lender**” means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement or Transfer Certificate which it executes on becoming a Party.

14.1.2 Unless a contrary indication appears, in this Clause 14 a reference to “determines” or “determined” means a determination made in the absolute discretion of the person making the determination.

14.2 **Tax gross-up**

14.2.1 The Company shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

14.2.2 The Company shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Company.

14.2.3 If a Tax Deduction is required by law to be made by the Company, the amount of the payment due from the Company shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

14.2.4 A payment shall not be increased under sub-clause 14.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or
- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a “**Direction**”) under section 931 of the ITA which relates to the payment and that Lender has received from the Company a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or

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- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) the relevant Lender has not given a Tax Confirmation to the Company; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Company on the basis that the Tax Confirmation would have enabled the Company to have formed a reasonable belief that the payment was an “excepted payment” for the purpose of section 930 of the ITA; or
 - (d) the relevant Lender is a Treaty Lender and the Company making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 14.2.7 below.

14.2.5 If the Company is required to make a Tax Deduction, the Company shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

14.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Company making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

14.2.7

- (a) Subject to paragraph (b) below, a Treaty Lender and the Company which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Company to obtain authorisation to make that payment without a Tax Deduction.
- (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or
 - (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with paragraph 14.2.10 below or paragraph 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Company making that payment has not complied with its obligations under paragraph 14.2.11 below or paragraph 14.6.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

- 14.2.8 A UK Non-Bank Lender which becomes a Party on the day on which this Agreement is entered into gives a Tax Confirmation to the Company by entering into this Agreement.
- 14.2.9 A UK Non-Bank Lender shall promptly notify the Company and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 14.2.10 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
- 14.2.11 Where a Lender includes the indication described in paragraph 14.2.10 above in Schedule 1 (*Original Parties*), the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing provided that the Company shall not be liable in respect of any non-compliance with its obligations under this Clause 14.2.11 where such non-compliance is due to circumstances beyond the control of the Company (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Company, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 14.2.12 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with Clause 14.2.10 or Clause 14.6.1 will reasonably promptly notify the Facility Agent and the Company if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
- 14.2.13 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.2.10 above or sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*), the Company shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.
- 14.3 **Tax indemnity**
- 14.3.1 Except as provided below, the Company must, within three Business Days of demand, indemnify a Finance Party against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.

- 14.3.2 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:
- (a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
 - (b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction, if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.
- 14.3.3 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:
- (a) is compensated for by an increased payment under Clause 14.2 (*Tax gross-up*);
 - (b) would have been compensated for by an increased payment under Clause 14.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 14.2 (*Tax gross-up*) applied; or
 - (c) relates to a FATCA Deduction required to be made by a Party.
- 14.3.4 A Finance Party making, or intending to make, a claim under sub-clause 14.3.1 above must promptly notify the Company of the event which will give, or has given, rise to the claim.

14.4 **Tax Credit**

If the Company makes a Tax Payment and the relevant Finance Party has obtained, used and retained any Tax Credit that is attributable to that Tax Payment, then, in its discretion (acting reasonably) it can do so without any further adverse consequences for it, that Finance Party must pay an amount to the Company which that Finance Party determines (in its discretion, acting reasonably) will leave it (after that payment) in the same after-tax position as it would have been in if the Tax Payment had not been required to be made by the Company. The relevant Finance Party shall take those steps it considers in its opinion reasonable to seek and claim any tax credit.

14.5 **Lender Status Confirmation**

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Company, which of the following categories it falls in:

- 14.5.1 not a Qualifying Lender;

14.5.2 a Qualifying Lender (other than a Treaty Lender); or

14.5.3 a Treaty Lender.

If a New Lender fails to indicate its status in accordance with this Clause 14.5 then such New Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Company). For the avoidance of doubt, a Transfer Certificate or assignment agreement shall not be invalidated by any failure of a Lender to comply with this Clause 14.5.

14.6 HMRC DT Treaty Passport scheme confirmation

14.6.1 A New Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) in the Transfer Certificate or Increase Confirmation which it executes by including its scheme reference number and its jurisdiction of tax residence in that Transfer Certificate or Increase Confirmation.

14.6.2 Where a New Lender includes the indication described in sub-clause 14.6.1 above in the relevant Transfer Certificate or Increase Confirmation the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date and shall promptly provide the Lender with a copy of that filing.

14.7 Stamp taxes

The Company shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

14.8 VAT

14.8.1 All amounts set out, or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, and accordingly, subject to sub-clause 14.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).

- 14.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the “**Supplier**”) to any other Finance Party (the “**Recipient**”) under a Finance Document, and any Party other than the Recipient (the “**Subject Party**”) is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Subject Party an amount equal to any credit or repayment obtained by the Recipient from the relevant tax authority which the Recipient reasonably determines is in respect of such VAT.
- 14.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.
- 14.8.4 Any reference in this Clause 14.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term “representative member” to have the same meaning as in the Value Added Tax Act 1994).

14.9 **FATCA Information**

- 14.9.1 Subject to sub-clause 14.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:
- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party; and
 - (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party’s compliance with FATCA;
 - (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party’s compliance with any other law, regulation, or exchange of information regime.
- 14.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 14.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.

14.9.3 Sub-clause 14.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 14.9.1. above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:

- (a) any law or regulation;
- (b) any fiduciary duty; or
- (c) any duty of confidentiality.

14.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a) or (b) of sub-clause 14.9.1 above (including, for the avoidance of doubt, where sub-clause 14.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

14.10 **FATCA Deduction**

14.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction, or otherwise compensate the recipient of the payment for that FATCA Deduction.

14.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Company, the Facility Agent and the other Finance Parties.

15. **INCREASED COSTS**

15.1 **Increased Costs**

Except as provided below in this Clause, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 15.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;
- 15.1.2 compliance with any law or regulation made after the date of this Agreement **provided that** for the purposes of this Agreement and any other Finance Document, Dodd-Frank shall be deemed to be a law or regulation made after the date of this Agreement; or
- 15.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV.

15.2 **Exceptions**

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 15.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 15.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates;
- 15.2.3 attributable to a FATCA Deduction required to be made by a Party;
- 15.2.4 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation;
- 15.2.5 attributable to the implementation or application of or compliance with the “International Convergence of Capital Measurement and Capital Standards, a Revised Framework” published by the Basel Committee in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) (**Basel II**) or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or
- 15.2.6 not notified by the relevant Finance Party to the Facility Agent and the Company within three Months of that Finance Party becoming aware of such Increased Cost.

15.3 **Claims**

A Finance Party intending to make a claim for an Increased Cost must notify the Company promptly of the circumstances giving rise to, and the amount of, the claim.

16. MITIGATION

16.1 **Mitigation**

- 16.1.1 Each Finance Party must, in consultation with the Company (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:
 - (a) any Tax Payment or Increased Cost being payable to that Finance Party;
 - (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;

- (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
 - (d) the occurrence of any market disruption event,
including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.
- 16.1.2 A Finance Party is not obliged to take any step under this Clause 16 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.
- 16.1.3 Each Finance Party must promptly notify the Company of any circumstances as described in paragraphs (a) to (d) of sub-clause 16.1.1 of this Clause 16.1.
- 16.1.4 The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 16.1.
- 16.1.5 This Clause does not in any way limit the obligations of the Company under the Finance Documents.

16.2 **Substitution**

Notwithstanding Clause 16.1 (*Mitigation*), if any circumstances arise which result in:

- 16.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 16.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- 16.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank;
- 16.2.4 the occurrence of any market disruption event; or
- 16.2.5 any Lender becoming a Non-Consenting Lender,

then the Company, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a “**Replacement Finance Party**”) selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party’s participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party’s participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that:**

- 16.2.6 the Company shall have no right to replace the Facility Agent;

- 16.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Company to find a Replacement Finance Party;
- 16.2.8 the transfer must take place no later than 14 days after the notice referred to above;
- 16.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and
- 16.2.10 the Finance Party shall only be obliged to transfer its rights and obligations pursuant to this Clause 16.2 once it is satisfied that it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

16.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

- 16.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or
- 16.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

17. **PAYMENTS**

17.1 **Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents, excluding a payment under the terms of an Ancillary Document, must be made to the Facility Agent to its account at such office or bank:

- 17.1.1 in the principal financial centre of the country of the relevant currency; or
 - 17.1.2 in the case of euro, in the principal financial centre of a Participating Member State or London,
- as it may notify to that Party for this purpose by not less than five Business Days’ prior notice.

17.2 **Funds**

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

17.3 **Distribution**

17.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank:

- (a) in the principal financial centre of the country of the relevant currency; or
- (b) in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.

17.3.2 The Facility Agent may apply any amount received by it for the Company in or towards payment (as soon as practicable after receipt) of any amount due from the Company under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

17.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

17.4 **Currency of account**

17.4.1 Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Clause.

17.4.2 Interest is payable in the currency in which the relevant amount in respect of which it is payable is denominated.

17.4.3 A repayment or prepayment of any principal amount (or overdue amount) is payable in the currency in which that principal amount (or overdue amount) is denominated on its due date.

17.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.

17.4.5 Each other amount payable under the Finance Documents is payable in Sterling.

17.4.6 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

17.5 **No set-off or counterclaim**

All payments made by the Company under the Finance Documents must be made without set-off or counterclaim.

17.6 **Business Days**

17.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.

17.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

17.7 **Impaired Agent**

17.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Company or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 17.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Company or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.

17.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.

17.7.3 A Party which has made a payment in accordance with this Clause 17.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.

17.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 23.14 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 17.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 17.3 (*Distribution*).

17.7.5 For the purposes of this Clause 17.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

17.8 **Partial payments**

17.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Company under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Company under the Finance Documents in the following order:

- (a) **first**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;
- (b) **secondly**, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;
- (c) **thirdly**, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and
- (d) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.

17.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 17.8.1 of this Clause 17.8.

17.8.3 This Clause will override any appropriation made by the Company.

17.9 **Timing of payments**

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

18. **REPRESENTATIONS**

18.1 **Representations**

The representations set out in this Clause are made by the Company to each Finance Party on the date of this Agreement.

18.2 **Status**

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

18.3 **Powers and authority**

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

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- 18.4 **Legal validity**
Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.
- 18.5 **Non-conflict**
The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:
- 18.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or
- 18.5.2 its constitutional documents.
- 18.6 **No default**
- 18.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.
- 18.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.
- 18.7 **Authorisations**
All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):
- 18.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and
- 18.7.2 to make the Finance Documents admissible in evidence in England and Wales,
have been obtained or effected (as appropriate) and are in full force and effect.
- 18.8 **Financial statements**
Its audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):
- 18.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and
- 18.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up,
except, in each case, as disclosed to the contrary in those financial statements.

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- 18.9 **No material adverse change**
Other than as disclosed in writing to the Arranger prior to the date of this Agreement there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.
- 18.10 **Litigation**
No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.
- 18.11 **Winding Up**
No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.
- 18.12 **Non-Violation of other Agreements:**
Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.
- 18.13 **Governing Law and Enforcement**
- 18.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.
- 18.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.
- 18.14 **Deduction of Tax**
It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:
- 18.14.1 a Qualifying Lender:
- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
 - (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
 - (c) falling within paragraph (b) of the definition of Qualifying Lender or;
- 18.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

18.15 **No filing or stamp taxes**

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

18.16 **No misleading information**

Save as disclosed in writing to the Facility Agent and the Arrangers prior to the Effective Date (as defined in the Amendment Agreement):

- 18.16.1 any written factual information provided by any member of the Group or on its behalf was true and accurate in all material respects as at the date of the relevant report or document or as at the date (if any) at which it is stated to be given;
- 18.16.2 the financial projections provided have been prepared on the basis of recent historical information and on the basis of reasonable assumptions as at the date provided; and
- 18.16.3 no event or circumstance has occurred or arisen and no information has been given or withheld that results in the information, opinions, intentions, forecasts or projections contained in such written information being untrue or misleading in any material respect.

18.17 **Pari Passu ranking**

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

18.18 **Licence**

The Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of the Licence.

18.19 **Sanctions**

No member of the Group or, to the knowledge of the Company, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "**Person**") currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions. The Company represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of

the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

18.20 **Anti-Corruption**

Each member of the Group has conducted its business in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance by that member of the Group with such laws.

18.21 **Times for making representations**

18.21.1 The representations set out in this Clause are made by the Company on the date of this Agreement.

18.21.2 The Repeating Representations are deemed to be repeated by the Company on the date of each Request and the first day of each Term.

18.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

19. **INFORMATION COVENANTS**

19.1 **Financial statements**

19.1.1 The Company must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its audited consolidated financial statements for each of its financial years; and
- (b) its interim consolidated financial statements for the first half-year of each of its financial years.

19.1.2 All financial statements must be supplied as soon as they are available and:

- (a) in the case of the Company's audited consolidated financial statements, within 180 days; and
- (b) in the case of the Company's interim financial statements, within 90 days,
of the end of the relevant financial period.

19.2 **Form of Financial Statement**

If any financial statement delivered or to be delivered to the Facility Agent under Clause 19.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

- 19.2.1 the Company and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Company, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 20 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;
- 19.2.2 if amendments are agreed by the Company and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and
- 19.2.3 if such amendments are not so agreed within 25 days, the Company shall:
 - (a) within 30 days after the end of that 25 day period; and
 - (b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 19.1,deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

19.3 **Compliance Certificate**

- 19.3.1 The Company must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.
- 19.3.2 Each Compliance Certificate must be signed by two directors of the Company.

19.4 **Information - miscellaneous**

The Company must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

- 19.4.1 copies of all documents despatched by the Company to its creditors generally (or any class of them) in each case at the same time as they are despatched;
- 19.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;
- 19.4.3 promptly, details of the loss of the Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of the Licence;

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- 19.4.4 promptly on receiving them, details of any modification of an Authorisation or other material regulatory notices from OFGEM or other government agency;
 - 19.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which the Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);
 - 19.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);
 - 19.4.7 within 5 Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Company;
 - 19.4.8 the Company shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Company), actuarial reports in relation to all pension schemes mentioned in sub-clause 21.15.1 of Clause 21.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Company is at that time a participating employer and to those reports which have been provided to the Company;
 - 19.4.9 promptly on request, a list of the then current Material Subsidiaries; and
 - 19.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

19.5 **Notification of Default**

- 19.5.1 The Company must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- 19.5.2 Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

19.6 **Use of websites**

- 19.6.1 Except as provided below, the Company may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:
 - (a) the Facility Agent and the Lender agree;
 - (b) the Company and the Facility Agent designate an electronic website for this purpose;

(c) the Company notifies the Facility Agent of the address of and password for the website; and

(d) the information posted is in a format agreed between the Company and the Facility Agent.

The Facility Agent must supply each relevant Lender with the address of and password for the website.

19.6.2 Notwithstanding the above, the Company must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:

(a) any Lender not agreeing to receive information via the website; and

(b) any other Lender within ten Business Days of request by that Lender.

19.6.3 The Company must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

(a) the website cannot be accessed;

(b) the website or any information on the website is infected by any electronic virus or similar software;

(c) the password for the website is changed; or

(d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Company must supply any information required under this Agreement in paper form.

19.7 **Know your customer requirements**

19.7.1 If:

(a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;

(b) any change in the status of the Company after the date of this Agreement; or

(c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with “know your customer” or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Facility

Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

20. **FINANCIAL COVENANTS**

20.1 **Definitions**

In this Clause:

“**Cash**” means, at any time, cash denominated in a currency of the United States of America, the United Kingdom, any member state of the European Union or any Participating Member State in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
- (c) there is no Security Interest over that cash other than Security Interests permitted under sub-clause 21.5.3(k) of Clause 21.5 (*Negative pledge*); and
- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

“**Cash Equivalent Investments**” means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;

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- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
 - (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
 - (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited;
 - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days' notice; or
 - (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under sub-clauses 21.5.3(l) and (k) of Clause 21.5 (*Negative pledge*)).

“**Consolidated EBITDA**” means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

“**Interest Payable**” means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the Base Currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

“**Measurement Period**” means each period of twelve months ending on 31 March or 30 September.

“**Regulatory Asset Base**” means at any date, the regulatory asset base of the Company for such date as last determined and notified to the Company by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

“**Total Net Debt**” means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

20.2 **Interpretation**

20.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

20.2.2 Any amount in a currency other than the Base Currency is to be taken into account at its Base Currency equivalent calculated on the basis of:

- (a) the Agent’s Spot Rate of Exchange on the day the relevant amount falls to be calculated; or
- (b) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.

20.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

20.3 **Interest cover**

The Company must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

20.4 **Asset Cover**

The Company must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of its Regulatory Asset Base.

21. **GENERAL COVENANTS**

21.1 **General**

The Company agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Material Subsidiary or each member of the Group, the Company must ensure that each of its Material Subsidiaries or each of its Subsidiaries, as the case may be, performs that covenant.

21.2 **Authorisations**

The Company must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or, subject to the Reservations, for the validity or enforceability of, any Finance Document.

21.3 **Compliance with laws**

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

21.4 **Pari passu ranking**

The Company must ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

21.5 **Negative pledge**

In this Clause 21.5, "**Quasi-Security Interest**" means an arrangement or transaction described in sub-clause 21.5.2 below.

21.5.1 Except as provided below, neither the Company nor any Material Subsidiary may create or allow to exist any Security Interest or Quasi-Security Interest on any of its assets.

21.5.2 Except as provided below, neither the Company nor any Material Subsidiary may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Company or any Material Subsidiary;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect, in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

21.5.3 Sub-clauses 21.5.1 and 21.5.2 do not apply to:

- (a) any lien arising by operation of law and in the ordinary course of trading;
- (b) any netting or set-off arrangement entered into by the Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances (including a Multi-Account Overdraft) of members of the Group;
- (c) any Security Interest or Quasi-Security Interest created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
- (d) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
- (e) any Security Interest or Quasi-Security Interest arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
- (f) any Security Interest or Quasi-Security Interest created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (g) any Security Interest or Quasi-Security Interest outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (h) any Security Interest or Quasi-Security Interest created or outstanding on or over any asset of any company which becomes a Material Subsidiary of the Company after the date of this Agreement where such Security Interest or Quasi-Security Interest is created prior to the date on which such company becomes a Material Subsidiary of the Company and is not created or increased in contemplation of such company being acquired and/or becoming a Material Subsidiary of the Company and the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of such company becoming a Material Subsidiary of the Company;

- (i) any Quasi-Security Interest arising as a result of a disposal which is a disposal permitted under sub-clause 21.6.2;
- (j) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
- (k) any Security Interest or Quasi-Security Interest over bank accounts of the Company in favour of the account holding bank with whom it maintains a banking relationship in the ordinary course of trade and granted as part of that bank's standard terms and conditions;
- (l) any Security Interest or Quasi-Security Interest created or outstanding with the prior approval of the Majority Lenders; and
- (m) any Security Interest or Quasi-Security Interest created or outstanding on or over assets of the Company or any of its Material Subsidiaries provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security Interest created or outstanding under this exception on or over such assets shall not at any time exceed £25,000,000 or its equivalent.

21.6 Disposals

21.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash) where the higher of the market value and the net consideration receivable (when aggregated with the higher of the market value and the net consideration receivable from any previous disposal by members of the Group) exceeds £5,000,000 (or its equivalent) in total during the term of this Agreement.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity (including, without limitation, disposals of subsidiaries or lines of business, provided that this shall not include a disposal of the core electricity distribution business);
- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
- (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
- (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and

is, applied in or towards the purchase of similar assets within 12 months of that disposal (or, if contractually committed to be used within 12 months, are actually used within 18 months of that disposal);

- (e) the disposal of assets by one wholly-owned Subsidiary of the Company to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Company by one of its Subsidiaries;
- (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of “off balance sheet” financing, provided that the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £50,000,000;
- (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account;
- (h) arising as a result of any Security Interest or Quasi-Security Interest permitted under sub-clause 21.5.3 above;
- (i) the application or disposal of cash not otherwise prohibited under the Finance Documents;
- (j) any disposal by a member of Group compulsorily required by law or regulation having the force of law or any order of any government entity made thereunder and having the force of law provided that and to the extent permitted by such law or regulation:
 - (i) such disposal is made for fair market value; and
 - (ii) such disposal does not have a Material Adverse Effect.

21.7 **Environmental matters**

- 21.7.1 The Company will and will ensure that its Material Subsidiaries will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.
- 21.7.2 The Company will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:
 - (a) any Environmental Claim against any member of the Group which is current, pending or threatened; and
 - (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against any member of the Group, where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

21.8 **Insurance**

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

21.9 **Merger**

The Company shall not enter into any amalgamation, demerger, merger or corporate reconstruction.

21.10 **Change of business**

The Company shall procure that no substantial change is made to the general nature of the business of the Company or the Group from that carried on at the date of this Agreement.

21.11 **Acquisitions**

21.11.1 Except as provided below, neither the Company nor any Material Subsidiary may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

21.11.2 Provided that no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 21.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 21.6.2 of Clause 21.6 (*Disposals*) above;
- (b) an acquisition where the consideration (including associated costs and expenses) for the acquisition (when aggregated with the consideration (including associated costs and expenses) for any other acquisition permitted under this paragraph) during the term of this Agreement does not exceed 2.5% of the sum of the issued share capital, share premium and consolidated reserves (including retained earnings) of the Company, as shown by its most recent audited consolidated financial statements; and
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

21.12 **Prohibition on the Debt Purchase Transactions of the Group**

The Company shall not, and shall procure that each other member of the Group shall not, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

21.13 **Prohibition on Subsidiary Financial Indebtedness**

The Company shall procure that no member of the Group (other than the Company) will incur or allow to remain outstanding any Financial Indebtedness unless the relevant member of the Group is a special purpose vehicle incorporated solely for the purpose of incurring such Financial Indebtedness and which does not undertake any other activities.

21.14 **Arm's length transactions**

The Company shall not (and the Company shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value where to do so would be in contravention of the Licence, provided that if, at any time, the Licence is not in effect, the Company shall not (and shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value.

21.15 **Pensions**

- 21.15.1 The Company shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).
- 21.15.2 Except for in respect of WPD South Wales Plc of the Western Power Utilities Pension Scheme and the Infralec 92 Scheme, the WPD Group of the Electricity Supply Pension Scheme (and in the case of merger, the CN Group of the ESPS) the Company shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.
- 21.15.3 The Company shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 21.15.2 above paid or required (by law or otherwise).
- 21.15.4 The Company shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.
- 21.15.5 The Company shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

21.16 **Licence**

The Company will at all times:

- 21.16.1 comply with the terms of the Licence in all material respects;
- 21.16.2 without prejudice to the generality of sub-clause 21.16.1 above, comply with the ring fencing provisions of the Licence in all respects; and
- 21.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of the Licence.

21.17 **Investment Grade Rating**

The Company shall procure that the long-term, unsecured and non credit-enhanced debt obligations of the Company shall be rated Baa3/BBB-, or such higher rating as required by the Licence, or above, by at least one of Moody's and Standard and Poor's and shall not be rated below Baa3/BBB-, or such higher rating as required by the Licence, by either of Moody's or Standard and Poor's.

21.18 **Sanctions**

- 21.18.1 Neither the Company, nor any other member of the Group, shall be the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "OFAC"), the United Nations Security Council (the "UNSC"), the European Union, Her Majesty's Treasury (the "HMT"), or other relevant sanctions authority (collectively, "Sanctions"), and no member of the Group shall be located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.
- 21.18.2 The Company undertakes that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity (the "Person"), to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.
- 21.18.3 The Company shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Syria, Cuba, Iran, North Korea, Sudan or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

21.19 **Anti-Corruption**

- 21.19.1 The Company shall not (and shall ensure that no other member of the Group will) use the proceeds, or cause or permit the proceeds of any Loan to be used, directly or indirectly, in any way that would be in breach of applicable anti-corruption laws.

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- 21.19.2 The Company shall (and shall ensure that each other member of the Group will):
- (a) conduct its businesses in compliance with applicable anti-corruption laws; and
 - (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

22. **DEFAULT**

22.1 **Events of Default**

Each of the events set out in this Clause is an Event of Default.

22.2 **Non-payment**

The Company fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- (a) administrative or technical error; or
- (b) a Disruption Event,

and payment is made within 5 Business Days of its due date.

22.3 **Breach of other obligations**

22.3.1 The Company does not perform or comply with its obligations under Clause 20 (*Financial Covenants*), Clause 21.5 (*Negative pledge*), Clause 21.6 (*Disposals*) or Clause 21.11 (*Acquisitions*).

22.3.2 The Company does not perform or comply with any of its other obligations under any Finance Document in any material respect or any representation or warranty by the Company in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 20 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Company becoming aware of such non-compliance or misrepresentation, as the case may be.

22.4 **Cross-default**

22.4.1 Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.

22.4.2 Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).

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- 22.4.3 Any commitment for any Financial Indebtedness of any member of the Group is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).
- 22.4.4 Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.5 No Event of Default will occur under this Clause 22.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 22.4.1 to 22.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

22.5 **Insolvency**

- 22.5.1 Any of the following occurs in respect of the Company:
- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
 - (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
 - (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
 - (d) a moratorium is declared in respect of any of its indebtedness.
- 22.5.2 If a moratorium occurs in respect of the Company, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

22.6 **Insolvency proceedings**

- 22.6.1 Except as provided below, any of the following occurs in respect of the Company:
- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
 - (b) any person presents a petition for its winding-up, administration or dissolution;
 - (c) an order for its winding-up, administration or dissolution is made;
 - (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;

- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

22.6.2 Sub-clause 22.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

22.7 **Creditors' process**

A distress, attachment, execution or other legal process material in relation to the Company's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Company and is not discharged or stayed within 30 days.

22.8 **Licence**

Either:

22.8.1 notice is given to revoke or terminate the Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

22.8.2 the Licence is revoked,

in either case, other than in circumstances which permit the Company or its Subsidiaries to carry on the distribution business of the Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the Licence, issued under the Act or pursuant to the Utilities Act, 2000.

22.9 **Balancing and Settlement Code**

22.9.1 The Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where the Company is able to carry on its distribution business; or

22.9.2 the Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

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- 22.10 **Unlawfulness and invalidity**
- 22.10.1 It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents in any material respect.
- 22.10.2 Any obligation or obligations of the Company under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.
- 22.11 **Cessation of business**
- The Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 21.6 (*Disposals*).
- 22.12 **Repudiation and rescission of agreements**
- The Company (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.
- 22.13 **Ownership of other Group companies**
- The Company ceases to own (directly or indirectly) 100% of the shares in any of its Subsidiaries:
- (a) which is engaged in the core electricity distribution business; or
 - (b) in respect of which it has any actual or contingent financial obligations other than as a result of a solvent liquidation or reorganisation so long as any payments or assets distributed as a result of such solvent liquidation or reorganisation are distributed to other members of the Group.
- 22.14 **Material Adverse Effect**
- Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.
- 22.15 **Acceleration**
- If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Company:
- 22.15.1 cancel the Total Commitments and/or Ancillary Commitments; and/or
- 22.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:
- (a) immediately due and payable; and/or
 - (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders; and/or

- 22.15.3 declare that full cash cover in respect of all or part of the amounts outstanding under the Ancillary Facilities is immediately due and payable whereupon it shall become immediately due and payable or payable on demand at which time it shall become payable on demand by the Facility Agent on the instructions of the Majority Lenders.
- Any notice given under this sub-clause will take effect in accordance with its terms.

23. **THE ADMINISTRATIVE PARTIES**

23.1 **Appointment and duties of the Facility Agent**

- 23.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.
- 23.1.2 Each Finance Party irrevocably authorises the Facility Agent to:
- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
 - (b) execute each Finance Document expressed to be executed by the Facility Agent.
- 23.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.
- 23.1.4 The Facility Agent shall provide to the Company within three Business Days of a request by the Company (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

23.2 **Role of the Arrangers**

Except as specifically provided in the Finance Documents, the Arranger does not have any obligations of any kind to any other Party in connection with any Finance Document.

23.3 **No fiduciary duties**

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person. No Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

23.4 **Individual position of an Administrative Party**

23.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.

23.4.2 Each Administrative Party and each Ancillary Lender may:

- (a) carry on any business with the Company or its related entities (including acting as an agent or a trustee for any other financing); and
- (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Company or its related entities.

23.5 **Reliance**

The Facility Agent may:

23.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;

23.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;

23.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and

23.5.4 act under the Finance Documents through its personnel and agents.

23.6 **Majority Lenders' instructions**

23.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.

23.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.

23.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.

23.7 **Responsibility**

23.7.1 No Administrative Party and no Ancillary Lender is responsible to any other Finance Party for the adequacy, accuracy or completeness of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.

23.7.2 Without affecting the responsibility of the Company for information supplied by it or on its behalf in connection with any Finance Document, each Lender and each Ancillary Lender confirms that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets); and
- (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.

23.7.3

- (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
- (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it may not rely on any statement in relation to those requirements made by any other person.

23.8 **Exclusion of liability**

23.8.1 Neither the Facility Agent nor any Ancillary Lender is liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.

23.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.

23.8.3 No Party (other than the Facility Agent or the Ancillary Lender) may take any proceedings against any officer, employee or agent of the Facility Agent or any Ancillary Lender in respect of any claim it might have against the Facility Agent or any Ancillary Lender or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent or any Ancillary Lender may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

23.9 **Default**

23.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.

23.9.2 If the Facility Agent:

- (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
- (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement, it must promptly notify the Lenders.

23.10 **Information**

23.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.

23.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.

23.10.3 Except as provided above, the Facility Agent has no duty:

- (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of the Company or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or
- (b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Company.

23.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired

by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.

23.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.

23.10.6 The Company irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.

23.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Company and shall disclose the same upon the written request of the Company or the Majority Lenders.

23.11 **Indemnities**

23.11.1 Without limiting the liability of the Company under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Company for such loss or liability.

23.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.

23.11.3 The Company must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:

- (a) investigating any event which the Facility Agent reasonably believes to be a Default; or
- (b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

23.12 **Compliance**

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

23.13 **Resignation of the Facility Agent**

23.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Company.

- 23.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Company, in which case the Majority Lenders may appoint a successor Facility Agent.
- 23.13.3 If no successor Facility Agent has been appointed under sub-clause 23.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.
- 23.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Company prior to the appointment. Any successor Facility Agent must have an office in the U.K.
- 23.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term “**Facility Agent**” will mean the successor Facility Agent.
- 23.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.
- 23.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 23.13.6 above, it will have no further obligations under any Finance Document.

23.14 **Replacement of the Facility Agent**

- 23.14.1 After consultation with the Company, the Majority Lenders may, by giving 30 days’ notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).
- 23.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- 23.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 23 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).

23.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

23.15 **Relationship with Lenders**

23.15.1 Subject to Clause 29.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.

23.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

23.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

23.16 **Facility Agent's management time**

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

23.17 **Notice period**

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

23.18 **Subordination Deed**

The Facility Agent will execute any Subordination Deed within two Business Days of receipt of a request (which shall include an execution version of such Subordination Deed) from the Company.

24. **EVIDENCE AND CALCULATIONS**

24.1 **Accounts**

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

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- 24.2 **Certificates and determinations**
Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.
- 24.3 **Calculations**
Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.
25. **FEES**
- 25.1 **Agency fee**
The Company must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Company.
- 25.2 **Arrangement and participation fees**
The Company must pay the upfront fees in the manner agreed between the Arrangers and the Company.
- 25.3 **Co-ordination fee**
The Company must pay a co-ordination fee in the manner agreed between the Joint Coordinators and the Company.
- 25.4 **Commitment fee**
- 25.4.1 The Company must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.
- 25.4.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.
- 25.4.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.
- 25.5 **Utilisation fee**
- 25.5.1 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate Base Currency Amount of all Loans exceeds 33.3 per cent. of the Total Commitments.

- 25.5.2 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans for each day on which the Base Currency Amount of all Loans exceeds 66.6 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 25.5.1 above is not payable in respect of any day for which the fee described in this sub-clause 25.5.2 is payable.
- 25.5.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.
- 25.5.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.6 **Interest, commission and fees on Ancillary Facilities**

The rate and time of payment of interest, commission, fees and any other remuneration in respect of each Ancillary Facility shall be determined by agreement between the relevant Ancillary Lender and the Company based upon normal market rates and terms.

26. **INDEMNITIES AND BREAK COSTS**

26.1 **Currency indemnity**

- 26.1.1 The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:
- (a) that Finance Party receiving an amount in respect of the Company's liability under the Finance Documents; or
 - (b) that liability being converted into a claim, proof, judgment or order,
- in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.
- 26.1.2 Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

26.2 **Other indemnities**

The Company shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

- 26.2.1 the occurrence of any Event of Default;
- 26.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or

26.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Company otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

26.3 **Break Costs**

26.3.1 The Company must pay to each Lender its Break Costs within three Business Days of demand.

26.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:

(a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

(b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

26.3.3 Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Clause.

27. **EXPENSES**

27.1 **Initial costs**

The Company must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

27.2 **Subsequent costs**

The Company must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

27.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Increase Confirmation) executed after the date of this Agreement; and

27.2.2 any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by this Agreement.

27.3 **Enforcement costs**

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

28. **AMENDMENTS AND WAIVERS**

28.1 **Procedure**

28.1.1 Except as provided in this Clause 28, any term of the Finance Documents (other than the Fee Letters) may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.

28.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 28.1.1 above. Any such amendment or waiver is binding on all the Parties.

28.2 **Exceptions**

28.2.1 An amendment or waiver which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) Clause 2.3 (*Nature of a Finance Party's rights and obligations*);
- (c) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (d) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (e) an increase in, or an extension of, a Commitment or the Total Commitments;
- (f) a term of a Finance Document which expressly requires the consent of each Lender;
- (g) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (h) Clause 10.1 (*Mandatory prepayment – illegality*) or Clause 10.2 (*Mandatory prepayment – change of control*); or
- (i) this Clause,

may only be made with the consent of all the Lenders.

28.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party or an Ancillary Lender may only be made with the consent of that Administrative Party or Ancillary Lender.

28.3 **Disenfranchisement of Defaulting Lenders**

28.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitments.

28.3.2 For the purposes of this Clause 28.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

28.4 **Replacement of a Defaulting Lender**

28.4.1 The Company may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender.

to a Lender or other bank, financial institution, trust, fund or other entity (a "**Replacement Lender**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the

time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

- 28.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:
- (a) the Company shall have no right to replace the Facility Agent;
 - (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Company to find a Replacement Lender;
 - (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 28.4.1 above;
 - (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents; and
 - (e) the Defaulting Lender shall only be obliged to transfer its rights and obligations pursuant to sub-clause 28.4.1 above once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the transfer to the Replacement Lender.

28.5 **Excluded Commitments**

If a Lender does not accept or reject a request for an amendment, waiver or consent within 15 Business Days of receipt of such request (or such longer period as the Company and the Facility Agent may agree), or abstains from accepting or rejecting a request for an amendment, waiver or consent, its Commitments shall not be included for the purpose of calculating the Total Commitments or participations under the Facility when ascertaining whether any relevant percentage (including, for the avoidance of doubt, unanimity) of Total Commitments and/or participations has been obtained to approve that request.

28.6 **Change of currency**

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Company) determines is necessary to reflect the change.

28.7 **Waivers and remedies cumulative**

The rights of each Finance Party under the Finance Documents:

- 28.7.1 may be exercised as often as necessary;

28.7.2 are cumulative and not exclusive of its rights under the general law; and

28.7.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

29. **CHANGES TO THE PARTIES**

29.1 **Assignments and transfers by the Company**

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

29.2 **Assignments and transfers by Lenders**

29.2.1 A Lender (the **Existing Lender**) may, subject to the following provisions of this Clause 29, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the **New Lender**).

29.2.2 Unless the Company and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.

29.2.3 An Existing Lender must consult with the Company for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.

29.2.4 The Facility Agent is not obliged to accept an assignment or execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.

29.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:

- (a) the obligations are novated in accordance with the following provisions of this Clause 29; or
- (b) the New Lender confirms to the Facility Agent and the Company in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are assigned or transferred to the New Lender.

- 29.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £1,750.
- 29.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

29.3 **Procedure for transfer by way of novations**

29.3.1 In this Clause:

Transfer Date means, for a Transfer Certificate, the later of:

- (a) the proposed Transfer Date specified in that Transfer Certificate; and
- (b) the date on which the Facility Agent executes that Transfer Certificate.

29.3.2 A novation is effected if:

- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
- (b) the Facility Agent executes it.

Subject to sub-clause 29.2.4 of Clause 29.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

29.3.3 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

29.3.4 Subject to Clause 29.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
- (b) the Existing Lender will be released from those obligations and cease to have those rights.

29.4 **Limitation of responsibility of Existing Lender**

29.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or

(b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

29.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

(a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and

(b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

29.4.3 Nothing in any Finance Document requires an Existing Lender to:

(a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or

(b) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.

29.5 **Costs resulting from change of Lender or Facility Office**

If:

29.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and

29.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Company would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 14 (*Tax gross-up and indemnities*) or Clause 15 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 29.5 shall not apply in relation to Clause 14 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Company making the payment has not complied with its obligations under sub-clause 14.1.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

29.6 **Changes to the Reference Banks**

29.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

29.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the Facility Agent (after consultation with the Company) shall designate by notice to the Company and the Lenders.

29.7 **Copy of Transfer Certificate or Increase Confirmation to Company**

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Company a copy of that Transfer Certificate or Increase Confirmation.

29.8 **Security over Lenders' rights**

In addition to the other rights provided to Lenders under this Clause 29, each Lender may without consulting with or obtaining consent from the Company, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by the Company or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

29.9 **Pro rata interest settlement**

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a “*pro rata basis*” to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 29.3 (*Procedure for transfer by way of novations*) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

- 29.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date (“**Accrued Amounts**”) and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and
- 29.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable for the account of the Existing Lender; and
 - (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 29.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

In this Clause 29.9, references to “**Term**” shall be construed to include a reference to any other period for accrual of fees.

30. **CONFIDENTIALITY AND DISCLOSURE OF INFORMATION**

30.1 **Confidential Information**

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 30.2 (*Disclosure of Confidential Information*) and Clause 30.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

30.2 **Disclosure of Confidential Information**

Any Finance Party may disclose:

- 30.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 30.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;
- 30.2.2 to any person:
 - (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent and, in each case, to any of that person’s Affiliates, Related Funds, Representatives and professional advisers;

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- (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Company and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (c) appointed by any Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
 - (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in sub-clause 30.2.2 (a) or (b) above;
 - (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
 - (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 29.8 (*Security over Lenders' rights*);
 - (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
 - (h) who is a Party; or
 - (i) with the consent of the Company;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to sub-clause 30.2.2 (a), (b) and (c) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
- (ii) in relation to sub-clause 30.2.2 (d) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential

Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;

- (iii) in relation to sub-clause 30.2.2 (e), (f) and (g) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;

30.2.3 to any person appointed by that Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 30.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Company and the relevant Finance Party;

30.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Company if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

30.3 **Disclosure to numbering service providers**

30.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Company the following information:

- (a) name of the Company;
- (b) country of domicile of the Company;
- (c) place of incorporation of the Company;
- (d) date of this Agreement;
- (e) the names of the Facility Agent and the Arranger;
- (f) date of each amendment and restatement of this Agreement;
- (g) amount of Total Commitments;

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- (h) currencies of the Facility;
 - (i) type of Facility;
 - (j) ranking of Facility;
 - (k) Final Maturity Date for the Facility;
 - (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
 - (m) such other information agreed between such Finance Party and the Company,
- to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

30.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Company by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

30.3.3 The Company represents that none of the information set out in paragraphs (a) to (m) of sub-clause 30.3.1 above is, nor will at any time be, unpublished price-sensitive information.

30.3.4 The Facility Agent shall notify the Company and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Company; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Company by such numbering service provider.

31. CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS

31.1 Confidentiality and disclosure

31.1.1 The Facility Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by sub-clause 31.1.2, 31.1.3 and 31.1.4 below.

31.1.2 The Facility Agent may disclose:

- (a) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the Company pursuant to Clause 11.4 (*Notification of rates of interest*); and

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- (b) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a Confidentiality Undertaking.
- 31.1.3 The Facility Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:
- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors and partners if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
- (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
- (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
- (d) any person with the consent of the relevant Lender or Reference Bank, as the case may be.
- 31.1.4 The Facility Agent's obligations in this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations are without prejudice to its obligations to make notifications under Clause 11.4 (*Notification of rates of interest*) provided that (other than pursuant to paragraph (a) of sub-clause 31.1.2 above) the Facility Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

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- 31.2 Other obligations
- 31.2.1 The Facility Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Facility Agent, any Reference Bank Quotation for any unlawful purpose.
- 31.2.2 The Facility Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:
- (a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 31.1.3 above except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
 - (b) upon becoming aware that any information has been disclosed in breach of this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*).
32. **SET-OFF**
- 32.1.1 A Finance Party may set off any matured obligation owed to it by the Company under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Company, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.
- 32.1.2 Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.
33. **PRO RATA SHARING**
- 33.1 **Redistribution**
- 33.1.1 If any amount owing by the Company under this Agreement to a Lender (the “**recovering Lender**”) is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a “**recovery**”), then:
- (a) the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;

(b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and

(c) the recovering Lender must pay to the Facility Agent an amount equal to the excess (the “**redistribution**”).

Sub-clause 33.1.1 above shall not apply to any amount received or recovered by an Ancillary Lender in respect of any cash cover provided for the benefit of that Ancillary Lender.

33.2 **Effect of redistribution**

33.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Company under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

33.2.2 When the Facility Agent makes a distribution under sub-clause 33.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

33.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 33.2.2 above, the Company will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

33.2.4 If:

(a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Company; and

(b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 33.2.2 above will operate in reverse to the extent of the reimbursement.

33.3 **Exceptions**

Notwithstanding any other term of this Clause 32.1.1, a recovering Lender need not pay a redistribution to the extent that:

33.3.1 it would not, after the payment, have a valid claim against the Company in the amount of the redistribution; or

- 33.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:
- (a) the recovering Lender notified the Facility Agent of those proceedings; and
 - (b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

33.4 **Ancillary Lenders**

- 33.4.1 This Clause 32 shall not apply to any receipt or recovery by a Lender in its capacity as an Ancillary Lender at any time prior to service of notice under Clause 22.15 (*Acceleration*).
- 33.4.2 Following service of notice under Clause 22.15 (*Acceleration*), this Clause 32 shall apply to all receipts or recoveries by Ancillary Lenders except to the extent that the receipt or recovery represents a reduction from the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount.

34. **SEVERABILITY**

- 34.1 If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:
- 34.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or
 - 34.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

35. **COUNTERPARTS**

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

36. **NOTICES**

36.1 **In writing**

- 36.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:
- (a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or
 - (b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.
- 36.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.
- 36.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

36.2 **Contact details**

36.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

36.2.2 The contact details of the Company for this purpose are:

Address: Avonbank, Feeder Road, Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@westempower.co.uk
Attention: Julie Hunt

The contact details of the Facility Agent for this purpose are:

Address: Mizuho Bank, Ltd.
Bracken House
One Friday Street
London
EC4M 9JA

Fax number: +44 207 012 4053

E-mail: maria.delellis@mhcb.co.uk

Attention: Loan Agency, Maria De Lellis

36.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

36.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

36.3 **Effectiveness**

36.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

36.3.2 A communication given under sub-clause 36.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

36.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

36.4 **The Company**

All formal communication under the Finance Documents to or from the Company must be sent through the Facility Agent.

36.5 **Communication when Facility Agent is Impaired Agent**

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

37. **LANGUAGE**

37.1.1 Any notice given in connection with a Finance Document must be in English.

37.1.2 Any other document provided in connection with a Finance Document must be:

(a) in English; or

(b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

38. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

39. **ENFORCEMENT**

39.1 **Jurisdiction**

39.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

39.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Company waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

39.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
Abbey National Treasury Services plc	£ 30,625,000	
(trading as Santander Global Banking & Markets)	£ 30,625,000	
Barclays Bank PLC	£ 30,625,000	
HSBC Bank plc	£ 30,625,000	
Lloyds Bank plc	£ 30,625,000	
Mizuho Bank, Ltd.	£ 30,625,000	
Royal Bank of Canada	£ 30,625,000	
The Royal Bank of Scotland plc	£ 30,625,000	
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	£ 30,625,000	
Total	£245,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT DOCUMENTS

[SATISFIED]

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**SCHEDULE 3
REQUESTS**

To: Mizuho Bank, Ltd. as Facility Agent
From: Western Power Distribution (South West) plc
Date: [X]

**Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time)
(the "Agreement")**

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [X]
 - (b) Amount/currency: [X]
 - (c) Term: [X]
3. Our payment instructions are: [X]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. We confirm that as at [relevant testing date] Consolidated EBITDA was [X] and Interest Payable was [X]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [X] to 1.
6. We confirm that as at [relevant testing date] Regulatory Asset Base was [X] and Total Net Debt was [X]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
7. This Request is irrevocable.

By:

Western Power Distribution (South West) plc

**SCHEDULE 4
FORM OF TRANSFER CERTIFICATE**

To: **Mizuho Bank, Ltd.** as Facility Agent
From: [THE EXISTING LENDER] (the **Existing Lender**) and [THE NEW LENDER] (the **New Lender**)
Date: [✗]

**Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time)
(the "Agreement")**

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.

1. The Existing Lender and the New Lender agree to the Existing Lender transferring by novation to the New Lender, and in accordance with Clause 29.3 (*Procedure for transfer by way of novation*), all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment(s) and participations in Loans under the Agreement as specified in the Schedule below.
2. The proposed Transfer Date is [✗].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - (a) [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

-
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**
6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [X]), and is tax resident in [X] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

[NEW LENDER]

By:

By:

The Transfer Date is confirmed by the Facility Agent as [✕].

[✕]

By:

**SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE**

To: **Mizuho Bank, Ltd.** as Facility Agent
From: **Western Power Distribution (South West) plc**
Date: [✗]

**Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time)
(the "Agreement")**

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that as at [relevant testing date], Consolidated EBITDA was [✗] and Interest Payable was [✗], therefore the ratio of Consolidated EBITDA to Interest Payable was [✗] to 1.
3. We confirm that as at [relevant testing date], Regulatory Asset Base was [✗] and Total Net Debt was [✗]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:
[✗].
5. We confirm that the following companies were Material Subsidiaries at [relevant testing date]:
[✗].
6. [We confirm that no Default is outstanding as at [relevant testing date].]¹

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

By:
Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

**SCHEDULE 6
FORM OF INCREASE CONFIRMATION**

To: **Mizuho Bank, Ltd.** as Facility Agent and **Western Power Distribution (South West) plc** as Company
From: [the *Increase Lender*] (the “**Increase Lender**”)
Dated: [✕]

**Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time)
(the “Agreement”)**

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
2. We refer to Clause 2.2 (*Increase*) of the Agreement.
3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the “**Relevant Commitment**”) as if it was an Original Lender under the Agreement.
4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the “**Increase Date**”) is [✕].
5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule.
7. The Increase Lender expressly acknowledges the limitations on the Lenders’ obligations referred to in Clause 2.2 (*Increase*).
8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - 8.1.1 [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - 8.1.2 [a Treaty Lender;]
 - 8.1.3 [not a Qualifying Lender].*

9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
- 9.1.1 a company resident in the United Kingdom for United Kingdom tax purposes; or
 - 9.1.2 a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - 9.1.3 a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**
10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [X]), and is tax resident in [X] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
 - ** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
 - *** Insert jurisdiction of tax residence.
 - **** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 7
TIMETABLES**

	Loans in euro	Loans in sterling	Loans in other currencies
Facility Agent notifies the Company if a currency is approved as an Optional Currency in accordance with Clause 4.3 (<i>Conditions relating to Optional Currencies</i>)	—	—	U-4
Delivery of a duly completed Request (Clause 5.2 (<i>Completion of Requests</i>))	U-3 9:30 a.m.	U-1 9:30 a.m.	U-3 9:30 a.m.
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 (<i>Advance of Loan</i>) and notifies the Lenders of the Loan in accordance with Clause 5.4 (<i>Advance of Loan</i>)	U-3 Noon	U-1 Noon	U-3 Noon
Facility Agent receives a notification from a Lender under Clause 7.2.1 (<i>Revocation of a currency</i>)	Quotation Day	—	Quotation Day
Facility Agent gives notice in accordance with Clause 7.2 (<i>Revocation of a currency</i>)	Quotation Day 5:30 p.m.	—	Quotation Day 5:30 p.m.
LIBOR or EURIBOR is fixed	Quotation Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Quotation Day as of 11:00 a.m.	Quotation Day as of 11:00 a.m.

“U” = date of utilisation

“U-X” = X Business Days prior to date of utilisation.

**SCHEDULE 8
FORM OF SUBORDINATION DEED**

THIS SUBORDINATION DEED is entered into as a deed on [] and is made BETWEEN:

1. WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC (registered number 02366894) (the **Company**);
2. [SUBORDINATED CREDITOR] (the **Subordinated Creditor**); and
3. [✕], as Facility Agent acting on behalf of the Lenders (the **Facility Agent**).

1. **INTERPRETATION**

1.1 **Definitions**

In this Deed:

Agreement means the £245,000,000 Multicurrency Revolving Facility Agreement dated 12 January 2012 as amended from time to time between, amongst others, the Company and Mizuho Bank, Ltd. as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document, provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in 0 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [X].

1.2 Construction

1.2.1 Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.

1.2.2 The principles of construction set out in the Agreement will have effect as if set out in this Deed.

1.2.3 Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

2.2.1 make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or

2.2.2 secure, in any manner, all or any part of the Subordinated Debt; or

-
- 2.2.3 defease, in any manner, all or any part of the Subordinated Debt; or
 - 2.2.4 give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or
 - 2.2.5 procure any other person to do any of the acts or take any of the actions referred to paragraphs 2.2.1 to 2.2.4 above.

2.3 **Undertakings of the Subordinated Creditor**

- 2.3.1 The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (a) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
 - (b) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
- 2.3.2 The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
- 2.3.3 The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (a) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
 - (b) initiate or support or take any steps with a view to, or which may lead to:
 - (i) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (ii) any voluntary arrangement or assignment for the benefit of creditors; or
 - (iii) any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
 - (c) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
 - (d) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).

-
- 2.3.4 If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.
- 2.3.5 The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 22.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- 2.4.1 the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- 2.4.2 any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the “rights”) made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- 2.4.3 if the trust referred to in paragraph 2.4.2 above or paragraph 2.3.4 of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- 2.4.4 the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph 2.4.2 above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent’s own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and

2.4.5 the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph 2.4.2 above or to do anything which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. **SET-OFF**

3.1.1 The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.

3.1.2 If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph 2.4.2 of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. **NEW MONEY**

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. **PROTECTION OF SUBORDINATION**

5.1.1 The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.

5.1.2 Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. **MISCELLANEOUS**

6.1.1 This Deed overrides anything in any Subordinated Finance Document to the contrary.

6.1.2 Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.

6.1.3 This Deed is a Finance Document.

7. **ASSIGNMENT**

- 7.1.1 The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.
- 7.1.2 The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. **TRUSTS**

- 8.1.1 The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.
- 8.1.2 The perpetuity period for each trust created by this Deed shall be 80 years.

9. **TERMINATION**

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. **GOVERNING LAW**

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. **JURISDICTION**

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: [✕], as Facility Agent acting on behalf of the Lenders.
To: **WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC**
From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the “**Acceding Subordinated Creditor**”) in relation to the subordination deed (the “**Subordination Deed**”) dated [✕] between, among others, Western Power Distribution (South West) plc as Company, Mizuho Bank, Ltd. as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC**)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED)
by **[ACCEDING SUBORDINATED CREDITOR]**)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)
by [AGENT])
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Facility Agent contact details:

Address:

Annex 2
Form of Certificate

To: [✗] as Facility Agent
From: [Western Power Distribution (South West) plc]
Date: [✗]

Western Power Distribution (South West) plc - £245,000,000 Revolving Facility Agreement dated 12 January 2012 (as amended and restated from time to time) (the “Agreement”) and Subordination Deed dated [✗] (as amended and restated from time to time) (the “Deed”)

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make *[insert type of payment]* of *[insert amount and currency]* under *[insert description of relevant Subordinated Finance Document]* on *[insert date of payment]*.
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

By:
Director

By:
Director

SIGNATORIES

Company

EXECUTED as a DEED)
by WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Subordinated Creditor

EXECUTED as a DEED)
by [SUBORDINATED CREDITOR])
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)
by [X])
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Facility Agent contact details:

Address: Bracken House
One Friday Street
London EC4M 9JA

SIGNATORIES

THE COMPANY

Signed by)
for and on behalf of)

**WESTERN POWER)
DISTRIBUTION (SOUTH WEST) PLC)**

Address: Avonbank
Feeder Road
Bristol BS2 0TB
Fax: +44 (0)1179 332 108

South West - Amendment and Restatement Agreement

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
ABBEY NATIONAL TREASURY)
SERVICES PLC (TRADING AS)
SANTANDER GLOBAL BANKING &)
MARKETS))

Address: 2 Triton Square
Regents Place
London NW1 3AN
Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)
Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero
Fax: +44 (0)845 602 7837

South West - Amendment and Restatement Agreement

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
)

BARCLAYS BANK PLC

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

South West - Amendment and Restatement Agreement

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
LLOYDS BANK PLC

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

South West - Amendment and Restatement Agreement

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
HSBC BANK PLC

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

South West - Amendment and Restatement Agreement

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
)

MIZUHO BANK, LTD.

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4301

South West - Amendment and Restatement Agreement

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)

ROYAL BANK OF CANADA

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

South West - Amendment and Restatement Agreement

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
)

THE ROYAL BANK OF SCOTLAND PLC

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

South West - Amendment and Restatement Agreement

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.)

Address: Ropemaker Place
25 Ropemaker Street
London EC2Y 9AN
Attention: The Manager – Loan Participation
Fax: +44 (0)20 7557 1559

South West - Amendment and Restatement Agreement

THE LENDERS

Signed by)
for and on behalf of)
ABBEY NATIONAL TREASURY)
SERVICES PLC (TRADING AS)
SANTANDER GLOBAL BANKING &)
MARKETS))
)

Address: 2 Triton Square
Regents Place
London NW1 3AN
Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)
Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero
Fax: +44 (0)845 602 7837

South West - Amendment and Restatement Agreement

THE LENDERS

Signed by)
for and on behalf of)
)

BARCLAYS BANK PLC

Address: 5 The North Colonnade
London E14 4BB
Attention: Mark Pope
Fax: +44 (0)20 7773 1840

South West - Amendment and Restatement Agreement

THE LENDERS

Signed by for and on behalf of)
LLOYDS BANK PLC)

Address: 10 Gresham Street
London EC2V 7AE
Attention: Nick Walker (for credit matters)
Fax: +44 (0)20 7158 3297

Address: Wholesale Loan Services
Level 1, Citymark
150 Fountainbridge
Edinburgh EH3 9PE
Attention: Linzi Inch (for administration matters)
Fax: +44 (0)20 7158 3204

South West - Amendment and Restatement Agreement

THE LENDERS

Signed by for and on behalf of)
HSBC BANK PLC)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

South West - Amendment and Restatement Agreement

THE LENDERS

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)20 7012 4301

South West - Amendment and Restatement Agreement

THE LENDERS

Signed by)
for and on behalf of)
ROYAL BANK OF CANADA

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

South West - Amendment and Restatement Agreement

THE LENDERS

Signed by)
for and on behalf of)
)
THE ROYAL BANK OF SCOTLAND PLC)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Attention: John Jones (for credit matters)
Fax: +44 (0)20 7085 8762
Attention: Lending Operations (for administration matters)
Fax: +44 (0)20 7672 6403

South West - Amendment and Restatement Agreement

THE LENDERS

Signed by)
for and on behalf of)
THE BANK OF TOKYO-MITSUBISHI UFJ,)
LTD.)

Address: Ropemaker Place
25 Ropemaker Street
London EC2Y 9AN
Attention: Robert Welford/ Mayumi Saito-O'Connor/ Kumar Shah
Attention: The Manager – Loan Participation
Fax: +44 (0)20 7557 1559

South West - Amendment and Restatement Agreement

THE FACILITY AGENT

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4053

South West - Amendment and Restatement Agreement

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4053

South West - Amendment and Restatement Agreement

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
)

HSBC BANK PLC

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

South West - Amendment and Restatement Agreement

EXECUTION VERSION

AMENDMENT AND RESTATEMENT AGREEMENT

DATED JULY 2014

BETWEEN

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

as the Company

THE MANDATED LEAD ARRANGERS

THE BOOKRUNNER

THE ISSUING BANK

THE LEAD ARRANGER

THE LENDERS

and

THE FACILITY AGENT

**RELATING TO A MULTICURRENCY REVOLVING FACILITIES AGREEMENT ORIGINALLY
DATED 4 APRIL 2011**

Allen & Overy LLP

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THIS AGREEMENT is dated July 2014 and made

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC** (registered number 02366923) (the **Company**);
- (2) **THE MANDATED LEAD ARRANGERS** (as defined in the Original Revolving Facility Agreement);
- (3) **THE BOOKRUNNER** (as defined in the Original Revolving Facility Agreement);
- (4) **THE ISSUING BANK** (as defined in the Original Revolving Facility Agreement);
- (5) **THE LEAD ARRANGER** (as defined in the Original Revolving Facility Agreement);
- (6) **THE LENDERS** (as defined in the Original Revolving Facility Agreement); and
- (7) **BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED** as facility agent (the **Facility Agent**).

IT IS AGREED as follows:

1. INTERPRETATION

1.1 Definitions

- (a) In this Agreement:

Amended and Restated Revolving Facility Agreement means the Original Revolving Facility Agreement as amended and restated by this Agreement.

Arrangement and Participation Fee Letter means the coordination arrangement and participation fee letter dated on or prior to the Effective Date between the Company, the Facility Agent and the Arrangers governing the upfront fees payable by the Company pursuant to clause 25.2 (Arrangement and participation fees) of the Amended and Restated Revolving Facility Agreement.

Co-ordination Fee Letter means the coordination fee letter dated on or prior to the Effective Date between the Company and the Joint Co-ordinators governing the co-ordination fee payable by the Company pursuant to clause 25.3 (Co-ordination fee) of the Amended and Restated Revolving Facility Agreement.

Effective Date means the date on which the Facility Agent confirms to the Effective Date Lenders and the Company that it has received each of the documents and other evidence listed in Schedule 2 (Conditions Precedent to the Effective Date) in form and substance satisfactory to the Facility Agent acting on the instructions of the Effective Date Lenders (acting reasonably).

Effective Date Commitments means, in relation to each Effective Date Lender, the Commitments set out opposite its name in schedule 1 (The Original Parties) to the Amended and Restated Revolving Facility Agreement.

Effective Date Lenders means each entity listed in Schedule 1 (Effective Date Lenders) being the Lenders, under the Original Revolving Facility Agreement as at the Effective Date.

Original Revolving Facility Agreement means the revolving facility agreement originally dated 4 April 2011 between, among others, the Company and the Facility Agent.

Party means a party to this Agreement.

- (b) Capitalised terms defined in the Amended and Restated Revolving Facility Agreement have, unless expressly defined in this Agreement, the same meaning in this Agreement.

1.2 Construction

The provisions of clause 1.2 (Construction) of the Amended and Restated Revolving Facility Agreement apply to this Agreement as though they were set out in full in this Agreement except that references to the Amended and Restated Revolving Facility Agreement are to be construed as references to this Agreement.

1.3 Third party rights

- (a) A person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or enjoy the benefit of any term of this Agreement.
- (b) Notwithstanding any term of this Agreement, the consent of any person who is not a Party is not required to rescind or vary this Agreement at any time.

1.4 Finance Document

This Agreement is a Finance Document under and as defined in the Original Revolving Facility Agreement and the Amended and Restated Revolving Facility Agreement.

2. REPRESENTATIONS

- (a) On the date of this Agreement, by reference to the facts and circumstances then existing:
- (i) the Repeating Representations (as defined in the Original Revolving Facility Agreement) are deemed to be made by the Company as if references to “this Agreement” in or incorporated in the Repeating Representations are construed as references to this Agreement and to the Original Revolving Facility Agreement;
 - (ii) the Company represents and warrants that no Default is continuing or is reasonably likely to result from the making of any Loan or the entry into, the performance of, or any transaction contemplated by, any Finance Document; and
 - (iii) the Company makes each of the representations and warranties to be made by it set out in clause 18.16 (No misleading information) of the Amended and Restated Revolving Facility Agreement, as if those representations and warranties were set out in full in this Agreement.
- (b) The representations and warranties made pursuant to paragraph (a) above are made to each Party (other than the Company).
- (c) On the Effective Date, the Company makes each of the representations and warranties to be made by it set out in clause 18 (Representations) of the Amended and Restated Revolving Facility Agreement to each Finance Party under the Amended and Restated Revolving Facility Agreement.

3. RESTATEMENT

- (a) The Original Revolving Facility Agreement will be amended and restated with effect from the Effective Date so that it reads and is construed for all purposes as set out in Schedule 3 (Amended and Restated Revolving Facility Agreement).
- (b) The Original Revolving Facility Agreement will not be amended and restated in the manner contemplated by this Agreement unless and until the Effective Date occurs.

4. COMMITMENTS

On the Effective Date the Commitments of each Effective Date Lender will be its Effective Date Commitments.

5. ISSUING BANK AND ARRANGERS

- (a) With effect from the Effective Date HSBC Bank plc and Mizuho Bank, Ltd., will act as joint coordinators.
- (b) The Issuing Bank and Lead Arranger will not be a party to the Amended and Restated Revolving Facility Agreement

6. FEES

The Company must pay to the Arrangers, the Joint Co-ordinators and the Facility Agent fees in the amounts and at the times set out in the relevant Fee Letters.

7. CONFIRMATIONS

On the Effective Date the Company:

- (i) confirms its acceptance of the Amended and Restated Revolving Facility Agreement; and
- (ii) agrees that it is bound by the terms of the Amended and Restated Revolving Facility Agreement.

8. MISCELLANEOUS

8.1 Continuing obligations

- (a) The provisions of the Original Revolving Facility Agreement and the other Finance Documents shall, save as amended by this Agreement, continue in full force and effect.
- (b) No waiver is given by this Agreement, and the Lenders expressly reserve all their rights and remedies in respect of any breach of, or other Default under and as defined in, the Original Revolving Facility Agreement, the Amended and Restated Facility Agreement or any other Finance Document.

8.2 Further assurance

The Company shall at the request of the Facility Agent and at its own expense do all such acts and things reasonably necessary or desirable to give effect to the amendments effected or to be effected pursuant to this Agreement.

8.3 Incorporation of terms

The provisions of clause 36 (Notices), clause 34 (Severability), clause 28.7 (Waivers and remedies cumulative) and clause 39 (Enforcement) of the Amended and Restated Revolving Facility Agreement shall be incorporated into this Agreement as if set out in full in this Agreement and as if references in those clauses to “this Agreement” or “the Finance Documents” were references to this Agreement.

8.4 Counterparts

This Agreement may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

9. GOVERNING LAW

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

THIS AGREEMENT has been entered into on the date stated at the beginning of this Agreement.

SCHEDULE 1

EFFECTIVE DATE LENDERS

Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)

Bank of America Merrill Lynch International Limited

Barclays Bank PLC

HSBC Bank plc

Lloyds Bank plc

Mizuho Bank, Ltd.

Royal Bank of Canada

The Royal Bank of Scotland plc

SCHEDULE 2

CONDITIONS PRECEDENT TO THE EFFECTIVE DATE

Corporate documents

- (a) A certified copy of the constitutional documents of the Company.
- (b) A certified copy of a resolution of the board of directors or a committee of the board of directors of the Company approving the terms of, and the transactions contemplated by, the Finance Documents.
- (c) A specimen of the signature of each person authorised on behalf of the Company to execute or witness the execution of any Finance Document or to sign or send any document or notice in connection with any Finance Document.
- (d) A certificate of the Company (signed by a director) confirming that borrowing the Total Commitments would not cause any borrowing limit binding on the Company to be exceeded.
- (e) A certificate of an authorised signatory of the Company certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

Finance documents

- (a) This Agreement executed by the Company.
- (b) The Arrangement and Participation Fee Letter executed by the Company.
- (c) The Co-ordination Fee Letter executed by the Company.

Legal opinions

A legal opinion of Clifford Chance LLP, legal advisers to the Arranger and the Facility Agent addressed to the Finance Parties.

Other documents and evidence

- (a) Evidence that all fees and expenses then due and payable from the Company under the Finance Documents have been or will be paid no later than the Effective Date.
- (b) The Original Financial Statements.

SCHEDULE 3

AMENDED AND RESTATED REVOLVING FACILITY AGREEMENT

Dated 4 April 2011

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC
as the Company

HSBC BANK PLC
AND
MIZUHO BANK, LTD.
as Joint Coordinators

ABBNEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
BARCLAYS BANK PLC
HSBC BANK PLC
LLOYDS BANK PLC
MIZUHO BANK, LTD.
ROYAL BANK OF CANADA
THE ROYAL BANK OF SCOTLAND PLC

as Bookrunners and Mandated Lead Arrangers

and

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
as Facility Agent

**£300,000,000 MULTICURRENCY REVOLVING FACILITY
AGREEMENT**

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THIS AGREEMENT is dated 4 April 2011 and has been amended and restated by an amendment and restatement agreement dated July 2014.

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC** (registered number 02366923) (the “**Company**”);
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as joint coordinators (the “**Joint Coordinators**”);
- (3) **ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS), BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED, BARCLAYS BANK PLC, HSBC BANK PLC, LLOYDS BANK PLC, MIZUHO BANK, LTD., ROYAL BANK OF CANADA** and **THE ROYAL BANK OF SCOTLAND PLC** as bookrunners and mandated lead arrangers (the “**Arrangers**”);
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the “**Original Lenders**”); and
- (5) **BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED** as facility agent (the “**Facility Agent**”).

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

“**Acceptable Bank**” means:

- (a) an Effective Date Lender (as defined in the Amendment Agreement);
- (b) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor’s Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody’s Investor Services Limited or a comparable rating from an internationally recognised credit rating agency; or
- (c) any other bank or financial institution approved by the Facility Agent (acting reasonably).

“**Acceptable Jurisdiction**” means:

- (a) the United States of America;

-
- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of A- or higher by Standard & Poor's Rating Services or A3 or higher from Moody's Investor Services Limited or A- or higher from Fitch Ratings Ltd.

“**Act**” means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

“**Administrative Party**” means an Arranger or the Facility Agent.

“**Affiliate**” means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term “**Affiliate**” shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty's Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty's Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

“**Agent's Spot Rate of Exchange**” means the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on a particular day.

“**Amendment Agreement**” means the amendment and restatement agreement dated 29 July 2014 between the parties to this Agreement at such time.

“**Ancillary Commencement Date**” means, in relation to an Ancillary Facility, the date on which that Ancillary Facility is first made available, which date shall be a Business Day within the Availability Period.

“**Ancillary Commitment**” means, in relation to an Ancillary Lender and an Ancillary Facility, the maximum Base Currency Amount which that Ancillary Lender has agreed (whether or not subject to satisfaction of conditions precedent) to make available from time to time under an Ancillary Facility and which has been authorised as such under Clause 8 (*Ancillary Facilities*), to the extent that amount is not cancelled or reduced under this Agreement or the Ancillary Documents relating to that Ancillary Facility.

“**Ancillary Document**” means each document relating to or evidencing the terms of an Ancillary Facility.

“**Ancillary Facility**” means any ancillary facility made available by an Ancillary Lender in accordance with Clause 8 (*Ancillary Facilities*).

“**Ancillary Lender**” means each Lender (or Affiliate of a Lender) which makes available an Ancillary Facility in accordance with Clause 8 (*Ancillary Facilities*).

“**Ancillary Outstandings**” means, at any time, in relation to an Ancillary Lender and an Ancillary Facility then in force the aggregate of the equivalents (as calculated by that Ancillary Lender) in the Base Currency of the following amounts outstanding under that Ancillary Facility:

- (a) the principal amount under each overdraft facility and on-demand short term loan facility (net of any Available Credit Balance);

-
- (b) the face amount of each guarantee, bond and letter of credit under that Ancillary Facility; and
 - (c) the amount fairly representing the aggregate exposure (excluding interest and similar charges) of that Ancillary Lender under each other type of accommodation provided under that Ancillary Facility,

in each case as determined by such Ancillary Lender, acting reasonably in accordance with its normal banking practice and in accordance with the relevant Ancillary Document.

“**Applicable Accounting Principles**” means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

“**Authority**” means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

“**Available Commitment**” means a Lender’s Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans and the Base Currency Amount of the aggregate of its (and its Affiliate’s) Ancillary Commitments; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date and the Base Currency Amount of its (and its Affiliate’s) Ancillary Commitment in relation to any new Ancillary Facility that is due to be made available on or before the proposed Drawdown Date,

other than that Lender’s participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date and that Lender’s (and its Affiliate’s) Ancillary Commitments to the extent that they are due to be reduced or cancelled on or before the proposed Drawdown Date.

“**Available Credit Balance**” means, in relation to an Ancillary Facility, credit balances on any account of the Company with the Ancillary Lender making available that Ancillary Facility to the extent that those credit balances are freely available to be set off by that Ancillary Lender against liabilities owed to it by the Company under that Ancillary Facility.

“**Available Facility**” means the aggregate for the time being of each Lender’s Available Commitment.

“**Availability Period**” means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

“**Balancing and Settlement Code**” means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

“**Balancing and Settlement Code Framework Agreement**” means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which the Company is a party and by which the Balancing and Settlement Code is made binding upon the Company.

“**Base Currency**” means Sterling.

“**Base Currency Amount**” means:

- (a) in relation to a Loan, the amount specified in the Request delivered by the Company for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent’s Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request adjusted to reflect any repayment, prepayment, consolidation or division of the Loan, or as the case may be, cancellation or reduction of an Ancillary Facility; and
- (b) in relation to an Ancillary Commitment, the amount specified as such in the notice delivered to the Facility Agent by the Company pursuant to Clause 8.2 (*Availability*) (or, if the amount specified is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent’s Spot Rate of Exchange on the date which is three Business Days before the Ancillary Commencement Date for that Ancillary Facility or, if later, the date the Facility Agent receives the notice of the Ancillary Commitment in accordance with the terms of this Agreement).

“**Basel III**” means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in “Basel III: A global regulatory framework for more resilient banks and banking systems”, “Basel III: International framework for liquidity risk measurement, standards and monitoring” and “Guidance for national authorities operating the countercyclical capital buffer” published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systematically important banks contained in “Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text” published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to “Basel III”.

“**Break Costs**” means the amount (if any), calculated in accordance with Clause 26.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

“**Business Day**” means a day (other than a Saturday or a Sunday) on which commercial banks are open in London and:

- (a) if on that day a payment in or a purchase of a currency (other than euro) is to be made, the principal financial centre of the country of that currency; or
- (b) if on that day a payment in or purchase of euro is to be made, which is also a TARGET Day.

“**Code**” means the US Internal Revenue Code of 1986.

“**Commitment**” means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading “Commitment” in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and
- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

“**Compliance Certificate**” means a certificate substantially in the form of Schedule 5 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

“**Confidential Information**” means all information relating to the Company, the Group, the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Group or any of its advisers; or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 30 (*Confidentiality and disclosure of information*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by

that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

“**Confidentiality Undertaking**” means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Company and the Facility Agent.

“**Contribution Notice**” means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

“**CRD IV**” means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

“**CTA**” means the Corporation Tax Act 2009.

“**Debt Purchase Transaction**” means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of, any Commitment or amount outstanding under this Agreement.

“**Default**” means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

“**Defaulting Lender**” means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or

(c) with respect to which an Insolvency Event has occurred and is continuing, unless, in the case of paragraph (a) above:

(i) its failure to pay is caused by:

(A) administrative or technical error; or

(B) a Disruption Event,

and payment is made within 5 Business Days of its due date; or

(ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

“**Designated Gross Amount**” means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Gross Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

“**Designated Net Amount**” means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Net Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

“**Disruption Event**” means either or both of:

(a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or

(b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:

(i) from performing its payment obligations under the Finance Documents; or

(ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

“**Dodd-Frank**” means the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 stat. 1376 (2010) and all requests, rules, guidelines or directives in connection therewith.

“**Drawdown Date**” means each date on which a Loan is made.

“**Environment**” means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

“**Environmental Claim**” means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

“**Environmental Law**” means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

“**euro or euros or ?**” means the single currency of the Participating Member States.

“**EURIBOR**” means in relation to any Loan in euro:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the Term of that Loan; and
 - (ii) it is not possible to calculate an Interpolated Screen Rate for that Loan,the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the offering of deposits in euro and for a period equal in length to the Term for that Loan.

“**Event of Default**” means an event specified as such in this Agreement.

“**Facility**” means the revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

“**Facility Office**” means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or

(b) by not less than five Business Days' notice,
as the office(s) through which it will perform its obligations under this Agreement.

"FATCA" means:

- (a) sections 1471 to 1474 of the Code or any associated regulations or other official guidance;
- (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above;
or
- (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"FATCA Application Date" means:

- (a) in relation to a "withholdable payment" described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a "withholdable payment" described in section 1473(1)(A)(ii) of the Code (which relates to "gross proceeds" from the disposition of property of a type that can produce interest from sources within the US), 1 January 2017; or
- (c) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2017,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

"FATCA Deduction" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"FATCA Exempt Party" means a Party that is entitled to receive payments free from any FATCA Deduction.

"Fee Letter" means:

- (a) any letter entered into by reference to the Facility between one or more Administrative Parties and the Company setting out the amount of certain fees referred to in the Agreement; and
- (b) any agreement setting out fees payable to a Finance Party referred to in Clause 25 (*Fees*) of this Agreement or under any other Finance Document.

"Final Maturity Date" means, subject to Clause 6 (Extension Option), the fifth anniversary of the date of this Agreement.

“Finance Document” means:

- (a) this Agreement;
- (b) any Ancillary Document;
- (c) a Fee Letter;
- (d) a Transfer Certificate; or
- (e) any other document designated as such by the Facility Agent and the Company.

“Finance Party” means a Lender, an Ancillary Lender or an Administrative Party.

“Financial Indebtedness” means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

“Financial Support Direction” means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

“Funding Rate” means any rate notified by a Lender to the Facility Agent pursuant to Clause 13 (*Market Disruption*).

“Gross Outstandings” means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft but calculated on the basis that the words “(net of any Available Credit Balance)” in paragraph (a) of the definition of “Ancillary Outstandings” were deleted.

“**Group**” means the Company and its Subsidiaries.

“**Holding Company**” means in relation to a person, any other person in respect of which it is a Subsidiary.

“**Impaired Agent**” means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of “Defaulting Lender”; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within 5 Business Days of its due date; or
- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

“**Increase Confirmation**” means a confirmation substantially in the form set out in Schedule 6 (*Form of Increase Confirmation*).

“**Increase Lender**” has the meaning given to that term in Clause 2.2.1 (*Increase*).

“**Increased Cost**” means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Finance Party’s (or its Affiliate’s) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

“**Insolvency Event**” in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);

-
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
 - (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
 - (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
 - (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
 - (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
 - (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
 - (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
 - (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
 - (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

“**Interpolated Screen Rate**” means, in relation to LIBOR or EURIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and
 - (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,
- each as of the Specified Time on the Quotation Day for the currency of that Loan.

“**ITA**” means the Income Tax Act 2007.

“**Legal Reservations**” means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Company is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

“**Lender**” means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 29 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

“**LIBOR**” means, in relation to any Loan:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the currency of that Loan; or
 - (ii) no Screen Rate is available for the Term of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan,the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the currency of that Loan and for a period equal in length to the Term of that Loan.

“**Licence**” means:

- (a) the electricity distribution licence made and treated as granted to the Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 which permit the Company to distribute electricity in the area it is certified to operate in.

“**LMA**” means the Loan Market Association.

“**Loan**” means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

“**Majority Lenders**” means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate 66 2/3 per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate 66 2/3 per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated 66 2/3 per cent. or more of the Total Commitments immediately before the reduction.

“**Margin**” means, **provided that**:

- (a) at least one of Moody’s Investor Services Limited (“**Moody’s**”) and Standard & Poor’s Ratings Services (“**Standard & Poor’s**”) has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company; and
- (b) no Event of Default is outstanding,

prior to but excluding the Effective Date (as defined in the Amendment Agreement) (and for the avoidance of doubt, for the purpose of calculating interest on an overnight basis, from the date immediately preceding the Effective Date to the Effective Date) the rate set out in the table below:

Rating (Moody’s)	Rating (Standard & Poor’s)	Margin (per annum)
Less than Baa3	Less than BBB-	1.15%
Baa3	BBB-	0.95%
Baa2	BBB	0.85%
Baa1	BBB+	0.75%
A3 or higher	A- or higher	0.65%

from (and including) the Effective Date (as defined in the Amendment Agreement) the rate set out in the table below, provided that on the Effective Date the Margin shall be 0.50%:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	0.90%
Baa3	BBB-	0.70%
Baa2	BBB	0.55%
Baa1	BBB+	0.45%
A3 or higher	A- or higher	0.35%

If the current Moody's and Standard & Poor's ratings in respect of the Company imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, or if an Event of Default is outstanding, the applicable Margin shall be 0.90% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Company or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Company to the Facility Agent (acting reasonably)) or waived.

"**Material Adverse Effect**" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Company to perform its payment obligations under the Finance Documents or its obligations under Clauses 20.3 (*Interest Cover*) or 20.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

“**Material Subsidiary**” means, at any time, a Subsidiary of the Company whose gross assets or gross revenues (on a consolidated basis and excluding intra-Group items) then equal or exceed 10 per cent. of the gross assets or gross revenues of the Group.

For this purpose:

- (a) the gross assets or gross revenues of a Subsidiary of the Company will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest audited financial statements of the Group have been based;
- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited financial statements of the Group have been prepared, the gross assets or gross revenues of that Subsidiary will be determined from its latest financial statements;
- (c) the gross assets or gross revenues of the Group will be determined from the Company’s latest audited financial statements, adjusted (where appropriate) to reflect the gross assets or gross revenues of any company or business subsequently acquired or disposed of; and
- (d) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Company, it will immediately cease to be a Material Subsidiary and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; the subsequent financial statements of those Subsidiaries and the Group will be used to determine whether those Subsidiaries are Material Subsidiaries or not.

If there is a dispute as to whether or not a company is a Material Subsidiary, a certificate of the auditors of the Company will be, in the absence of manifest error, conclusive.

“**Maturity Date**” means the last day of the Term of a Loan.

“**Multi-account Overdraft**” means an Ancillary Facility which is an overdraft facility comprising more than one account.

“**Net Outstandings**” means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft.

“**New Lender**” has the meaning given to that term in Clause 29 (*Changes to the Parties*).

“**Non-Consenting Lender**” means any Lender who does not and continues not to consent or agree to the Company’s or the Facility Agent’s (at the request of the Company) request to give a consent in relation to, or agree to a waiver or amendment of, any provisions of the Finance Documents where Lenders whose Commitments aggregate either:

- (a) in the case the consent, waiver or amendment in question requires the approval of all the Lenders, Lenders whose Commitments aggregate more than 85% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 85% of the Total Commitments prior to that reduction); or
- (b) in the case the consent, waiver or amendment in question requires the approval of the Majority Lenders, Lenders whose Commitments aggregate more than 60% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 60% of the Total Commitments prior to that reduction),

have consented or agreed to such waiver or amendment.

“**OFGEM**” means the Office of Gas and Electricity Markets.

“**Optional Currency**” means any currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

“**Original Financial Statements**” means the audited consolidated financial statements of the Company for the year ended 31 March 2014.

“**Participating Member State**” means a member state of the European Union that has the euro as its lawful currency under the legislation of the European Union relating to Economic and Monetary Union.

“**Party**” means a party to this Agreement.

“**Pensions Regulator**” means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

“**PPL**” means PPL Corporation, a company incorporated in Pennsylvania, U.S.A. whose head office is in Two North Ninth Street, Allentown, PA18101, Pennsylvania, U.S.A., registered number 2570936.

“**Pre-approved Currency**” means U.S.\$ and euro.

“**Pro Rata Share**” means:

- (a) for the purpose of determining a Lender’s share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

“**PUHCA**” means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

“**Qualifying Lender**” has the meaning given to such term in Clause 14.1 (*Definitions*).

“**Quasi-Security Interest**” has the meaning given to such term in Clause 21.5 (*Negative Pledge*).

“**Quotation Day**” means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;
- (b) (if the currency is euro) two TARGET Days before the first day of that period; or
- (c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Quotation Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

“**Reference Bank Rate**” means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

- (a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or
- (b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market,

in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

“**Reference Bank Quotation**” means any quotation supplied to the Facility Agent by a Reference Bank.

“**Reference Banks**” means the principal London offices of such banks as may be appointed by the Facility Agent in consultation with the Company and with the consent of the bank so appointed.

“**Related Fund**” in relation to a fund (the “**first fund**”), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

“**Relevant Interbank Market**” means in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

“**Repeating Representations**” means each of the representations and warranties set out in Clause 18.2 (*Status*) to Clause 18.8 (*Financial Statements*) (inclusive), Clause 18.10 (*Litigation*), Clause 18.12 (*Non-Violation of other Agreements*) and Clause 18.13 (*Governing law and enforcement*).

“**Representative**” means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

“**Request**” means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

“**Rollover Loan**” means one or more Loans:

- (a) made or to be made on the same day that a maturing Loan is due to be repaid;
- (b) the aggregate amount of which is equal to or less than the amount of the maturing Loan;
- (c) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of a currency*)); and
- (d) made or to be made to the Company for the purpose of refinancing that maturing Loan.

“**Screen Rate**” means:

- (a) in relation to LIBOR, the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for the relevant currency and period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate); and
- (b) in relation to EURIBOR, the euro interbank offered rate administered by the Banking Federation of the European Union (or any other person which takes over the administration of that rate) for the relevant period displayed on page EURIBOR01 of the Reuters screen (or any replacement Reuters page which displays that rate),

or, in each case, on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Company.

“**Secretary of State**” means the Secretary of State for Business, Innovation and Skills.

“**Security Interest**” means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

“**Specified Time**” means a time determined in accordance with Schedule 7 (*Timetables*).

“**Sterling**” and “**£**” mean the lawful currency of the United Kingdom.

“**Subordination Deed**” means a document in the form set out in Schedule 8 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

“**Subsidiary**” means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

“**TARGET2**” means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single platform and which was launched on 19 November 2007.

“**TARGET Day**” means any day on which TARGET2 is open for the settlement of payments in euro.

“**Tax**” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

“**Tax Deduction**” means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

“**Tax Payment**” means either an increase in a payment made by the Company to a Finance Party under Clause 14.2 (*Tax gross-up*) or a payment under Clause 14.3 (*Tax indemnity*).

“**Term**” means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

“**Total Commitments**” means the aggregate of the Commitments being £300,000,000 at the date of this Agreement.

“**Transfer Certificate**” means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

“**Transfer Date**” means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

“**U.K.**” means the United Kingdom.

“**Unpaid Sum**” means any sum due and payable but unpaid by the Company under the Finance Documents.

“**US**” means the United States of America.

“**U.S. Dollars**” and “**U.S.\$**” means the lawful currency for the time being of the United States of America.

“**VAT**” means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2 **Construction**

1.2.1 The following definitions have the meanings given to them in Clause 20 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;
- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
- (b) **assets** includes present and future properties, revenues and rights of every description;
- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
- (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
- (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
- (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
- (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
- (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;

- (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
- (j) a currency is a reference to the lawful currency for the time being of the relevant country;
- (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
- (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
- (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
- (n) a person includes its successors in title, permitted assigns and permitted transferees;
- (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
- (p) a time of day is a reference to London time.

1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:

- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
- (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
- (c) notwithstanding sub-clause 1.2.3(a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.

1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.

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- 1.2.5 Unless the contrary intention appears:
- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
 - (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
 - (c) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is or may be outstanding under the Finance Documents.
- 1.2.6 The headings in this Agreement do not affect its interpretation.
- 1.2.7 The Company providing cash cover for an Ancillary Facility means the Company paying an amount in the currency of the Ancillary Facility to an interest-bearing account in the name of the Company and the following conditions being met:
- (a) the account is with the Ancillary Lender for which that cash cover is to be provided;
 - (b) until no amount is or may be outstanding under that Ancillary Facility, withdrawals from the account may only be made to pay the relevant Finance Party amounts due and payable to it under this Agreement in respect of that Ancillary Facility; and
 - (c) the Company has executed a security document over that account, in form and substance satisfactory to the Ancillary Lender with which that account is held, creating a first ranking security interest over that account.
- 1.2.8 The Company repaying or prepaying any Ancillary Outstandings means:
- (a) the Company providing cash cover in respect of the Ancillary Outstandings;
 - (b) the maximum amount payable under the Ancillary Facility being reduced or cancelled in accordance with its terms; or
 - (c) the Ancillary Lender being satisfied (acting reasonably) that it has no further liability under that Ancillary Facility, and the amount by which Ancillary Outstandings are repaid or prepaid under paragraphs (a) and (b) above is the amount of the relevant cash cover or reduction or cancellation.
- 1.2.9 An amount borrowed includes any amount utilised under an Ancillary Facility.

2. **THE FACILITY**

2.1 **The Facility**

2.1.1 Subject to the terms of this Agreement, the Lenders make available to the Company a multicurrency revolving credit facility in an aggregate amount the Base Currency Amount of which is equal to the Total Commitments.

2.1.2 Subject to the terms of this Agreement and the Ancillary Documents, an Ancillary Lender may make all or part of its Commitment available to the Company as an Ancillary Facility.

2.2 **Increase**

2.2.1 The Company may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 10.6.4 of Clause 10.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with:
 - (i) Clause 10.1 (*Mandatory prepayment – illegality*); or
 - (ii) sub-clause 10.6.2 of Clause 10.6 (*Involuntary prepayment and cancellation*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in the Base Currency of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an “**Increase Lender**”) selected by the Company (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;
- (d) the Company and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Company and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (e) each Increase Lender shall become a Party as a “Lender” and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (f) the Commitments of the other Lenders shall continue in full force and effect; and
- (g) any increase in the Total Commitments shall take effect on the date specified by the Company in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.

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- 2.2.2 An increase in the Total Commitments will only be effective on:
- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
 - (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Company and the Increase Lender.
- 2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.
- 2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Company shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Company shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.5 The Company may pay to the Increase Lender a fee in the amount and at the times agreed between the Company and the Increase Lender in a letter between the Company and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.6 Clause 29.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
- (a) an “**Existing Lender**” were references to all the Lenders immediately prior to the relevant increase;
 - (b) the “**New Lender**” were references to that “**Increase Lender**”; and
 - (c) a “**re-transfer**” and “**re-assignment**” were references to respectively a “**transfer**” and “**assignment**”.
- 2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

2.3 Nature of a Finance Party’s rights and obligations

Unless otherwise agreed by all the Finance Parties:

- 2.3.1 the obligations of a Finance Party under the Finance Documents are several;

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- 2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;
 - 2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
 - 2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;
 - 2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and
 - 2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. **PURPOSE**

3.1 **Purpose**

The Company shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group and in compliance with the Licence, but not in the case of any utilisation of any Ancillary Facility towards any prepayment of any Loan.

3.2 **No obligation to monitor**

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. **CONDITIONS PRECEDENT**

4.1 **Conditions precedent documents**

A Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received (or, subject to all Lender consent, waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Company and the Lenders upon being so satisfied.

4.2 **Further conditions precedent**

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

- 4.2.1 the Repeating Representations are correct in all material respects; and
- 4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

4.3 **Conditions relating to Optional Currencies**

- 4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:
- (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Drawdown Date for that Loan; and
 - (b) it is euros or U.S. Dollars or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.
- 4.3.2 If the Facility Agent has received a written request from the Company for a currency to be approved under paragraph (b) of sub-clause 4.3.1 above, the Facility Agent will confirm to the Company by the Specified Time:
- (a) whether or not the Lenders have granted their approval; and
 - (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.

4.4 **Maximum number**

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 20 Loans outstanding.

5. **UTILISATION**

5.1 **Giving of Requests**

- 5.1.1 The Company may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.
- 5.1.2 Each Request is irrevocable.

5.2 **Completion of Requests**

- 5.2.1 A Request for a Loan will not be regarded as having been duly completed unless:
- (a) the Drawdown Date is a Business Day falling within the Availability Period;
 - (b) the currency and amount of the Loan comply with Clause 5.3 (*Currency and amount*); and
 - (c) the proposed Term complies with this Agreement.
- 5.2.2 Only one Loan may be requested in a Request.

5.3 **Currency and amount**

- 5.3.1 The currency specified in a Request must be either the Base Currency or an Optional Currency.

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- 5.3.2 The amount of the proposed Loan must be:
- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility (or such other amount as the Facility Agent may agree); or
 - (b) if the currency selected is an Optional Currency, the minimum amount (and if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of sub-clause 4.3.2 of Clause 4.3 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility.

5.4 **Advance of Loan**

- 5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.
- 5.4.2 If the conditions set out in this Agreement have been met, and subject to Clause 9.2 (*Cashless Rollover*), each Lender shall make its participation in each Loan available no later than 2.00 pm on the Drawdown Date through its Facility Office.
- 5.4.3 Save as set out in sub-clause 5.4.4 below, the amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.
- 5.4.4 If a Loan is made to repay Ancillary Outstandings, each Lender's participation in that Loan will be in an amount (as determined by the Facility Agent) which will result as nearly as possible in the aggregate amount of its participation in the Loans then outstanding bearing the same proportion to the aggregate amount of the Loans then outstanding as its Commitment bears to the Total Commitments.
- 5.4.5 No Lender is obliged to participate in a Loan if as a result:
- (a) the Base Currency Amount of its share in the aggregate amount of the Loans would exceed its Commitment; or
 - (b) the Base Currency Amount of the Loans would exceed the Total Commitments.
- 5.4.6 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount, currency and the Base Currency Amount of each Loan, the amount of its participation in that Loan and, if different, the amount of that participation to be made available in accordance with Clause 17 (*Payments*), in each case by the Specified Time.

6. **EXTENSION OPTION**

- 6.1 The Company may by notice to the Facility Agent (the **Initial Extension Request**) not more than 60 days and not less than 30 days before the first anniversary of the date of the Amendment Agreement (the **First Anniversary**), request that the Final Maturity Date be extended for a further period of one year.
- 6.2 The Company may by notice to the Facility Agent (the **Second Extension Request**) no more than 60 days and not less than 30 days before the second anniversary of the date of the Amendment Agreement (the **Second Anniversary**), request that the Final Maturity Date:
- (a) with respect to Lenders who have agreed to the Initial Extension Request, be extended for a further period of one year; and/or

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- (b) if no Initial Extension Request has been made, or with respect to Lenders who refused the Initial Extension Request:
 - (i) be extended for a period of one year; or
 - (ii) be extended for a period of two years,as selected by the Company in the notice to the Facility Agent.

- 6.3 The Facility Agent must promptly notify the Lenders of any Initial Extension Request or Second Extension Request (an **Extension Request**).
- 6.4 Each Lender may, in its sole discretion, agree to any Extension Request. Each Lender that agrees to an Extension Request by the date falling 15 days before, the relevant anniversary of the date of this Agreement, will extend its Commitment for a further period of one year or two years, as set out in the relevant Extension Request, from the then current Final Maturity Date and the Final Maturity Date of that Lender will be extended accordingly.
- 6.5 If any Lender fails to reply to an Extension Request on or before the date falling 15 days before the relevant anniversary of the date of this Agreement, it will be deemed to have refused that Extension Request and its Commitment will not be extended.
- 6.6 Subject to Clause 6.8 below, each Extension Request is irrevocable.
- 6.7 If one or more (but not all) of the Lenders agree to an Extension Request, then the Facility Agent must notify the Company and the Lenders which have agreed to the extension, identifying in that notification which Lenders have not agreed to the Extension Request.
- 6.8 The Company may, on the basis that one or more of the Lenders have not agreed to the Extension Request and no later than the date falling 5 days before the relevant anniversary of the date of this Agreement, withdraw the request by notice to the Facility Agent which will promptly notify the Lenders.

7. **OPTIONAL CURRENCIES**

7.1 **Selection**

- 7.1.1 The Company must select the currency of a Loan in its Request. The Company may select the Base Currency or an Optional Currency for a Loan.
- 7.1.2 Unless the Facility Agent otherwise agrees, the Loans may not be denominated at any one time in more than three currencies.

7.2 **Revocation of currency**

- 7.2.1 Notwithstanding any other term of this Agreement, if before the Specified Time on any Quotation Day the Facility Agent receives notice from a Lender that:
- (a) the Optional Currency requested is not readily available to it in the relevant interbank market in the amount and for the period required; or
 - (b) participating in a Loan in the proposed Optional Currency might contravene any law or regulation applicable to it, the Facility Agent must give notice to the Company to that effect promptly and in any event before the Specified Time on that day.
- 7.2.2 In this event:
- (a) that Lender must participate in the Loan in the Base Currency (in an amount equal to that Lender's proportion of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's proportion of the Base Currency Amount of the Rollover Loan that is due to be made); and
 - (b) the share of that Lender in the Loan and any other similarly affected Lender(s) will be treated as a separate Loan denominated in the Base Currency during that Term.
- 7.2.3 Any part of a Loan treated as a separate Loan under this sub-clause will not be taken into account for the purposes of any limit on the number of Loans or currencies outstanding at any one time.
- 7.2.4 A Loan will still be treated as a Rollover Loan if it is not denominated in the same currency as the maturing Loan by reason only of the operation of this sub-clause.

7.3 **Optional Currency equivalents**

Except as expressly provided in this Agreement, the equivalent in the Base Currency of a Loan or part of a Loan in an Optional Currency for the purposes of calculating:

- 7.3.1 whether any limit under this Agreement has been exceeded;
 - 7.3.2 the amount of a Loan;
 - 7.3.3 the share of a Lender in a Loan;
 - 7.3.4 the amount of any repayment of a Loan; or
 - 7.3.5 the undrawn amount of a Lender's Commitment,
- is its Base Currency Amount.

8. **ANCILLARY FACILITIES**

8.1 **Type of Facility**

An Ancillary Facility may be by way of:

- 8.1.1 a multicurrency overdraft facility;
- 8.1.2 a multicurrency guarantee, bonding, documentary or stand-by letter of credit facility;

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- 8.1.3 a short term multicurrency loan facility;
 - 8.1.4 a derivatives facility;
 - 8.1.5 a foreign exchange facility; or
 - 8.1.6 any other multicurrency facility or accommodation required in connection with the business of the Group and which is agreed by the Company with an Ancillary Lender.

8.2 Availability

- 8.2.1 If the Company and a Lender agree and except as otherwise provided in this Agreement, the Lender may provide all or part of its Commitment as an Ancillary Facility.
- 8.2.2 An Ancillary Facility shall not be made available unless, not later than three Business Days prior to the Ancillary Commencement Date for an Ancillary Facility, the Facility Agent has received from the Company:
 - (a) a notice in writing of the establishment of an Ancillary Facility and specifying:
 - (i) the proposed Ancillary Commencement Date and expiry date of the Ancillary Facility;
 - (ii) the proposed type of Ancillary Facility to be provided;
 - (iii) the proposed Ancillary Lender;
 - (iv) the proposed Ancillary Commitment, the maximum amount of the Ancillary Facility and, in the case of a Multi-account Overdraft, its Designated Gross Amount and its Designated Net Amount;
 - (v) the proposed currency of the Ancillary Facility (if not denominated in the Base Currency); and
 - (b) any other information which the Facility Agent may reasonably request in connection with the Ancillary Facility.
- 8.2.3 The Facility Agent shall promptly notify the Ancillary Lender and the other Lenders of the establishment of an Ancillary Facility.
- 8.2.4 Subject to compliance with sub-clause 8.2.2 above:
 - (a) the Lender concerned will become an Ancillary Lender; and
 - (b) the Ancillary Facility will be available,with effect from the date agreed by the Company and the Ancillary Lender.

8.3 Terms of Ancillary Facilities

- 8.3.1 Except as provided below, the terms of any Ancillary Facility will be those agreed by the Ancillary Lender and the Company.
- 8.3.2 Those terms:
- (a) must be based upon normal commercial terms at that time (except as varied by this Agreement);
 - (b) may only allow the Company to use the Ancillary Facility;
 - (c) may not allow the Ancillary Outstandings to exceed the Ancillary Commitment;
 - (d) may not allow the Ancillary Commitment of a Lender to exceed the Available Commitment of that Lender (before taking into account the effect of the Ancillary Facility on that Available Commitment); and
 - (e) must require that the Ancillary Commitment is reduced to nil, and that all Ancillary Outstandings are repaid not later than the Final Maturity Date (or such earlier date as the Commitment of the relevant Ancillary Lender (or its Affiliate) is reduced to zero).
- 8.3.3 If there is any inconsistency between any term of an Ancillary Facility and any term of this Agreement, this Agreement shall prevail except for (i) Clause 24.3 (*Calculations*) which shall not prevail for the purposes of calculating fees, interest or commission relating to an Ancillary Facility; (ii) an Ancillary Facility comprising more than one account where the terms of the Ancillary Documents shall prevail to the extent required to permit the netting of balances on those accounts; and (iii) where the relevant term of this Agreement would be contrary to, or inconsistent with, the law governing the relevant Ancillary Document, in which case that term of this Agreement shall not prevail.
- 8.3.4 Interest, commission and fees on Ancillary Facilities are dealt with in Clause 25.6 (*Interest, commission and fees on Ancillary Facilities*).

8.4 Repayment of Ancillary Facility

- 8.4.1 An Ancillary Facility shall cease to be available on the Final Maturity Date or such earlier date on which its expiry date occurs or on which it is cancelled in accordance with the terms of this Agreement.
- 8.4.2 If an Ancillary Facility expires or is cancelled in accordance with its terms the Ancillary Commitment of the Ancillary Lender shall be reduced to zero.
- 8.4.3 No Ancillary Lender may demand repayment or prepayment of any Ancillary Outstandings prior to the expiry date of the relevant Ancillary Facility unless:
- (a) required to reduce the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount;

- (b) the Total Commitments have been cancelled in full, or all outstanding Loans have become due and payable in accordance with the terms of this Agreement;
- (c) it becomes unlawful in any applicable jurisdiction for the Ancillary Lender to perform any of its obligations as contemplated by this Agreement or to fund, issue or maintain its participation in its Ancillary Facility (or it becomes unlawful for any Affiliate of the Ancillary Lender for the Ancillary Lender to do so); or
- (d) both:
 - (i) the Available Commitments; and
 - (ii) the notice of the demand given by the Ancillary Lender,would not prevent the Company funding the repayment of those Ancillary Outstandings in full by way of Loan.

8.4.4 If a Loan is made to repay Ancillary Outstandings in full, the relevant Ancillary Commitment shall be reduced to zero.

8.5 **Limitations on Ancillary Outstandings**

The Company shall procure that:

8.5.1 the Ancillary Outstandings under any Ancillary Facility shall not exceed the Ancillary Commitment applicable to that Ancillary Facility; and

8.5.2 in relation to a Multi-account Overdraft:

- (a) the Ancillary Outstandings shall not exceed the Designated Net Amount applicable to that Multi-account Overdraft; and
- (b) the Gross Outstandings shall not exceed the Designated Gross Amount applicable to that Multi-account Overdraft.

8.6 **Information**

The Company and each Ancillary Lender shall, promptly upon request by the Facility Agent, supply the Facility Agent with any information relating to the operation of an Ancillary Facility (including the Ancillary Outstandings) as the Facility Agent may reasonably request from time to time. The Company consents to all such information being released to the Facility Agent and the other Finance Parties.

8.7 **Affiliates of Lenders as Ancillary Lenders**

8.7.1 Subject to the terms of this Agreement, an Affiliate of a Lender may become an Ancillary Lender. In such case, the Lender and its Affiliate shall be treated as a single Lender whose Commitment is the amount set out opposite the relevant Lender's name in Schedule 1 (*Original Parties*) and/or the amount of any Commitment transferred to or assumed by that Lender under this Agreement, to the extent (in each case) not cancelled, reduced or transferred by it under this Agreement.

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- 8.7.2 The Company shall specify any relevant Affiliate of a Lender in any notice delivered by the Company to the Facility Agent pursuant to paragraph 8.2.2(a) of Clause 8.2 (*Availability*).
- 8.7.3 If a Lender assigns all of its rights and benefits or transfers all of its rights and obligations to a New Lender, its Affiliate shall cease to have any obligations under this Agreement or any Ancillary Document.
- 8.7.4 Where this Agreement or any other Finance Document imposes an obligation on an Ancillary Lender and the relevant Ancillary Lender is an Affiliate of a Lender which is not a party to that document, the relevant Lender shall ensure that the obligation is performed by its Affiliate.

8.8 **Commitment amounts**

Notwithstanding any other term of this Agreement, each Lender shall ensure that at all times its Commitment is not less than its Ancillary Commitment or the Ancillary Commitment of its Affiliate.

8.9 **Amendments and Waivers – Ancillary Facilities**

No amendment or waiver of a term of any Ancillary Facility shall require the consent of any Finance Party other than the relevant Ancillary Lender unless such amendment or waiver itself relates to or gives rise to a matter which would require an amendment of or under this Agreement (including, for the avoidance of doubt, under this Clause). In such a case, the provisions of this Agreement with regard to amendments and waivers will apply.

9. **REPAYMENT**

9.1 **Repayment of Loans**

- 9.1.1 The Company must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.
- 9.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 9.1.1 above may be re-borrowed.

9.2 **Cashless Rollover**

- 9.2.1 Without prejudice to the Company's obligation under Clause 9.1 above, if one or more Loans are to be made available to the Company:
- (a) on the same day that a maturing Loan is due to be repaid by the Company;
 - (b) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of currency*)); and
 - (c) in whole or in part for the purpose of refinancing the maturing Loan,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (i) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
 - (A) the Company will only be required to pay an amount in cash in the relevant currency equal to that excess; and
 - (B) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (ii) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
 - (A) the Company will not be required to make any payment in cash; and
 - (B) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation in the maturing Loan.

10. PREPAYMENT AND CANCELLATION

10.1 Mandatory prepayment - illegality

- 10.1.1 A Lender must notify the Company promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.
- 10.1.2 After notification under clause 10.1.1 above:
 - (a) the Company must repay or prepay the share of that Lender in each Loan made to it on the date specified in clause 10.1.3 below; and
 - (b) the Commitments of that Lender will be immediately cancelled.
- 10.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:
 - (a) the Business Day following receipt by the Company of notice from the Lender under sub-clause 10.1.1 above; or
 - (b) if later, the latest date allowed by the relevant law.

10.2 **Mandatory prepayment - change of control**

If, except in the context of a group reorganisation where the Company continues to be controlled directly or indirectly by PPL, the Company becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Company (for these purposes “associated person” means, in relation to any person, a person who is (i) “acting in concert” (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a “connected person” (as defined in section 839 of the Taxes Act) of that person and “control” means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

- 10.2.1 within five days of such date, the Company shall give notice of such change of control to the Facility Agent;
- 10.2.2 the Lenders and the Company shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;
- 10.2.3 if no such agreement is reached within the said period of 45 days then:
 - (a) any Lender may on 10 days’ notice to the Facility Agent and to the Company require the repayment of its share in each Loan and the repayment of its Ancillary Outstandings and cancel its Commitment; and
 - (b) the Majority Lenders may on 10 days’ notice to the Company require repayment in full of all outstanding Loans and Ancillary Outstandings and cancel the Total Commitments; and
- 10.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 10.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 10.2.3.

10.3 **Voluntary prepayment**

- 10.3.1 The Company may, by giving not less than five Business Days’ prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.
- 10.3.2 A prepayment of part of a Loan drawn in US Dollars must be in a minimum amount of \$5,000,000 and an integral multiple of U.S. \$1,000,000.
- 10.3.3 A prepayment of part of a Loan drawn in Sterling must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.3.4 A prepayment of part of a Loan drawn in euros must be in a minimum amount of ?5,000,000 and an integral multiple of ?1,000,000.

10.4 **Automatic cancellation**

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

10.5 **Voluntary cancellation**

- 10.5.1 The Company may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.
- 10.5.2 Partial cancellation of the Total Commitments must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.5.3 Any cancellation in part shall be applied against the Commitment of each Lender pro rata.

10.6 **Involuntary prepayment and cancellation**

- 10.6.1 If the Company is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.
- 10.6.2 After notification under sub-clause 10.6.1 above:
- (a) the Company must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 10.6.3 below; and
 - (b) the Commitments of that Lender will be immediately cancelled.
- 10.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Company in its notification.
- 10.6.4
- (a) If any Lender becomes a Defaulting Lender, the Company may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent 5 Business Days' notice of cancellation of the Available Commitment of that Lender.
 - (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
 - (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

10.7 **Re-borrowing of Loans**

Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

10.8 **Miscellaneous provisions**

- 10.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.
- 10.8.2 All prepayments made under Clause 10.2 (*Mandatory prepayment - change of control*) shall be applied *pro rata* to each Lender's participation in such Loan.
- 10.8.3 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- 10.8.4 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.
- 10.8.5 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- 10.8.6 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

11. **INTEREST**

11.1 **Calculation of interest**

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- 11.1.1 Margin; and
- 11.1.2 LIBOR or, in relation to any Loan in euro, EURIBOR.

11.2 **Payment of interest**

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

11.3 **Interest on overdue amounts**

- 11.3.1 If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.
- 11.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting reasonably):
- (a) select successive Terms of any duration of up to three months; and
 - (b) determine the appropriate Quotation Day for that Term.

11.3.3 Notwithstanding sub-clause 11.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 11.3.2 above.

11.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

11.4 **Notification of rates of interest**

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

12. **TERMS**

12.1 **Selection**

12.1.1 Each Loan has one Term only.

12.1.2 The Company must select the Term for a Loan in the relevant Request.

12.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or for a period of one to thirty days or any other period agreed between the Company and the Lenders.

12.1.4 The Company shall not use its right under paragraph 12.1.3 above to select for a Loan a Term of less than one month's duration more than six times in any calendar year.

12.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan.

12.2 **No overrunning the Final Maturity Date**

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

12.3 **Other adjustments**

12.3.1 The Facility Agent and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.

- 12.3.2 Subject to Clause 12.3.3 below, if two or more Terms end on the same date, those Loans will, unless the Company specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.
- 12.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Company requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the Base Currency Amounts specified in that Request, having an aggregate Base Currency Amount equal to the Base Currency Amount of the Loan immediately before its division.

12.4 **Notification**

The Facility Agent must notify the Company and the Lenders of the duration of each Term promptly after ascertaining its duration.

13. **MARKET DISRUPTION**

13.1 **Failure of a Reference Bank to supply a rate**

Subject to the other provisions of this Clause, if LIBOR or, if applicable, EURIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the applicable LIBOR or EURIBOR will be determined on the basis of the quotations of the remaining Reference Banks.

13.2 **Market disruption**

13.2.1 In this Clause, each of the following events is a **market disruption event**:

- (a) at or about noon on the Quotation Day for the relevant Term, LIBOR or if applicable EURIBOR is to be determined by reference to the Reference Banks and none or only one of the Reference Banks supplies a rate to the Facility Agent to determine LIBOR or, if applicable, EURIBOR for the relevant currency and Term; or
- (b) before close of business in London on the Quotation Day for the relevant Term, the Facility Agent receives notification from a Lender or Lenders whose participations in the relevant Loan exceed 50% of that Loan that the cost to it (or them) of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR or, if applicable, EURIBOR for the relevant Term.

13.2.2 The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.

13.2.3 After notification under sub-clause 13.2.1(a) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin; and
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select.

13.3 **Alternative basis of interest or funding**

13.3.1 If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

13.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

14. **TAX GROSS-UP AND INDEMNITIES**

14.1 **Definitions**

14.1.1 In this Agreement:

“**Qualifying Lender**” means:

(a) a Lender (other than a Lender within paragraph (b) below) which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:

(i) a Lender:

(A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document; or

(B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made,

and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

(ii) a Lender which is:

(A) a company resident in the United Kingdom for United Kingdom tax purposes;

(B) a partnership each member of which is:

(1) a company so resident in the United Kingdom; or

(2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

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- (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company; or
 - (iii) a Treaty Lender; or
 - (b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.

“**Tax Confirmation**” means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.

“**Tax Credit**” means a credit against, relief or remission for, or repayment of any Tax.

“**Treaty Lender**” means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender’s participation in the Loan is effectively connected; and

- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
- (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Company and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

“**Treaty State**” means a jurisdiction having a double taxation agreement (a “**Treaty**”) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

“**UK Non-Bank Lender**” means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement or Transfer Certificate which it executes on becoming a Party.

14.1.2 Unless a contrary indication appears, in this Clause 14 a reference to “determines” or “determined” means a determination made in the absolute discretion of the person making the determination.

14.2 **Tax gross-up**

14.2.1 The Company shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

14.2.2 The Company shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Company.

14.2.3 If a Tax Deduction is required by law to be made by the Company, the amount of the payment due from the Company shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

14.2.4 A payment shall not be increased under sub-clause 14.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or

- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a “**Direction**”) under section 931 of the ITA which relates to the payment and that Lender has received from the Company a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) the relevant Lender has not given a Tax Confirmation to the Company; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Company on the basis that the Tax Confirmation would have enabled the Company to have formed a reasonable belief that the payment was an “excepted payment” for the purpose of section 930 of the ITA; or
- (d) the relevant Lender is a Treaty Lender and the Company making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 14.2.7 below.

14.2.5 If the Company is required to make a Tax Deduction, the Company shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

14.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Company making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

14.2.7

- (a) Subject to paragraph (b) below, a Treaty Lender and the Company which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Company to obtain authorisation to make that payment without a Tax Deduction.
- (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or

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- (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with paragraph 14.2.10 below or paragraph 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Company making that payment has not complied with its obligations under paragraph 14.2.11 below or paragraph 14.6.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).
- 14.2.8 A UK Non-Bank Lender which becomes a Party on the day on which this Agreement is entered into gives a Tax Confirmation to the Company by entering into this Agreement.
- 14.2.9 A UK Non-Bank Lender shall promptly notify the Company and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 14.2.10 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
- 14.2.11 Where a Lender includes the indication described in paragraph 14.2.10 above in Schedule 1 (*Original Parties*), the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing provided that the Company shall not be liable in respect of any non-compliance with its obligations under this Clause 14.2.11 where such non-compliance is due to circumstances beyond the control of the Company (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Company, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 14.2.12 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with Clause 14.2.10 or Clause 14.6.1 will reasonably promptly notify the Facility Agent and the Company if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
- 14.2.13 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.2.10 above or sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*), the Company shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

14.3 **Tax indemnity**

14.3.1 Except as provided below, the Company must, within three Business Days of demand, indemnify a Finance Party against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.

14.3.2 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:

- (a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
- (b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction, if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.

14.3.3 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:

- (a) is compensated for by an increased payment under Clause 14.2 (*Tax gross-up*);
- (b) would have been compensated for by an increased payment under Clause 14.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 14.2 (*Tax gross-up*) applied; or
- (c) relates to a FATCA Deduction required to be made by a Party.

14.3.4 A Finance Party making, or intending to make, a claim under sub-clause 14.3.1 above must promptly notify the Company of the event which will give, or has given, rise to the claim.

14.4 **Tax Credit**

If the Company makes a Tax Payment and the relevant Finance Party has obtained, used and retained any Tax Credit that is attributable to that Tax Payment, then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, that Finance Party must pay an amount to the Company which that Finance Party determines (in its discretion, acting reasonably) will leave it (after that payment) in the same after-tax position as it would have been in if the Tax Payment had not been required to be made by the Company. The relevant Finance Party shall take those steps it considers in its opinion reasonable to seek and claim any tax credit.

14.5 **Lender Status Confirmation**

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Company, which of the following categories it falls in:

- 14.5.1 not a Qualifying Lender;
- 14.5.2 a Qualifying Lender (other than a Treaty Lender); or
- 14.5.3 a Treaty Lender.

If a New Lender fails to indicate its status in accordance with this Clause 14.5 then such New Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Company). For the avoidance of doubt, a Transfer Certificate or assignment agreement shall not be invalidated by any failure of a Lender to comply with this Clause 14.5.

14.6 **HMRC DT Treaty Passport scheme confirmation**

- 14.6.1 A New Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) in the Transfer Certificate or Increase Confirmation which it executes by including its scheme reference number and its jurisdiction of tax residence in that Transfer Certificate or Increase Confirmation.
- 14.6.2 Where a New Lender includes the indication described in sub-clause 14.6.1 above in the relevant Transfer Certificate or Increase Confirmation the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date and shall promptly provide the Lender with a copy of that filing.

14.7 **Stamp taxes**

The Company shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

14.8 **VAT**

- 14.8.1 All amounts set out, or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, and accordingly, subject to sub-clause 14.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).

- 14.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the “**Supplier**”) to any other Finance Party (the “**Recipient**”) under a Finance Document, and any Party other than the Recipient (the “**Subject Party**”) is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Subject Party an amount equal to any credit or repayment obtained by the Recipient from the relevant tax authority which the Recipient reasonably determines is in respect of such VAT.
- 14.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.
- 14.8.4 Any reference in this Clause 14.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term “representative member” to have the same meaning as in the Value Added Tax Act 1994).

14.9 **FATCA Information**

- 14.9.1 Subject to sub-clause 14.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:
- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party; and
 - (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party’s compliance with FATCA;
 - (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party’s compliance with any other law, regulation, or exchange of information regime.
- 14.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 14.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- 14.9.3 Sub-clause 14.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 14.9.1. above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (a) any law or regulation;

- (b) any fiduciary duty; or
- (c) any duty of confidentiality.

14.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a) or (b) of sub-clause 14.9.1 above (including, for the avoidance of doubt, where sub-clause 14.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

14.10 **FATCA Deduction**

14.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction, or otherwise compensate the recipient of the payment for that FATCA Deduction.

14.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Company, the Facility Agent and the other Finance Parties.

15. **INCREASED COSTS**

15.1 **Increased Costs**

Except as provided below in this Clause, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 15.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;
- 15.1.2 compliance with any law or regulation made after the date of this Agreement **provided that** for the purposes of this Agreement and any other Finance Document, Dodd-Frank shall be deemed to be a law or regulation made after the date of this Agreement; or
- 15.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV.

15.2 **Exceptions**

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 15.2.1 compensated for under another Clause or would have been but for an exception to that Clause;

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- 15.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates;
 - 15.2.3 attributable to a FATCA Deduction required to be made by a Party;
 - 15.2.4 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation;
 - 15.2.5 attributable to the implementation or application of or compliance with the “International Convergence of Capital Measurement and Capital Standards, a Revised Framework” published by the Basel Committee in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) (**Basel II**) or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or
 - 15.2.6 not notified by the relevant Finance Party to the Facility Agent and the Company within three Months of that Finance Party becoming aware of such Increased Cost.

15.3 **Claims**

A Finance Party intending to make a claim for an Increased Cost must notify the Company promptly of the circumstances giving rise to, and the amount of, the claim.

16. **MITIGATION**

16.1 **Mitigation**

- 16.1.1 Each Finance Party must, in consultation with the Company (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:
 - (a) any Tax Payment or Increased Cost being payable to that Finance Party;
 - (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
 - (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
 - (d) the occurrence of any market disruption event,including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.
- 16.1.2 A Finance Party is not obliged to take any step under this Clause 16 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

- 16.1.3 Each Finance Party must promptly notify the Company of any circumstances as described in paragraphs (a) to (d) of sub-clause 16.1.1 of this Clause 16.1.
- 16.1.4 The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 16.1.
- 16.1.5 This Clause does not in any way limit the obligations of the Company under the Finance Documents.

16.2 **Substitution**

Notwithstanding Clause 16.1 (*Mitigation*), if any circumstances arise which result in:

- 16.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 16.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- 16.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank;
- 16.2.4 the occurrence of any market disruption event; or
- 16.2.5 any Lender becoming a Non-Consenting Lender,

then the Company, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a “**Replacement Finance Party**”) selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party’s participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party’s participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that:**

- 16.2.6 the Company shall have no right to replace the Facility Agent;
- 16.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Company to find a Replacement Finance Party;
- 16.2.8 the transfer must take place no later than 14 days after the notice referred to above;
- 16.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and
- 16.2.10 the Finance Party shall only be obliged to transfer its rights and obligations pursuant to this Clause 16.2 once it is satisfied that it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

16.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

- 16.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or
- 16.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

17. **PAYMENTS**

17.1 **Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents, excluding a payment under the terms of an Ancillary Document, must be made to the Facility Agent to its account at such office or bank:

- 17.1.1 in the principal financial centre of the country of the relevant currency; or
- 17.1.2 in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

17.2 **Funds**

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

17.3 **Distribution**

17.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank:

- (a) in the principal financial centre of the country of the relevant currency; or
- (b) in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.

17.3.2 The Facility Agent may apply any amount received by it for the Company in or towards payment (as soon as practicable after receipt) of any amount due from the Company under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

17.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

17.4 **Currency of account**

17.4.1 Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Clause.

17.4.2 Interest is payable in the currency in which the relevant amount in respect of which it is payable is denominated.

17.4.3 A repayment or prepayment of any principal amount (or overdue amount) is payable in the currency in which that principal amount (or overdue amount) is denominated on its due date.

17.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.

17.4.5 Each other amount payable under the Finance Documents is payable in Sterling.

17.4.6 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

17.5 **No set-off or counterclaim**

All payments made by the Company under the Finance Documents must be made without set-off or counterclaim.

17.6 **Business Days**

17.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.

17.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

17.7 **Impaired Agent**

- 17.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Company or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 17.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Company or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
- 17.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 17.7.3 A Party which has made a payment in accordance with this Clause 17.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.
- 17.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 23.14 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 17.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 17.3 (*Distribution*).
- 17.7.5 For the purposes of this Clause 17.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

17.8 **Partial payments**

- 17.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Company under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Company under the Finance Documents in the following order:
- (a) **first**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;
 - (b) **secondly**, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;
 - (c) **thirdly**, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and
 - (d) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.

17.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 17.8.1 of this Clause 17.8.

17.8.3 This Clause will override any appropriation made by the Company.

17.9 **Timing of payments**

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

18. **REPRESENTATIONS**

18.1 **Representations**

The representations set out in this Clause are made by the Company to each Finance Party on the date of this Agreement.

18.2 **Status**

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

18.3 **Powers and authority**

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

18.4 **Legal validity**

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

18.5 **Non-conflict**

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

18.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

18.5.2 its constitutional documents.

18.6 **No default**

18.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

18.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

18.7 **Authorisations**

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

18.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

18.7.2 to make the Finance Documents admissible in evidence in England and Wales, have been obtained or effected (as appropriate) and are in full force and effect.

18.8 **Financial statements**

Its audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

18.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

18.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up, except, in each case, as disclosed to the contrary in those financial statements.

18.9 **No material adverse change**

Other than as disclosed in writing to the Arranger prior to the date of this Agreement there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

18.10 **Litigation**

No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

18.11 **Winding Up**

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

18.12 **Non-Violation of other Agreements:**

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

18.13 **Governing Law and Enforcement**

- 18.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.
- 18.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

18.14 **Deduction of Tax**

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

- 18.14.1 a Qualifying Lender:
- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
 - (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
 - (c) falling within paragraph (b) of the definition of Qualifying Lender or;
- 18.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

18.15 **No filing or stamp taxes**

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

18.16 **No misleading information**

Save as disclosed in writing to the Facility Agent and the Arrangers prior to the Effective Date (as defined in the Amendment Agreement):

- 18.16.1 any written factual information provided by any member of the Group or on its behalf was true and accurate in all material respects as at the date of the relevant report or document or as at the date (if any) at which it is stated to be given;
- 18.16.2 the financial projections provided have been prepared on the basis of recent historical information and on the basis of reasonable assumptions as at the date provided; and
- 18.16.3 no event or circumstance has occurred or arisen and no information has been given or withheld that results in the information, opinions, intentions, forecasts or projections contained in such written information being untrue or misleading in any material respect.

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- 18.17 **Pari Passu ranking**
Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.
- 18.18 **Licence**
The Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of the Licence.
- 18.19 **Sanctions**
No member of the Group or, to the knowledge of the Company, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the “**Person**”) currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury’s Office of Foreign Assets Control (the “**OFAC**”), the United Nations Security Council (the “**UNSC**”), the European Union, Her Majesty’s Treasury (the “**HMT**”), or other relevant sanctions authority (collectively, “**Sanctions**”), nor is any member of the Group located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions. The Company represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.
- 18.20 **Anti-Corruption**
Each member of the Group has conducted its business in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance by that member of the Group with such laws.
- 18.21 **Times for making representations**
- 18.21.1 The representations set out in this Clause are made by the Company on the date of this Agreement.
- 18.21.2 The Repeating Representations are deemed to be repeated by the Company on the date of each Request and the first day of each Term.
- 18.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

19. **INFORMATION COVENANTS**

19.1 **Financial statements**

19.1.1 The Company must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its audited consolidated financial statements for each of its financial years; and
- (b) its interim consolidated financial statements for the first half-year of each of its financial years.

19.1.2 All financial statements must be supplied as soon as they are available and:

- (a) in the case of the Company's audited consolidated financial statements, within 180 days; and
- (b) in the case of the Company's interim financial statements, within 90 days,
of the end of the relevant financial period.

19.2 **Form of Financial Statement**

If any financial statement delivered or to be delivered to the Facility Agent under Clause 19.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

19.2.1 the Company and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Company, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 20 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

19.2.2 if amendments are agreed by the Company and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

19.2.3 if such amendments are not so agreed within 25 days, the Company shall:

- (a) within 30 days after the end of that 25 day period; and
- (b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 19.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

19.3 **Compliance Certificate**

- 19.3.1 The Company must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.
- 19.3.2 Each Compliance Certificate must be signed by two directors of the Company.

19.4 **Information - miscellaneous**

The Company must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

- 19.4.1 copies of all documents despatched by the Company to its creditors generally (or any class of them) in each case at the same time as they are despatched;
- 19.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;
- 19.4.3 promptly, details of the loss of the Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of the Licence;
- 19.4.4 promptly on receiving them, details of any modification of an Authorisation or other material regulatory notices from OFGEM or other government agency;
- 19.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which the Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);
- 19.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);
- 19.4.7 within 5 Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Company;
- 19.4.8 the Company shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Company), actuarial reports in relation to all pension schemes mentioned in sub-clause 21.15.1 of Clause 21.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Company is at that time a participating employer and to those reports which have been provided to the Company;
- 19.4.9 promptly on request, a list of the then current Material Subsidiaries; and
- 19.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

19.5 **Notification of Default**

- 19.5.1 The Company must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- 19.5.2 Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

19.6 **Use of websites**

- 19.6.1 Except as provided below, the Company may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:
- (a) the Facility Agent and the Lender agree;
 - (b) the Company and the Facility Agent designate an electronic website for this purpose;
 - (c) the Company notifies the Facility Agent of the address of and password for the website; and
 - (d) the information posted is in a format agreed between the Company and the Facility Agent.
- The Facility Agent must supply each relevant Lender with the address of and password for the website.
- 19.6.2 Notwithstanding the above, the Company must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:
- (a) any Lender not agreeing to receive information via the website; and
 - (b) any other Lender within ten Business Days of request by that Lender.
- 19.6.3 The Company must promptly upon becoming aware of its occurrence, notify the Facility Agent if:
- (a) the website cannot be accessed;
 - (b) the website or any information on the website is infected by any electronic virus or similar software;
 - (c) the password for the website is changed; or
 - (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.
- If the circumstances in paragraphs (a) or (b) above occur, the Company must supply any information required under this Agreement in paper form.

19.7 **Know your customer requirements**

19.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of the Company after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with “know your customer” or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

20. **FINANCIAL COVENANTS**

20.1 **Definitions**

In this Clause:

“Cash” means, at any time, cash denominated in a currency of the United States of America, the United Kingdom, any member state of the European Union or any Participating Member State in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;

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- (c) there is no Security Interest over that cash other than Security Interests permitted under sub-clause 21.5.3(k) of Clause 21.5 (*Negative pledge*); and
 - (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

“Cash Equivalent Investments” means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor’s Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody’s Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor’s Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody’s Investor Services Limited;
 - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days’ notice; or
- (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under sub-clauses 21.5.3(l) and (k) of Clause 21.5 (*Negative pledge*)).

“**Consolidated EBITDA**” means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

“**Interest Payable**” means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the Base Currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

“**Measurement Period**” means each period of twelve months ending on 31 March or 30 September.

“**Regulatory Asset Base**” means at any date, the regulatory asset base of the Company for such date as last determined and notified to the Company by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

“**Total Net Debt**” means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

20.2 Interpretation

20.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

20.2.2 Any amount in a currency other than the Base Currency is to be taken into account at its Base Currency equivalent calculated on the basis of:

- (a) the Agent’s Spot Rate of Exchange on the day the relevant amount falls to be calculated; or
- (b) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.

20.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

20.3 **Interest cover**

The Company must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

20.4 **Asset Cover**

The Company must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of its Regulatory Asset Base.

21. **GENERAL COVENANTS**

21.1 **General**

The Company agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Material Subsidiary or each member of the Group, the Company must ensure that each of its Material Subsidiaries or each of its Subsidiaries, as the case may be, performs that covenant.

21.2 **Authorisations**

The Company must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or, subject to the Reservations, for the validity or enforceability of, any Finance Document.

21.3 **Compliance with laws**

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

21.4 **Pari passu ranking**

The Company must ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

21.5 **Negative pledge**

In this Clause 21.5, “**Quasi-Security Interest**” means an arrangement or transaction described in sub-clause 21.5.2 below.

21.5.1 Except as provided below, neither the Company nor any Material Subsidiary may create or allow to exist any Security Interest or Quasi-Security Interest on any of its assets.

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- 21.5.2 Except as provided below, neither the Company nor any Material Subsidiary may:
- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Company or any Material Subsidiary;
 - (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
 - (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
 - (d) enter into any other preferential arrangement having a similar effect,
- in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.
- 21.5.3 Sub-clauses 21.5.1 and 21.5.2 do not apply to:
- (a) any lien arising by operation of law and in the ordinary course of trading;
 - (b) any netting or set-off arrangement entered into by the Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances (including a Multi-Account Overdraft) of members of the Group;
 - (c) any Security Interest or Quasi-Security Interest created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
 - (d) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
 - (e) any Security Interest or Quasi-Security Interest arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
 - (f) any Security Interest or Quasi-Security Interest created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
 - (g) any Security Interest or Quasi-Security Interest outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;

- (h) any Security Interest or Quasi-Security Interest created or outstanding on or over any asset of any company which becomes a Material Subsidiary of the Company after the date of this Agreement where such Security Interest or Quasi-Security Interest is created prior to the date on which such company becomes a Material Subsidiary of the Company and is not created or increased in contemplation of such company being acquired and/or becoming a Material Subsidiary of the Company and the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of such company becoming a Material Subsidiary of the Company;
- (i) any Quasi-Security Interest arising as a result of a disposal which is a disposal permitted under sub-clause 21.6.2;
- (j) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
- (k) any Security Interest or Quasi-Security Interest over bank accounts of the Company in favour of the account holding bank with whom it maintains a banking relationship in the ordinary course of trade and granted as part of that bank's standard terms and conditions;
- (l) any Security Interest or Quasi-Security Interest created or outstanding with the prior approval of the Majority Lenders; and
- (m) any Security Interest or Quasi-Security Interest created or outstanding on or over assets of the Company or any of its Material Subsidiaries provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security Interest created or outstanding under this exception on or over such assets shall not at any time exceed £25,000,000 or its equivalent.

21.6 Disposals

21.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash) where the higher of the market value and the net consideration receivable (when aggregated with the higher of the market value and the net consideration receivable from any previous disposal by members of the Group) exceeds £5,000,000 (or its equivalent) in total during the term of this Agreement.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity (including, without limitation, disposals of subsidiaries or lines of business, provided that this shall not include a disposal of the core electricity distribution business);

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- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
 - (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
 - (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 12 months of that disposal (or, if contractually committed to be used within 12 months, are actually used within 18 months of that disposal);
 - (e) the disposal of assets by one wholly-owned Subsidiary of the Company to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Company by one of its Subsidiaries;
 - (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, provided that the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £50,000,000;
 - (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account;
 - (h) arising as a result of any Security Interest or Quasi-Security Interest permitted under sub-clause 21.5.3 above;
 - (i) the application or disposal of cash not otherwise prohibited under the Finance Documents;
 - (j) any disposal by a member of Group compulsorily required by law or regulation having the force of law or any order of any government entity made thereunder and having the force of law provided that and to the extent permitted by such law or regulation:
 - (i) such disposal is made for fair market value; and
 - (ii) such disposal does not have a Material Adverse Effect.

21.7 **Environmental matters**

21.7.1 The Company will and will ensure that its Material Subsidiaries will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

21.7.2 The Company will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against any member of the Group which is current, pending or threatened; and
- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against any member of the Group,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

21.8 **Insurance**

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

21.9 **Merger**

The Company shall not enter into any amalgamation, demerger, merger or corporate reconstruction.

21.10 **Change of business**

The Company shall procure that no substantial change is made to the general nature of the business of the Company or the Group from that carried on at the date of this Agreement.

21.11 **Acquisitions**

21.11.1 Except as provided below, neither the Company nor any Material Subsidiary may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

21.11.2 Provided that no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 21.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 21.6.2 of Clause 21.6 (*Disposals*) above;
- (b) an acquisition where the consideration (including associated costs and expenses) for the acquisition (when aggregated with the consideration

(including associated costs and expenses) for any other acquisition permitted under this paragraph) during the term of this Agreement does not exceed 2.5% of the sum of the issued share capital, share premium and consolidated reserves (including retained earnings) of the Company, as shown by its most recent audited consolidated financial statements; and

(c) any acquisition which the Majority Lenders shall have consented to in writing.

21.12 **Prohibition on the Debt Purchase Transactions of the Group**

The Company shall not, and shall procure that each other member of the Group shall not, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

21.13 **Prohibition on Subsidiary Financial Indebtedness**

The Company shall procure that no member of the Group (other than the Company) will incur or allow to remain outstanding any Financial Indebtedness unless the relevant member of the Group is a special purpose vehicle incorporated solely for the purpose of incurring such Financial Indebtedness and which does not undertake any other activities.

21.14 **Arm's length transactions**

The Company shall not (and the Company shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value where to do so would be in contravention of the Licence, provided that if, at any time, the Licence is not in effect, the Company shall not (and shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value.

21.15 **Pensions**

21.15.1 The Company shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).

21.15.2 Except for in respect of the Electricity Supply Pension Scheme (and in particular the E.On Group, Networks Group and in the case of merger, the WPD Group), the Company shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.

21.15.3 The Company shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 21.15.2 above paid or required (by law or otherwise).

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- 21.15.4 The Company shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.
 - 21.15.5 The Company shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

21.16 **Licence**

The Company will at all times:

- 21.16.1 comply with the terms of the Licence in all material respects;
- 21.16.2 without prejudice to the generality of sub-clause 21.16.1 above, comply with the ring fencing provisions of the Licence in all respects; and
- 21.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of the Licence.

21.17 **Investment Grade Rating**

The Company shall procure that the long-term, unsecured and non credit-enhanced debt obligations of the Company shall be rated Baa3/BBB-, or such higher rating as required by the Licence, or above, by at least one of Moody's and Standard and Poor's and shall not be rated below Baa3/BBB-, or such higher rating as required by the Licence, by either of Moody's or Standard and Poor's.

21.18 **Sanctions**

- 21.18.1 Neither the Company, nor any other member of the Group, shall be the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), and no member of the Group shall be located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.
- 21.18.2 The Company undertakes that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity (the "**Person**"), to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.
- 21.18.3 The Company shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Syria, Cuba, Iran, North Korea, Sudan or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

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- 21.19 **Anti-Corruption**
- 21.19.1 The Company shall not (and shall ensure that no other member of the Group will) use the proceeds, or cause or permit the proceeds of any Loan to be used, directly or indirectly, in any way that would be in breach of applicable anti-corruption laws.
- 21.19.2 The Company shall (and shall ensure that each other member of the Group will):
- (a) conduct its businesses in compliance with applicable anti-corruption laws; and
 - (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

22. **DEFAULT**

22.1 **Events of Default**

Each of the events set out in this Clause is an Event of Default.

22.2 **Non-payment**

The Company fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- (a) administrative or technical error; or
- (b) a Disruption Event,

and payment is made within 5 Business Days of its due date.

22.3 **Breach of other obligations**

22.3.1 The Company does not perform or comply with its obligations under Clause 20 (*Financial Covenants*), Clause 21.5 (*Negative pledge*), Clause 21.6 (*Disposals*) or Clause 21.11 (*Acquisitions*).

22.3.2 The Company does not perform or comply with any of its other obligations under any Finance Document in any material respect or any representation or warranty by the Company in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 20 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Company becoming aware of such non-compliance or misrepresentation, as the case may be.

22.4 **Cross-default**

22.4.1 Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.

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- 22.4.2 Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.3 Any commitment for any Financial Indebtedness of any member of the Group is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).
- 22.4.4 Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.5 No Event of Default will occur under this Clause 22.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 22.4.1 to 22.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

22.5 **Insolvency**

- 22.5.1 Any of the following occurs in respect of the Company:
- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
 - (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
 - (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
 - (d) a moratorium is declared in respect of any of its indebtedness.
- 22.5.2 If a moratorium occurs in respect of the Company, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

22.6 **Insolvency proceedings**

- 22.6.1 Except as provided below, any of the following occurs in respect of the Company:
- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
 - (b) any person presents a petition for its winding-up, administration or dissolution;
 - (c) an order for its winding-up, administration or dissolution is made;
 - (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;

- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

22.6.2 Sub-clause 22.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

22.7 **Creditors' process**

A distress, attachment, execution or other legal process material in relation to the Company's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Company and is not discharged or stayed within 30 days.

22.8 **Licence**

Either:

22.8.1 notice is given to revoke or terminate the Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

22.8.2 the Licence is revoked,

in either case, other than in circumstances which permit the Company or its Subsidiaries to carry on the distribution business of the Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the Licence, issued under the Act or pursuant to the Utilities Act, 2000.

22.9 **Balancing and Settlement Code**

22.9.1 The Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where the Company is able to carry on its distribution business; or

22.9.2 the Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

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- 22.10 **Unlawfulness and invalidity**
- 22.10.1 It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents in any material respect.
- 22.10.2 Any obligation or obligations of the Company under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.
- 22.11 **Cessation of business**
- The Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 21.6 (*Disposals*).
- 22.12 **Repudiation and rescission of agreements**
- The Company (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.
- 22.13 **Ownership of other Group companies**
- The Company ceases to own (directly or indirectly) 100% of the shares in any of its Subsidiaries:
- (a) which is engaged in the core electricity distribution business; or
 - (b) in respect of which it has any actual or contingent financial obligations other than as a result of a solvent liquidation or reorganisation so long as any payments or assets distributed as a result of such solvent liquidation or reorganisation are distributed to other members of the Group.
- 22.14 **Material Adverse Effect**
- Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.
- 22.15 **Acceleration**
- If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Company:
- 22.15.1 cancel the Total Commitments and/or Ancillary Commitments; and/or
- 22.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:
- (a) immediately due and payable; and/or
 - (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders; and/or

- 22.15.3 declare that full cash cover in respect of all or part of the amounts outstanding under the Ancillary Facilities is immediately due and payable whereupon it shall become immediately due and payable or payable on demand at which time it shall become payable on demand by the Facility Agent on the instructions of the Majority Lenders.
- Any notice given under this sub-clause will take effect in accordance with its terms.

23. **THE ADMINISTRATIVE PARTIES**

23.1 **Appointment and duties of the Facility Agent**

23.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.

23.1.2 Each Finance Party irrevocably authorises the Facility Agent to:

- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
- (b) execute each Finance Document expressed to be executed by the Facility Agent.

23.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.

23.1.4 The Facility Agent shall provide to the Company within three Business Days of a request by the Company (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

23.2 **Role of the Arrangers**

Except as specifically provided in the Finance Documents, the Arranger does not have any obligations of any kind to any other Party in connection with any Finance Document.

23.3 **No fiduciary duties**

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person. No Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

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- 23.4 **Individual position of an Administrative Party**
- 23.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.
- 23.4.2 Each Administrative Party and each Ancillary Lender may:
- (a) carry on any business with the Company or its related entities (including acting as an agent or a trustee for any other financing); and
 - (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Company or its related entities.
- 23.5 **Reliance**
- The Facility Agent may:
- 23.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;
- 23.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;
- 23.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and
- 23.5.4 act under the Finance Documents through its personnel and agents.
- 23.6 **Majority Lenders' instructions**
- 23.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.
- 23.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.
- 23.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.
- 23.7 **Responsibility**
- 23.7.1 No Administrative Party and no Ancillary Lender is responsible to any other Finance Party for the adequacy, accuracy or completeness of:
- (a) any Finance Document or any other document; or
 - (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.

- 23.7.2 Without affecting the responsibility of the Company for information supplied by it or on its behalf in connection with any Finance Document, each Lender and each Ancillary Lender confirms that it:
- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets); and
 - (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.
- 23.7.3
- (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
 - (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it may not rely on any statement in relation to those requirements made by any other person.

23.8 **Exclusion of liability**

- 23.8.1 Neither the Facility Agent nor any Ancillary Lender is liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- 23.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.
- 23.8.3 No Party (other than the Facility Agent or the Ancillary Lender) may take any proceedings against any officer, employee or agent of the Facility Agent or any Ancillary Lender in respect of any claim it might have against the Facility Agent or any Ancillary Lender or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent or any Ancillary Lender may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

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- 23.9 **Default**
- 23.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.
- 23.9.2 If the Facility Agent:
- (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
 - (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,
- it must promptly notify the Lenders.
- 23.10 **Information**
- 23.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.
- 23.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 23.10.3 Except as provided above, the Facility Agent has no duty:
- (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of the Company or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or
 - (b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Company.
- 23.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.
- 23.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.
- 23.10.6 The Company irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.
- 23.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Company and shall disclose the same upon the written request of the Company or the Majority Lenders.

23.11 **Indemnities**

- 23.11.1 Without limiting the liability of the Company under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Company for such loss or liability.
- 23.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.
- 23.11.3 The Company must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:
- (a) investigating any event which the Facility Agent reasonably believes to be a Default; or
 - (b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

23.12 **Compliance**

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

23.13 **Resignation of the Facility Agent**

- 23.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Company.
- 23.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Company, in which case the Majority Lenders may appoint a successor Facility Agent.
- 23.13.3 If no successor Facility Agent has been appointed under sub-clause 23.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.
- 23.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Company prior to the appointment. Any successor Facility Agent must have an office in the U.K.

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- 23.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term “**Facility Agent**” will mean the successor Facility Agent.
- 23.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.
- 23.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 23.13.6 above, it will have no further obligations under any Finance Document.
- 23.14 **Replacement of the Facility Agent**
- 23.14.1 After consultation with the Company, the Majority Lenders may, by giving 30 days’ notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).
- 23.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- 23.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 23 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).
- 23.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- 23.15 **Relationship with Lenders**
- 23.15.1 Subject to Clause 29.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days’ prior notice from that Lender to the contrary.

23.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

23.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

23.16 **Facility Agent's management time**

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

23.17 **Notice period**

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

23.18 **Subordination Deed**

The Facility Agent will execute any Subordination Deed within two Business Days of receipt of a request (which shall include an execution version of such Subordination Deed) from the Company.

24. **EVIDENCE AND CALCULATIONS**

24.1 **Accounts**

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

24.2 **Certificates and determinations**

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

24.3 **Calculations**

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

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25. **FEES**
- 25.1 **Agency fee**
The Company must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Company.
- 25.2 **Arrangement and participation fees**
The Company must pay the upfront fees in the manner agreed between the Arrangers and the Company.
- 25.3 **Co-ordination fee**
The Company must pay a co-ordination fee in the manner agreed between the Joint Coordinators and the Company.
- 25.4 **Commitment fee**
- 25.4.1 The Company must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.
- 25.4.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.
- 25.4.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.
- 25.5 **Utilisation fee**
- 25.5.1 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate Base Currency Amount of all Loans exceeds 33.3 per cent. of the Total Commitments.
- 25.5.2 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans for each day on which the Base Currency Amount of all Loans exceeds 66.6 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 25.5.1 above is not payable in respect of any day for which the fee described in this sub-clause 25.5.2 is payable.
- 25.5.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.
- 25.5.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.6 **Interest, commission and fees on Ancillary Facilities**

The rate and time of payment of interest, commission, fees and any other remuneration in respect of each Ancillary Facility shall be determined by agreement between the relevant Ancillary Lender and the Company based upon normal market rates and terms.

26. **INDEMNITIES AND BREAK COSTS**

26.1 **Currency indemnity**

26.1.1 The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

- (a) that Finance Party receiving an amount in respect of the Company's liability under the Finance Documents; or
- (b) that liability being converted into a claim, proof, judgment or order,

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

26.1.2 Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

26.2 **Other indemnities**

The Company shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

26.2.1 the occurrence of any Event of Default;

26.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or

26.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Company otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

26.3 **Break Costs**

26.3.1 The Company must pay to each Lender its Break Costs within three Business Days of demand.

26.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:

- (a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

(b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

26.3.3 Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Clause.

27. **EXPENSES**

27.1 **Initial costs**

The Company must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

27.2 **Subsequent costs**

The Company must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

27.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Increase Confirmation) executed after the date of this Agreement; and

27.2.2 any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by this Agreement.

27.3 **Enforcement costs**

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

28. **AMENDMENTS AND WAIVERS**

28.1 **Procedure**

28.1.1 Except as provided in this Clause 28, any term of the Finance Documents (other than the Fee Letters) may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.

28.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 28.1.1 above. Any such amendment or waiver is binding on all the Parties.

28.2 **Exceptions**

28.2.1 An amendment or waiver which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) Clause 2.3 (*Nature of a Finance Party's rights and obligations*);
- (c) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (d) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (e) an increase in, or an extension of, a Commitment or the Total Commitments;
- (f) a term of a Finance Document which expressly requires the consent of each Lender;
- (g) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (h) Clause 10.1 (*Mandatory prepayment – illegality*) or Clause 10.2 (*Mandatory prepayment – change of control*); or
- (i) this Clause,

may only be made with the consent of all the Lenders.

28.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party or an Ancillary Lender may only be made with the consent of that Administrative Party or Ancillary Lender.

28.3 **Disenfranchisement of Defaulting Lenders**

28.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitments.

28.3.2 For the purposes of this Clause 28.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

28.4 **Replacement of a Defaulting Lender**

28.4.1 The Company may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender.

to a Lender or other bank, financial institution, trust, fund or other entity (a "**Replacement Lender**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

28.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Company shall have no right to replace the Facility Agent;
- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Company to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 28.4.1 above;
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents; and
- (e) the Defaulting Lender shall only be obliged to transfer its rights and obligations pursuant to sub-clause 28.4.1 above once it is satisfied that it has

complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to the transfer to the Replacement Lender.

28.5 **Excluded Commitments**

If a Lender does not accept or reject a request for an amendment, waiver or consent within 15 Business Days of receipt of such request (or such longer period as the Company and the Facility Agent may agree), or abstains from accepting or rejecting a request for an amendment, waiver or consent, its Commitments shall not be included for the purpose of calculating the Total Commitments or participations under the Facility when ascertaining whether any relevant percentage (including, for the avoidance of doubt, unanimity) of Total Commitments and/or participations has been obtained to approve that request.

28.6 **Change of currency**

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Company) determines is necessary to reflect the change.

28.7 **Waivers and remedies cumulative**

The rights of each Finance Party under the Finance Documents:

28.7.1 may be exercised as often as necessary;

28.7.2 are cumulative and not exclusive of its rights under the general law; and

28.7.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

29. **CHANGES TO THE PARTIES**

29.1 **Assignments and transfers by the Company**

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

29.2 **Assignments and transfers by Lenders**

29.2.1 A Lender (the **Existing Lender**) may, subject to the following provisions of this Clause 29, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the **New Lender**).

29.2.2 Unless the Company and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.

- 29.2.3 An Existing Lender must consult with the Company for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.
- 29.2.4 The Facility Agent is not obliged to accept an assignment or execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.
- 29.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:
- (a) the obligations are novated in accordance with the following provisions of this Clause 29; or
 - (b) the New Lender confirms to the Facility Agent and the Company in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are assigned or transferred to the New Lender.
- 29.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £2,000.
- 29.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

29.3 **Procedure for transfer by way of novations**

29.3.1 In this Clause:

Transfer Date means, for a Transfer Certificate, the later of:

- (a) the proposed Transfer Date specified in that Transfer Certificate; and
- (b) the date on which the Facility Agent executes that Transfer Certificate.

29.3.2 A novation is effected if:

- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
- (b) the Facility Agent executes it.

Subject to sub-clause 29.2.4 of Clause 29.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

29.3.3 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

29.3.4 Subject to Clause 29.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
- (b) the Existing Lender will be released from those obligations and cease to have those rights.

29.4 **Limitation of responsibility of Existing Lender**

29.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

29.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and
- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

29.4.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
- (b) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.

29.5 **Costs resulting from change of Lender or Facility Office**

If:

29.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and

29.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Company would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 14 (*Tax gross-up and indemnities*) or Clause 15 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 29.5 shall not apply in relation to Clause 14 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Company making the payment has not complied with its obligations under sub-clause 14.1.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

29.6 **Changes to the Reference Banks**

29.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

29.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the Facility Agent (after consultation with the Company) shall designate by notice to the Company and the Lenders.

29.7 **Copy of Transfer Certificate or Increase Confirmation to Company**

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Company a copy of that Transfer Certificate or Increase Confirmation.

29.8 **Security over Lenders' rights**

In addition to the other rights provided to Lenders under this Clause 29, each Lender may without consulting with or obtaining consent from the Company, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by the Company or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

29.9 **Pro rata interest settlement**

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a “*pro rata basis*” to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 29.3 (*Procedure for transfer by way of novations*)) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

- 29.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date (“**Accrued Amounts**”) and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and
- 29.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable for the account of the Existing Lender; and
 - (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 29.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

In this Clause 29.9, references to “**Term**” shall be construed to include a reference to any other period for accrual of fees.

30. **CONFIDENTIALITY AND DISCLOSURE OF INFORMATION**

30.1 **Confidential Information**

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 30.2 (*Disclosure of Confidential Information*) and Clause 30.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

30.2 **Disclosure of Confidential Information**

Any Finance Party may disclose:

30.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 30.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;

30.2.2 to any person:

- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent and, in each case, to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Company and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (c) appointed by any Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
- (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in sub-clause 30.2.2 (a) or (b) above;
- (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 29.8 (*Security over Lenders' rights*);
- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Company;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to sub-clause 30.2.2 (a), (b) and (c) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
- (ii) in relation to sub-clause 30.2.2 (d) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
- (iii) in relation to sub-clause 30.2.2 (e), (f) and (g) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;

30.2.3 to any person appointed by that Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 30.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Company and the relevant Finance Party;

30.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Company if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

30.3 **Disclosure to numbering service providers**

30.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Company the following information:

- (a) name of the Company;

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- (b) country of domicile of the Company;
 - (c) place of incorporation of the Company;
 - (d) date of this Agreement;
 - (e) the names of the Facility Agent and the Arranger;
 - (f) date of each amendment and restatement of this Agreement;
 - (g) amount of Total Commitments;
 - (h) currencies of the Facility;
 - (i) type of Facility;
 - (j) ranking of Facility;
 - (k) Final Maturity Date for the Facility;
 - (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
 - (m) such other information agreed between such Finance Party and the Company,
- to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

30.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Company by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

30.3.3 The Company represents that none of the information set out in paragraphs (a) to (m) of sub-clause 30.3.1 above is, nor will at any time be, unpublished price-sensitive information.

30.3.4 The Facility Agent shall notify the Company and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Company; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Company by such numbering service provider.

31. CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS

31.1 Confidentiality and disclosure

31.1.1 The Facility Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by sub-clause 31.1.2, 31.1.3 and 31.1.4 below.

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- 31.1.2 The Facility Agent may disclose:
- (a) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the Company pursuant to Clause 11.4 (*Notification of rates of interest*); and
 - (b) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a Confidentiality Undertaking.
- 31.1.3 The Facility Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:
- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors and partners if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
 - (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
 - (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
 - (d) any person with the consent of the relevant Lender or Reference Bank, as the case may be.
- 31.1.4 The Facility Agent's obligations in this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations are without

prejudice to its obligations to make notifications under Clause 11.4 (*Notification of rates of interest*) provided that (other than pursuant to paragraph (a) of sub-clause 31.1.2 above) the Facility Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

31.2 Other obligations

31.2.1 The Facility Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Facility Agent, any Reference Bank Quotation for any unlawful purpose.

31.2.2 The Facility Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:

- (a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 31.1.3 above except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
- (b) upon becoming aware that any information has been disclosed in breach of this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

32. **SET-OFF**

32.1.1 A Finance Party may set off any matured obligation owed to it by the Company under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Company, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

32.1.2 Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

33. **PRO RATA SHARING**

33.1 **Redistribution**

33.1.1 If any amount owing by the Company under this Agreement to a Lender (the “**recovering Lender**”) is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a “**recovery**”), then:

- (a) the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;

(b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and

(c) the recovering Lender must pay to the Facility Agent an amount equal to the excess (the “**redistribution**”).

Sub-clause 33.1.1 above shall not apply to any amount received or recovered by an Ancillary Lender in respect of any cash cover provided for the benefit of that Ancillary Lender.

33.2 **Effect of redistribution**

33.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Company under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

33.2.2 When the Facility Agent makes a distribution under sub-clause 33.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

33.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 33.2.2 above, the Company will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

33.2.4 If:

(a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Company; and

(b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 33.2.2 above will operate in reverse to the extent of the reimbursement.

33.3 **Exceptions**

Notwithstanding any other term of this Clause 32.1.1, a recovering Lender need not pay a redistribution to the extent that:

33.3.1 it would not, after the payment, have a valid claim against the Company in the amount of the redistribution; or

33.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

(a) the recovering Lender notified the Facility Agent of those proceedings; and

- (b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

33.4 **Ancillary Lenders**

- 33.4.1 This Clause 32 shall not apply to any receipt or recovery by a Lender in its capacity as an Ancillary Lender at any time prior to service of notice under Clause 22.15 (*Acceleration*).
- 33.4.2 Following service of notice under Clause 22.15 (*Acceleration*), this Clause 32 shall apply to all receipts or recoveries by Ancillary Lenders except to the extent that the receipt or recovery represents a reduction from the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount.

34. **SEVERABILITY**

- 34.1 If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:
- 34.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or
- 34.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

35. **COUNTERPARTS**

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

36. **NOTICES**

36.1 **In writing**

- 36.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:
- (a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or
- (b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.
- 36.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.
- 36.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

36.2 **Contact details**

36.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

36.2.2 The contact details of the Company for this purpose are:

Address: Avonbank, Feeder Road, Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@westempower.co.uk
Attention: Julie Hunt

The contact details of the Facility Agent for this purpose are:

Address: 2 King Edward Street, London EC1A 1HQ
Fax number: +44 208313 2149
E-mail: emea.7115loansagency@bankofamerica.com
Attention: Loans Agency

36.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

36.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

36.3 **Effectiveness**

36.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

36.3.2 A communication given under sub-clause 36.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

36.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

36.4 **The Company**

All formal communication under the Finance Documents to or from the Company must be sent through the Facility Agent.

36.5 **Communication when Facility Agent is Impaired Agent**

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

37. **LANGUAGE**

37.1.1 Any notice given in connection with a Finance Document must be in English.

37.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

38. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

39. **ENFORCEMENT**

39.1 **Jurisdiction**

39.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

39.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Company waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

39.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)	£38,571,428.57	
Bank of America Merrill Lynch International Limited	£30,000,000.00	
Barclays Bank PLC	£38,571,428.57	
HSBC Bank plc	£38,571,428.58	
Lloyds Bank plc	£38,571,428.57	
Mizuho Bank, Ltd	£38,571,428.57	
The Royal Bank of Scotland plc	£38,571,428.57	
Royal Bank of Canada	£38,571,428.57	
Total	£ 300,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT DOCUMENTS

[SATISFIED]

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**SCHEDULE 3
REQUESTS**

To: Bank of America Merrill Lynch International Limited as Facility Agent
From: Western Power Distribution (East Midlands) plc
Date: [X]

**Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April
2011 (as amended and restated from time to time) (the "Agreement")**

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [X]
 - (b) Amount/currency: [X]
 - (c) Term: [X]
3. Our payment instructions are: [X]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. We confirm that as at [relevant testing date] Consolidated EBITDA was [X] and Interest Payable was [X]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [X] to 1.
6. We confirm that as at [relevant testing date] Regulatory Asset Base was [X] and Total Net Debt was [X]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
7. This Request is irrevocable.

By:

Western Power Distribution (East Midlands) plc

**SCHEDULE 4
FORM OF TRANSFER CERTIFICATE**

To: **Bank of America Merrill Lynch International Limited** as Facility Agent
From: [THE EXISTING LENDER] (the **Existing Lender**) and [THE NEW LENDER] (the **New Lender**)
Date: [**✗**]

**Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April
2011 (as amended and restated from time to time) (the "Agreement")**

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.

1. The Existing Lender and the New Lender agree to the Existing Lender transferring by novation to the New Lender, and in accordance with Clause 29.3 (*Procedure for transfer by way of novation*), all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment(s) and participations in Loans under the Agreement as specified in the Schedule below.
2. The proposed Transfer Date is [**✗**].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - (a) [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

-
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**
6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [X]), and is tax resident in [X] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

[NEW LENDER]

By:

By:

The Transfer Date is confirmed by the Facility Agent as [✕].

[✕]

By:

**SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE**

To: **Bank of America Merrill Lynch International Limited** as Facility Agent
From: **Western Power Distribution (East Midlands) plc**
Date: [✗]

**Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April
2011 (as amended and restated from time to time) (the "Agreement")**

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that as at [relevant testing date], Consolidated EBITDA was [✗] and Interest Payable was [✗], therefore the ratio of Consolidated EBITDA to Interest Payable was [✗] to 1.
3. We confirm that as at [relevant testing date], Regulatory Asset Base was [✗] and Total Net Debt was [✗]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:
[✗].
5. We confirm that the following companies were Material Subsidiaries at [relevant testing date]:
[✗].
6. [We confirm that no Default is outstanding as at [relevant testing date].]¹

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

By:
Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

**SCHEDULE 6
FORM OF INCREASE CONFIRMATION**

To: **Bank of America Merrill Lynch International Limited** as Facility Agent and **Western Power Distribution (East Midlands) plc** as Company
From: [the *Increase Lender*] (the “**Increase Lender**”)
Dated: [✕]

**Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time)
(the “Agreement”)**

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
2. We refer to Clause 2.2 (*Increase*) of the Agreement.
3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the “**Relevant Commitment**”) as if it was an Original Lender under the Agreement.
4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the “**Increase Date**”) is [✕].
5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule.
7. The Increase Lender expressly acknowledges the limitations on the Lenders’ obligations referred to in Clause 2.2 (*Increase*).
8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - 8.1.1 [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - 8.1.2 [a Treaty Lender;]
 - 8.1.3 [not a Qualifying Lender].*
9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - 9.1.1 a company resident in the United Kingdom for United Kingdom tax purposes; or

-
- 9.1.2 a partnership each member of which is:
- (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

9.1.3 a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [X]), and is tax resident in [X] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
 - ** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
 - *** Insert jurisdiction of tax residence.
 - **** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 7
TIMETABLES**

	Loans in euro	Loans in sterling	Loans in other currencies
Facility Agent notifies the Company if a currency is approved as an Optional Currency in accordance with Clause 4.3 (<i>Conditions relating to Optional Currencies</i>)	—	—	U-4
Delivery of a duly completed Request (Clause 5.2 (<i>Completion of Requests</i>))	U-3	U-1	U-3
	9:30 a.m.	9:30 a.m.	9:30 a.m.
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 (<i>Advance of Loan</i>) and notifies the Lenders of the Loan in accordance with Clause 5.4 (<i>Advance of Loan</i>)	U-3	U-1	U-3
	Noon	Noon	Noon
Facility Agent receives a notification from a Lender under Clause 7.2.1 (<i>Revocation of a currency</i>)	Quotation Day	—	Quotation Day
Facility Agent gives notice in accordance with Clause 7.2 (<i>Revocation of a currency</i>)	Quotation Day		Quotation Day
	5:30 p.m.	—	5:30 p.m.
LIBOR or EURIBOR is fixed	Quotation Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Quotation Day as of 11:00 a.m.	Quotation Day as of 11:00 a.m.

“U” = date of utilisation

“U-X” = X Business Days prior to date of utilisation.

**SCHEDULE 8
FORM OF SUBORDINATION DEED**

THIS SUBORDINATION DEED is entered into as a deed on [] and is made **BETWEEN:**

1. WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC (registered number 02366923) (the **Company**);
2. [SUBORDINATED CREDITOR] (the **Subordinated Creditor**); and
3. [✕], as Facility Agent acting on behalf of the Lenders (the **Facility Agent**).

1. **INTERPRETATION**

1.1 **Definitions**

In this Deed:

Agreement means the £300,000,000 Multicurrency Revolving Facility Agreement dated 4 April 2011 as amended from time to time between, amongst others, the Company and Bank of America Merrill Lynch International Limited as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document,

provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in 0 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [X].

1.2 **Construction**

1.2.1 Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.

1.2.2 The principles of construction set out in the Agreement will have effect as if set out in this Deed.

1.2.3 Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 **Third Party rights**

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. **SUBORDINATION**

2.1 **Ranking**

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 **Undertakings of the Company**

The Company must not without the prior consent of the Lenders:

2.2.1 make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or

2.2.2 secure, in any manner, all or any part of the Subordinated Debt; or

2.2.3 defease, in any manner, all or any part of the Subordinated Debt; or

-
- 2.2.4 give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or
- 2.2.5 procure any other person to do any of the acts or take any of the actions referred to paragraphs 2.2.1 to 2.2.4 above.
- 2.3 **Undertakings of the Subordinated Creditor**
- 2.3.1 The Subordinated Creditor will not without the prior written consent of the Lenders:
- (a) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any part of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
 - (b) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
- 2.3.2 The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
- 2.3.3 The Subordinated Creditor will not without the prior written consent of the Lenders:
- (a) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
 - (b) initiate or support or take any steps with a view to, or which may lead to:
 - (i) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (ii) any voluntary arrangement or assignment for the benefit of creditors; or
 - (iii) any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
 - (c) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
 - (d) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).
- 2.3.4 If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.

-
- 2.3.5 The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 22.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- 2.4.1 the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- 2.4.2 any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the “**rights**”) made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- 2.4.3 if the trust referred to in paragraph 2.4.2 above or paragraph 2.3.4 of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- 2.4.4 the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph 2.4.2 above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent’s own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and
- 2.4.5 the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph 2.4.2 above or to do anything which that

Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. **SET-OFF**

- 3.1.1 The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.
- 3.1.2 If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph 2.4.2 of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. **NEW MONEY**

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. **PROTECTION OF SUBORDINATION**

- 5.1.1 The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.
- 5.1.2 Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. **MISCELLANEOUS**

- 6.1.1 This Deed overrides anything in any Subordinated Finance Document to the contrary.
- 6.1.2 Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.
- 6.1.3 This Deed is a Finance Document.

7. **ASSIGNMENT**

- 7.1.1 The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.
- 7.1.2 The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and

on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. **TRUSTS**

8.1.1 The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.

8.1.2 The perpetuity period for each trust created by this Deed shall be 80 years.

9. **TERMINATION**

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. **GOVERNING LAW**

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. **JURISDICTION**

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: [✕], as Facility Agent acting on behalf of the Lenders.
To: **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC**
From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the “**Acceding Subordinated Creditor**”) in relation to the subordination deed (the “**Subordination Deed**”) dated [•] between, among others, Western Power Distribution (East Midlands) plc as Company, [✕] as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC**)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Company contact details:

Address:	Avonbank, Feeder Road, Bristol BS2 0TB
Fax number:	01179 332 108
Phone number:	01179 332 354
E-mail:	jhunt9@wstempower.co.uk
Attention:	Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED)
by **[ACCEDING SUBORDINATED CREDITOR]**)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)
by [AGENT])
acting by)

_____)
Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Facility Agent contact details:

Address:

Annex 2

Form of Certificate

To: [✘] as Facility Agent
From: [Western Power Distribution (East Midlands) plc]
Date: [✘]

Western Power Distribution (East Midlands) plc - £300,000,000 Revolving Facility Agreement dated 4 April 2011 (as amended and restated from time to time) (the “Agreement”) and Subordination Deed dated [✘] (as amended and restated from time to time) (the “Deed”)

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make *[insert type of payment]* of *[insert amount and currency]* under *[insert description of relevant Subordinated Finance Document]* on *[insert date of payment]*.
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

By:
Director

By:
Director

SIGNATORIES

Company

EXECUTED as a DEED)
by WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wstempower.co.uk
Attention: Julie Hunt

Subordinated Creditor

EXECUTED as a DEED)
by [SUBORDINATED CREDITOR])
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED
by [X]
acting by

)
)
)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Facility Agent contact details:

Address: Bracken House
One Friday Street
London EC4M 9JA

SIGNATORIES

THE COMPANY

Signed by:)
for and on behalf of)

**WESTERN POWER)
DISTRIBUTION (EAST MIDLANDS) PLC)**

Address: Avonbank
Feeder Road
Bristol BS2 0TB
Fax: +44 (0)1179 332 108

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:

**ABBEY NATIONAL TREASURY SERVICES
PLC (TRADING AS SANTANDER GLOBAL
BANKING & MARKETS)**

)
)
)
)
)
)

Address: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax: +44 (0)20 7756 5816

with a copy to Jim Inches/ David Navalón Vaquero

Fax: +44 (0)845 602 7837

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
for and on behalf of)
BANK OF AMERICA MERRILL LYNCH
INTERNATIONAL LIMITED

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
for and on behalf of)
)
BARCLAYS BANK PLC)

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
CREDIT SUISSE AG, LONDON BRANCH)
)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
HSBC BANK PLC)
)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
LLOYDS BANK PLC)
)

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
MIZUHO BANK, LTD.)
)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4301

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
THE ROYAL BANK OF SCOTLAND PLC)
)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

THE LEAD ARRANGER

Signed by:)
)
ROYAL BANK OF CANADA)

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

THE LENDERS

Signed by:

**ABBEY NATIONAL TREASURY SERVICES
PLC (TRADING AS SANTANDER GLOBAL
BANKING & MARKETS)**

)
)
)
)
)
)
)

Address: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax: +44 (0)20 7756 5816

with a copy to Jim Inches/ David Navalón Vaquero

Fax: +44 (0)845 602 7837

THE LENDERS

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH)
INTERNATIONAL LIMITED)

Address: King Edward Street
London EC1A 1HQ
Fax: +44 (0)20 7995 2886

THE LENDERS

Signed by:)
)
BARCLAYS BANK PLC)
)

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

THE LENDERS

Signed by:)
)
CREDIT SUISSE AG, LONDON BRANCH)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

THE LENDERS

Signed by:)
)
HSBC BANK PLC)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

THE LENDERS

Signed by:)
)
LLOYDS BANK PLC)

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

THE LENDERS

Signed by:)
)
MIZUHO BANK, LTD.)
)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4301

THE LENDERS

Signed by:)
)
ROYAL BANK OF CANADA)

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

THE LENDERS

Signed by:)
)
THE ROYAL BANK OF SCOTLAND PLC)
)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

THE ISSUING BANK

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH)
INTERNATIONAL LIMITED)

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

THE FACILITY AGENT

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH)
INTERNATIONAL LIMITED)

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

THE JOINT COORDINATORS

Signed by)
for and on behalf of)

MIZUHO BANK, LTD.

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4053

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
)

HSBC BANK PLC

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

AMENDMENT AND RESTATEMENT AGREEMENT

DATED JULY 2014

BETWEEN

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

as the Company

THE MANDATED LEAD ARRANGERS

THE BOOKRUNNER

THE ISSUING BANK

THE LEAD ARRANGER

THE LENDERS

and

THE FACILITY AGENT

**RELATING TO A MULTICURRENCY REVOLVING FACILITIES AGREEMENT ORIGINALLY
DATED 4 APRIL 2011**

Allen & Overy LLP

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THIS AGREEMENT is dated July 2014 and made

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC** (registered number 03600574) (the **Company**);
- (2) **THE MANDATED LEAD ARRANGERS** (as defined in the Original Revolving Facility Agreement);
- (3) **THE BOOKRUNNER** (as defined in the Original Revolving Facility Agreement);
- (4) **THE ISSUING BANK** (as defined in the Original Revolving Facility Agreement);
- (5) **THE LEAD ARRANGER** (as defined in the Original Revolving Facility Agreement);
- (6) **THE LENDERS** (as defined in the Original Revolving Facility Agreement); and
- (7) **BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED** as facility agent (the **Facility Agent**).

IT IS AGREED as follows:

1. INTERPRETATION

1.1 Definitions

- (a) In this Agreement:

Amended and Restated Revolving Facility Agreement means the Original Revolving Facility Agreement as amended and restated by this Agreement.

Arrangement and Participation Fee Letter means the coordination arrangement and participation fee letter dated on or prior to the Effective Date between the Company, the Facility Agent and the Arrangers governing the upfront fees payable by the Company pursuant to clause 25.2 (Arrangement and participation fees) of the Amended and Restated Revolving Facility Agreement.

Co-ordination Fee Letter means the coordination fee letter dated on or prior to the Effective Date between the Company and the Joint Co-ordinators governing the co-ordination fee payable by the Company pursuant to clause 25.3 (Co-ordination fee) of the Amended and Restated Revolving Facility Agreement.

Effective Date means the date on which the Facility Agent confirms to the Effective Date Lenders and the Company that it has received each of the documents and other evidence listed in Schedule 2 (Conditions Precedent to the Effective Date) in form and substance satisfactory to the Facility Agent acting on the instructions of the Effective Date Lenders (acting reasonably).

Effective Date Commitments means, in relation to each Effective Date Lender, the Commitments set out opposite its name in schedule 1 (The Original Parties) to the Amended and Restated Revolving Facility Agreement.

Effective Date Lenders means each entity listed in Schedule 1 (Effective Date Lenders) being the Lenders, under the Original Revolving Facility Agreement as at the Effective Date.

Original Revolving Facility Agreement means the revolving facility agreement originally dated 4 April 2011 between, among others, the Company and the Facility Agent.

Party means a party to this Agreement.

- (b) Capitalised terms defined in the Amended and Restated Revolving Facility Agreement have, unless expressly defined in this Agreement, the same meaning in this Agreement.

1.2 Construction

The provisions of clause 1.2 (Construction) of the Amended and Restated Revolving Facility Agreement apply to this Agreement as though they were set out in full in this Agreement except that references to the Amended and Restated Revolving Facility Agreement are to be construed as references to this Agreement.

1.3 Third party rights

- (a) A person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or enjoy the benefit of any term of this Agreement.
- (b) Notwithstanding any term of this Agreement, the consent of any person who is not a Party is not required to rescind or vary this Agreement at any time.

1.4 Finance Document

This Agreement is a Finance Document under and as defined in the Original Revolving Facility Agreement and the Amended and Restated Revolving Facility Agreement.

2. REPRESENTATIONS

- (a) On the date of this Agreement, by reference to the facts and circumstances then existing:
- (i) the Repeating Representations (as defined in the Original Revolving Facility Agreement) are deemed to be made by the Company as if references to “this Agreement” in or incorporated in the Repeating Representations are construed as references to this Agreement and to the Original Revolving Facility Agreement;
 - (ii) the Company represents and warrants that no Default is continuing or is reasonably likely to result from the making of any Loan or the entry into, the performance of, or any transaction contemplated by, any Finance Document; and
 - (iii) the Company makes each of the representations and warranties to be made by it set out in clause 18.16 (No misleading information) of the Amended and Restated Revolving Facility Agreement, as if those representations and warranties were set out in full in this Agreement.
- (b) The representations and warranties made pursuant to paragraph (a) above are made to each Party (other than the Company).
- (c) On the Effective Date, the Company makes each of the representations and warranties to be made by it set out in clause 18 (Representations) of the Amended and Restated Revolving Facility Agreement to each Finance Party under the Amended and Restated Revolving Facility Agreement.

3. RESTATEMENT

- (a) The Original Revolving Facility Agreement will be amended and restated with effect from the Effective Date so that it reads and is construed for all purposes as set out in Schedule 3 (Amended and Restated Revolving Facility Agreement).
- (b) The Original Revolving Facility Agreement will not be amended and restated in the manner contemplated by this Agreement unless and until the Effective Date occurs.

4. COMMITMENTS

On the Effective Date the Commitments of each Effective Date Lender will be its Effective Date Commitments.

5. ISSUING BANK AND ARRANGERS

- (a) With effect from the Effective Date HSBC Bank plc and Mizuho Bank, Ltd., will act as joint coordinators.
- (b) The Issuing Bank and Lead Arranger will not be a party to the Amended and Restated Revolving Facility Agreement

6. FEES

The Company must pay to the Arrangers, the Joint Co-ordinators and the Facility Agent fees in the amounts and at the times set out in the relevant Fee Letters.

7. CONFIRMATIONS

On the Effective Date the Company:

- (i) confirms its acceptance of the Amended and Restated Revolving Facility Agreement; and
- (ii) agrees that it is bound by the terms of the Amended and Restated Revolving Facility Agreement.

8. MISCELLANEOUS

8.1 Continuing obligations

- (a) The provisions of the Original Revolving Facility Agreement and the other Finance Documents shall, save as amended by this Agreement, continue in full force and effect.
- (b) No waiver is given by this Agreement, and the Lenders expressly reserve all their rights and remedies in respect of any breach of, or other Default under and as defined in, the Original Revolving Facility Agreement, the Amended and Restated Facility Agreement or any other Finance Document.

8.2 Further assurance

The Company shall at the request of the Facility Agent and at its own expense do all such acts and things reasonably necessary or desirable to give effect to the amendments effected or to be effected pursuant to this Agreement.

8.3 Incorporation of terms

The provisions of clause 36 (Notices), clause 34 (Severability), clause 28.7 (Waivers and remedies cumulative) and clause 39 (Enforcement) of the Amended and Restated Revolving Facility Agreement shall be incorporated into this Agreement as if set out in full in this Agreement and as if references in those clauses to “this Agreement” or “the Finance Documents” were references to this Agreement.

8.4 Counterparts

This Agreement may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

9. GOVERNING LAW

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

THIS AGREEMENT has been entered into on the date stated at the beginning of this Agreement.

SCHEDULE 1

EFFECTIVE DATE LENDERS

Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)

Bank of America Merrill Lynch International Limited

Barclays Bank PLC

HSBC Bank plc

Lloyds Bank plc

Mizuho Bank, Ltd.

Royal Bank of Canada

The Royal Bank of Scotland plc

SCHEDULE 2

CONDITIONS PRECEDENT TO THE EFFECTIVE DATE

Corporate documents

- (a) A certified copy of the constitutional documents of the Company.
- (b) A certified copy of a resolution of the board of directors or a committee of the board of directors of the Company approving the terms of, and the transactions contemplated by, the Finance Documents.
- (c) A specimen of the signature of each person authorised on behalf of the Company to execute or witness the execution of any Finance Document or to sign or send any document or notice in connection with any Finance Document.
- (d) A certificate of the Company (signed by a director) confirming that borrowing the Total Commitments would not cause any borrowing limit binding on the Company to be exceeded.
- (e) A certificate of an authorised signatory of the Company certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

Finance documents

- (a) This Agreement executed by the Company.
- (b) The Arrangement and Participation Fee Letter executed by the Company.
- (c) The Co-ordination Fee Letter executed by the Company.

Legal opinions

A legal opinion of Clifford Chance LLP, legal advisers to the Arranger and the Facility Agent addressed to the Finance Parties.

Other documents and evidence

- (a) Evidence that all fees and expenses then due and payable from the Company under the Finance Documents have been or will be paid no later than the Effective Date.
- (b) The Original Financial Statements.

SCHEDULE 3

AMENDED AND RESTATED REVOLVING FACILITY AGREEMENT

Dated 4 April 2011

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC
as the Company

HSBC BANK PLC
AND
MIZUHO BANK, LTD.
as Joint Coordinators

ABBAY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
BARCLAYS BANK PLC
HSBC BANK PLC
LLOYDS BANK PLC
MIZUHO BANK, LTD.
ROYAL BANK OF CANADA
THE ROYAL BANK OF SCOTLAND PLC

as Bookrunners and Mandated Lead Arrangers

and

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
as Facility Agent

£300,000,000 MULTICURRENCY REVOLVING FACILITY AGREEMENT

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THIS AGREEMENT is dated 4 April 2011 and has been amended and restated by an amendment and restatement agreement dated July 2014.

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC** (registered number 03600574) (the “**Company**”);
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as joint coordinators (the “**Joint Coordinators**”);
- (3) **ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS), BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED, BARCLAYS BANK PLC, HSBC BANK PLC, LLOYDS BANK PLC, MIZUHO BANK, LTD., ROYAL BANK OF CANADA** and **THE ROYAL BANK OF SCOTLAND PLC** as bookrunners and mandated lead arrangers (the “**Arrangers**”);
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the “**Original Lenders**”); and
- (5) **BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED** as facility agent (the “**Facility Agent**”).

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

“**Acceptable Bank**” means:

- (a) an Effective Date Lender (as defined in the Amendment Agreement);
- (b) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor’s Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody’s Investor Services Limited or a comparable rating from an internationally recognised credit rating agency; or
- (c) any other bank or financial institution approved by the Facility Agent (acting reasonably).

“**Acceptable Jurisdiction**” means:

- (a) the United States of America;

-
- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of A- or higher by Standard & Poor's Rating Services or A3 or higher from Moody's Investor Services Limited or A- or higher from Fitch Ratings Ltd.

“**Act**” means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

“**Administrative Party**” means an Arranger or the Facility Agent.

“**Affiliate**” means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term “**Affiliate**” shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty's Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty's Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

“**Agent's Spot Rate of Exchange**” means the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on a particular day.

“**Amendment Agreement**” means the amendment and restatement agreement dated 29 July 2014 between the parties to this Agreement at such time.

“**Ancillary Commencement Date**” means, in relation to an Ancillary Facility, the date on which that Ancillary Facility is first made available, which date shall be a Business Day within the Availability Period.

“**Ancillary Commitment**” means, in relation to an Ancillary Lender and an Ancillary Facility, the maximum Base Currency Amount which that Ancillary Lender has agreed (whether or not subject to satisfaction of conditions precedent) to make available from time to time under an Ancillary Facility and which has been authorised as such under Clause 8 (*Ancillary Facilities*), to the extent that amount is not cancelled or reduced under this Agreement or the Ancillary Documents relating to that Ancillary Facility.

“**Ancillary Document**” means each document relating to or evidencing the terms of an Ancillary Facility.

“**Ancillary Facility**” means any ancillary facility made available by an Ancillary Lender in accordance with Clause 8 (*Ancillary Facilities*).

“**Ancillary Lender**” means each Lender (or Affiliate of a Lender) which makes available an Ancillary Facility in accordance with Clause 8 (*Ancillary Facilities*).

“Ancillary Outstandings” means, at any time, in relation to an Ancillary Lender and an Ancillary Facility then in force the aggregate of the equivalents (as calculated by that Ancillary Lender) in the Base Currency of the following amounts outstanding under that Ancillary Facility:

- (a) the principal amount under each overdraft facility and on-demand short term loan facility (net of any Available Credit Balance);
- (b) the face amount of each guarantee, bond and letter of credit under that Ancillary Facility; and
- (c) the amount fairly representing the aggregate exposure (excluding interest and similar charges) of that Ancillary Lender under each other type of accommodation provided under that Ancillary Facility,

in each case as determined by such Ancillary Lender, acting reasonably in accordance with its normal banking practice and in accordance with the relevant Ancillary Document.

“Applicable Accounting Principles” means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

“Authority” means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

“Available Commitment” means a Lender’s Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans and the Base Currency Amount of the aggregate of its (and its Affiliate’s) Ancillary Commitments; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date and the Base Currency Amount of its (and its Affiliate’s) Ancillary Commitment in relation to any new Ancillary Facility that is due to be made available on or before the proposed Drawdown Date,

other than that Lender’s participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date and that Lender’s (and its Affiliate’s) Ancillary Commitments to the extent that they are due to be reduced or cancelled on or before the proposed Drawdown Date.

“Available Credit Balance” means, in relation to an Ancillary Facility, credit balances on any account of the Company with the Ancillary Lender making available that Ancillary Facility to the extent that those credit balances are freely available to be set off by that Ancillary Lender against liabilities owed to it by the Company under that Ancillary Facility.

“Available Facility” means the aggregate for the time being of each Lender’s Available Commitment.

“Availability Period” means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

“**Balancing and Settlement Code**” means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

“**Balancing and Settlement Code Framework Agreement**” means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which the Company is a party and by which the Balancing and Settlement Code is made binding upon the Company.

“**Base Currency**” means Sterling.

“**Base Currency Amount**” means:

- (a) in relation to a Loan, the amount specified in the Request delivered by the Company for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent’s Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request adjusted to reflect any repayment, prepayment, consolidation or division of the Loan, or as the case may be, cancellation or reduction of an Ancillary Facility; and
- (b) in relation to an Ancillary Commitment, the amount specified as such in the notice delivered to the Facility Agent by the Company pursuant to Clause 8.2 (*Availability*) (or, if the amount specified is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent’s Spot Rate of Exchange on the date which is three Business Days before the Ancillary Commencement Date for that Ancillary Facility or, if later, the date the Facility Agent receives the notice of the Ancillary Commitment in accordance with the terms of this Agreement).

“**Basel III**” means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in “Basel III: A global regulatory framework for more resilient banks and banking systems”, “Basel III: International framework for liquidity risk measurement, standards and monitoring” and “Guidance for national authorities operating the countercyclical capital buffer” published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systematically important banks contained in “Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text” published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to “Basel III”.

“**Break Costs**” means the amount (if any), calculated in accordance with Clause 26.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

“**Business Day**” means a day (other than a Saturday or a Sunday) on which commercial banks are open in London and:

- (a) if on that day a payment in or a purchase of a currency (other than euro) is to be made, the principal financial centre of the country of that currency; or
- (b) if on that day a payment in or purchase of euro is to be made, which is also a TARGET Day.

“**Code**” means the US Internal Revenue Code of 1986.

“**Commitment**” means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading “Commitment” in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and
- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

“**Compliance Certificate**” means a certificate substantially in the form of Schedule 5 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

“**Confidential Information**” means all information relating to the Company, the Group, the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Group or any of its advisers; or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 30 (*Confidentiality and disclosure of information*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by

that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

“**Confidentiality Undertaking**” means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Company and the Facility Agent.

“**Contribution Notice**” means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

“**CRD IV**” means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

“**CTA**” means the Corporation Tax Act 2009.

“**Debt Purchase Transaction**” means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of, any Commitment or amount outstanding under this Agreement.

“**Default**” means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

“**Defaulting Lender**” means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or

(c) with respect to which an Insolvency Event has occurred and is continuing, unless, in the case of paragraph (a) above:

(i) its failure to pay is caused by:

(A) administrative or technical error; or

(B) a Disruption Event,

and payment is made within 5 Business Days of its due date; or

(ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

“**Designated Gross Amount**” means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Gross Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

“**Designated Net Amount**” means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Net Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

“**Disruption Event**” means either or both of:

(a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or

(b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:

(i) from performing its payment obligations under the Finance Documents; or

(ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

“**Dodd-Frank**” means the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 stat. 1376 (2010) and all requests, rules, guidelines or directives in connection therewith.

“**Drawdown Date**” means each date on which a Loan is made.

“**Environment**” means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

“**Environmental Claim**” means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

“**Environmental Law**” means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

“**euro or euros or ?**” means the single currency of the Participating Member States.

“**EURIBOR**” means in relation to any Loan in euro:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the Term of that Loan; and
 - (ii) it is not possible to calculate an Interpolated Screen Rate for that Loan,the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the offering of deposits in euro and for a period equal in length to the Term for that Loan.

“**Event of Default**” means an event specified as such in this Agreement.

“**Facility**” means the revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

“**Facility Office**” means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or

(b) by not less than five Business Days' notice,
as the office(s) through which it will perform its obligations under this Agreement.

"FATCA" means:

- (a) sections 1471 to 1474 of the Code or any associated regulations or other official guidance;
- (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above;
or
- (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"FATCA Application Date" means:

- (a) in relation to a "withholdable payment" described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a "withholdable payment" described in section 1473(1)(A)(ii) of the Code (which relates to "gross proceeds" from the disposition of property of a type that can produce interest from sources within the US), 1 January 2017; or
- (c) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2017,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

"FATCA Deduction" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"FATCA Exempt Party" means a Party that is entitled to receive payments free from any FATCA Deduction.

"Fee Letter" means:

- (a) any letter entered into by reference to the Facility between one or more Administrative Parties and the Company setting out the amount of certain fees referred to in the Agreement; and
- (b) any agreement setting out fees payable to a Finance Party referred to in Clause 25 (*Fees*) of this Agreement or under any other Finance Document.

"Final Maturity Date" means, subject to Clause 6 (Extension Option), the fifth anniversary of the date of this Agreement.

“Finance Document” means:

- (a) this Agreement;
- (b) any Ancillary Document;
- (c) a Fee Letter;
- (d) a Transfer Certificate; or
- (e) any other document designated as such by the Facility Agent and the Company.

“Finance Party” means a Lender, an Ancillary Lender or an Administrative Party.

“Financial Indebtedness” means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

“Financial Support Direction” means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

“Funding Rate” means any rate notified by a Lender to the Facility Agent pursuant to Clause 13 (*Market Disruption*).

“Gross Outstandings” means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft but calculated on the basis that the words “(net of any Available Credit Balance)” in paragraph (a) of the definition of “Ancillary Outstandings” were deleted.

“**Group**” means the Company and its Subsidiaries.

“**Holding Company**” means in relation to a person, any other person in respect of which it is a Subsidiary.

“**Impaired Agent**” means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of “Defaulting Lender”; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within 5 Business Days of its due date; or
- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

“**Increase Confirmation**” means a confirmation substantially in the form set out in Schedule 6 (*Form of Increase Confirmation*).

“**Increase Lender**” has the meaning given to that term in Clause 2.2.1 (*Increase*).

“**Increased Cost**” means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Finance Party’s (or its Affiliate’s) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

“**Insolvency Event**” in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

“**Interpolated Screen Rate**” means, in relation to LIBOR or EURIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and
 - (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,
- each as of the Specified Time on the Quotation Day for the currency of that Loan.

“**ITA**” means the Income Tax Act 2007.

“**Legal Reservations**” means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Company is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

“**Lender**” means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 29 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

“**LIBOR**” means, in relation to any Loan:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the currency of that Loan; or
 - (ii) no Screen Rate is available for the Term of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan,the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the currency of that Loan and for a period equal in length to the Term of that Loan.

“**Licence**” means:

- (a) the electricity distribution licence made and treated as granted to the Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 which permit the Company to distribute electricity in the area it is certified to operate in.

“**LMA**” means the Loan Market Association.

“**Loan**” means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

“**Majority Lenders**” means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated $66\frac{2}{3}$ per cent. or more of the Total Commitments immediately before the reduction.

“**Margin**” means, **provided that**:

- (a) at least one of Moody’s Investor Services Limited (“**Moody’s**”) and Standard & Poor’s Ratings Services (“**Standard & Poor’s**”) has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company; and
- (b) no Event of Default is outstanding,

prior to but excluding the Effective Date (as defined in the Amendment Agreement) (and for the avoidance of doubt, for the purpose of calculating interest on an overnight basis, from the date immediately preceding the Effective Date to the Effective Date) the rate set out in the table below:

Rating (Moody’s)	Rating (Standard & Poor’s)	Margin (per annum)
Less than Baa3	Less than BBB-	1.15%
Baa3	BBB-	0.95%
Baa2	BBB	0.85%
Baa1	BBB+	0.75%
A3 or higher	A- or higher	0.65%

from (and including) the Effective Date (as defined in the Amendment Agreement) the rate set out in the table below, provided that on the Effective Date the Margin shall be 0.50%:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	0.90%
Baa3	BBB-	0.70%
Baa2	BBB	0.55%
Baa1	BBB+	0.45%
A3 or higher	A- or higher	0.35%

If the current Moody's and Standard & Poor's ratings in respect of the Company imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, or if an Event of Default is outstanding, the applicable Margin shall be 0.90% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Company or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Company to the Facility Agent (acting reasonably)) or waived.

"**Material Adverse Effect**" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Company to perform its payment obligations under the Finance Documents or its obligations under Clauses 20.3 (*Interest Cover*) or 20.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

“**Material Subsidiary**” means, at any time, a Subsidiary of the Company whose gross assets or gross revenues (on a consolidated basis and excluding intra-Group items) then equal or exceed 10 per cent. of the gross assets or gross revenues of the Group.

For this purpose:

- (a) the gross assets or gross revenues of a Subsidiary of the Company will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest audited financial statements of the Group have been based;
- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited financial statements of the Group have been prepared, the gross assets or gross revenues of that Subsidiary will be determined from its latest financial statements;
- (c) the gross assets or gross revenues of the Group will be determined from the Company’s latest audited financial statements, adjusted (where appropriate) to reflect the gross assets or gross revenues of any company or business subsequently acquired or disposed of; and
- (d) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Company, it will immediately cease to be a Material Subsidiary and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; the subsequent financial statements of those Subsidiaries and the Group will be used to determine whether those Subsidiaries are Material Subsidiaries or not.

If there is a dispute as to whether or not a company is a Material Subsidiary, a certificate of the auditors of the Company will be, in the absence of manifest error, conclusive.

“**Maturity Date**” means the last day of the Term of a Loan.

“**Multi-account Overdraft**” means an Ancillary Facility which is an overdraft facility comprising more than one account.

“**Net Outstandings**” means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft.

“**New Lender**” has the meaning given to that term in Clause 29 (*Changes to the Parties*).

“**Non-Consenting Lender**” means any Lender who does not and continues not to consent or agree to the Company’s or the Facility Agent’s (at the request of the Company) request to give a consent in relation to, or agree to a waiver or amendment of, any provisions of the Finance Documents where Lenders whose Commitments aggregate either:

- (a) in the case the consent, waiver or amendment in question requires the approval of all the Lenders, Lenders whose Commitments aggregate more than 85% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 85% of the Total Commitments prior to that reduction); or
- (b) in the case the consent, waiver or amendment in question requires the approval of the Majority Lenders, Lenders whose Commitments aggregate more than 60% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 60% of the Total Commitments prior to that reduction),

have consented or agreed to such waiver or amendment.

“**OFGEM**” means the Office of Gas and Electricity Markets.

“**Optional Currency**” means any currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

“**Original Financial Statements**” means the audited consolidated financial statements of the Company for the year ended 31 March 2014.

“**Participating Member State**” means a member state of the European Union that has the euro as its lawful currency under the legislation of the European Union relating to Economic and Monetary Union.

“**Party**” means a party to this Agreement.

“**Pensions Regulator**” means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

“**PPL**” means PPL Corporation, a company incorporated in Pennsylvania, U.S.A. whose head office is in Two North Ninth Street, Allentown, PA18101, Pennsylvania, U.S.A., registered number 2570936.

“**Pre-approved Currency**” means U.S.\$ and euro.

“**Pro Rata Share**” means:

- (a) for the purpose of determining a Lender’s share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

“**PUHCA**” means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

“**Qualifying Lender**” has the meaning given to such term in Clause 14.1 (*Definitions*).

“**Quasi-Security Interest**” has the meaning given to such term in Clause 21.5 (*Negative Pledge*).

“**Quotation Day**” means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;
- (b) (if the currency is euro) two TARGET Days before the first day of that period; or
- (c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Quotation Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

“**Reference Bank Rate**” means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

- (a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or
- (b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market,

in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

“**Reference Bank Quotation**” means any quotation supplied to the Facility Agent by a Reference Bank.

“**Reference Banks**” means the principal London offices of such banks as may be appointed by the Facility Agent in consultation with the Company and with the consent of the bank so appointed.

“**Related Fund**” in relation to a fund (the “**first fund**”), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

“**Relevant Interbank Market**” means in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

“**Repeating Representations**” means each of the representations and warranties set out in Clause 18.2 (*Status*) to Clause 18.8 (*Financial Statements*) (inclusive), Clause 18.10 (*Litigation*), Clause 18.12 (*Non-Violation of other Agreements*) and Clause 18.13 (*Governing law and enforcement*).

“**Representative**” means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

“**Request**” means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

“**Rollover Loan**” means one or more Loans:

- (a) made or to be made on the same day that a maturing Loan is due to be repaid;
- (b) the aggregate amount of which is equal to or less than the amount of the maturing Loan;
- (c) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of a currency*)); and
- (d) made or to be made to the Company for the purpose of refinancing that maturing Loan.

“**Screen Rate**” means:

- (a) in relation to LIBOR, the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for the relevant currency and period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate); and
- (b) in relation to EURIBOR, the euro interbank offered rate administered by the Banking Federation of the European Union (or any other person which takes over the administration of that rate) for the relevant period displayed on page EURIBOR01 of the Reuters screen (or any replacement Reuters page which displays that rate),

or, in each case, on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Company.

“**Secretary of State**” means the Secretary of State for Business, Innovation and Skills.

“**Security Interest**” means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

“**Specified Time**” means a time determined in accordance with Schedule 7 (*Timetables*).

“**Sterling**” and “**£**” mean the lawful currency of the United Kingdom.

“**Subordination Deed**” means a document in the form set out in Schedule 8 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

“**Subsidiary**” means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

“**TARGET2**” means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single platform and which was launched on 19 November 2007.

“**TARGET Day**” means any day on which TARGET2 is open for the settlement of payments in euro.

“**Tax**” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

“**Tax Deduction**” means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

“**Tax Payment**” means either an increase in a payment made by the Company to a Finance Party under Clause 14.2 (*Tax gross-up*) or a payment under Clause 14.3 (*Tax indemnity*).

“**Term**” means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

“**Total Commitments**” means the aggregate of the Commitments being £300,000,000 at the date of this Agreement.

“**Transfer Certificate**” means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

“**Transfer Date**” means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

“**U.K.**” means the United Kingdom.

“**Unpaid Sum**” means any sum due and payable but unpaid by the Company under the Finance Documents.

“**US**” means the United States of America.

“**U.S. Dollars**” and “**U.S.\$**” means the lawful currency for the time being of the United States of America.

“**VAT**” means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2 **Construction**

1.2.1 The following definitions have the meanings given to them in Clause 20 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;
- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
- (b) **assets** includes present and future properties, revenues and rights of every description;
- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
- (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
- (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
- (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
- (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
- (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;

- (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
- (j) a currency is a reference to the lawful currency for the time being of the relevant country;
- (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
- (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
- (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
- (n) a person includes its successors in title, permitted assigns and permitted transferees;
- (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
- (p) a time of day is a reference to London time.

1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:

- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
- (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
- (c) notwithstanding sub-clause 1.2.3(a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.

1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.

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- 1.2.5 Unless the contrary intention appears:
- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
 - (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
 - (c) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is or may be outstanding under the Finance Documents.
- 1.2.6 The headings in this Agreement do not affect its interpretation.
- 1.2.7 The Company providing cash cover for an Ancillary Facility means the Company paying an amount in the currency of the Ancillary Facility to an interest-bearing account in the name of the Company and the following conditions being met:
- (a) the account is with the Ancillary Lender for which that cash cover is to be provided;
 - (b) until no amount is or may be outstanding under that Ancillary Facility, withdrawals from the account may only be made to pay the relevant Finance Party amounts due and payable to it under this Agreement in respect of that Ancillary Facility; and
 - (c) the Company has executed a security document over that account, in form and substance satisfactory to the Ancillary Lender with which that account is held, creating a first ranking security interest over that account.
- 1.2.8 The Company repaying or prepaying any Ancillary Outstandings means:
- (a) the Company providing cash cover in respect of the Ancillary Outstandings;
 - (b) the maximum amount payable under the Ancillary Facility being reduced or cancelled in accordance with its terms; or
 - (c) the Ancillary Lender being satisfied (acting reasonably) that it has no further liability under that Ancillary Facility, and the amount by which Ancillary Outstandings are repaid or prepaid under paragraphs (a) and (b) above is the amount of the relevant cash cover or reduction or cancellation.
- 1.2.9 An amount borrowed includes any amount utilised under an Ancillary Facility.

2. **THE FACILITY**

2.1 **The Facility**

2.1.1 Subject to the terms of this Agreement, the Lenders make available to the Company a multicurrency revolving credit facility in an aggregate amount the Base Currency Amount of which is equal to the Total Commitments.

2.1.2 Subject to the terms of this Agreement and the Ancillary Documents, an Ancillary Lender may make all or part of its Commitment available to the Company as an Ancillary Facility.

2.2 **Increase**

2.2.1 The Company may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 10.6.4 of Clause 10.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with:
 - (i) Clause 10.1 (*Mandatory prepayment – illegality*); or
 - (ii) sub-clause 10.6.2 of Clause 10.6 (*Involuntary prepayment and cancellation*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in the Base Currency of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an “**Increase Lender**”) selected by the Company (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;
- (d) the Company and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Company and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (e) each Increase Lender shall become a Party as a “Lender” and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (f) the Commitments of the other Lenders shall continue in full force and effect; and
- (g) any increase in the Total Commitments shall take effect on the date specified by the Company in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.

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- 2.2.2 An increase in the Total Commitments will only be effective on:
- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
 - (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Company and the Increase Lender.
- 2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.
- 2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Company shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Company shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.5 The Company may pay to the Increase Lender a fee in the amount and at the times agreed between the Company and the Increase Lender in a letter between the Company and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.6 Clause 29.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
- (a) an “**Existing Lender**” were references to all the Lenders immediately prior to the relevant increase;
 - (b) the “**New Lender**” were references to that “**Increase Lender**”; and
 - (c) a “**re-transfer**” and “**re-assignment**” were references to respectively a “**transfer**” and “**assignment**”.
- 2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

2.3 Nature of a Finance Party’s rights and obligations

Unless otherwise agreed by all the Finance Parties:

- 2.3.1 the obligations of a Finance Party under the Finance Documents are several;

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- 2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;
 - 2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
 - 2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;
 - 2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and
 - 2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. **PURPOSE**

3.1 **Purpose**

The Company shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group and in compliance with the Licence, but not in the case of any utilisation of any Ancillary Facility towards any prepayment of any Loan.

3.2 **No obligation to monitor**

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. **CONDITIONS PRECEDENT**

4.1 **Conditions precedent documents**

A Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received (or, subject to all Lender consent, waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Company and the Lenders upon being so satisfied.

4.2 **Further conditions precedent**

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

- 4.2.1 the Repeating Representations are correct in all material respects; and
- 4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

4.3 **Conditions relating to Optional Currencies**

- 4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:
- (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Drawdown Date for that Loan; and
 - (b) it is euros or U.S. Dollars or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.
- 4.3.2 If the Facility Agent has received a written request from the Company for a currency to be approved under paragraph (b) of sub-clause 4.3.1 above, the Facility Agent will confirm to the Company by the Specified Time:
- (a) whether or not the Lenders have granted their approval; and
 - (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.

4.4 **Maximum number**

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 20 Loans outstanding.

5. **UTILISATION**

5.1 **Giving of Requests**

- 5.1.1 The Company may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.
- 5.1.2 Each Request is irrevocable.

5.2 **Completion of Requests**

- 5.2.1 A Request for a Loan will not be regarded as having been duly completed unless:
- (a) the Drawdown Date is a Business Day falling within the Availability Period;
 - (b) the currency and amount of the Loan comply with Clause 5.3 (*Currency and amount*); and
 - (c) the proposed Term complies with this Agreement.
- 5.2.2 Only one Loan may be requested in a Request.

5.3 **Currency and amount**

- 5.3.1 The currency specified in a Request must be either the Base Currency or an Optional Currency.

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- 5.3.2 The amount of the proposed Loan must be:
- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility (or such other amount as the Facility Agent may agree); or
 - (b) if the currency selected is an Optional Currency, the minimum amount (and if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of sub-clause 4.3.2 of Clause 4.3 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility.

5.4 **Advance of Loan**

- 5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.
- 5.4.2 If the conditions set out in this Agreement have been met, and subject to Clause 9.2 (*Cashless Rollover*), each Lender shall make its participation in each Loan available by no later than 2.00pm on the Drawdown Date through its Facility Office.
- 5.4.3 Save as set out in sub-clause 5.4.4 below, the amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.
- 5.4.4 If a Loan is made to repay Ancillary Outstandings, each Lender's participation in that Loan will be in an amount (as determined by the Facility Agent) which will result as nearly as possible in the aggregate amount of its participation in the Loans then outstanding bearing the same proportion to the aggregate amount of the Loans then outstanding as its Commitment bears to the Total Commitments.
- 5.4.5 No Lender is obliged to participate in a Loan if as a result:
- (a) the Base Currency Amount of its share in the aggregate amount of the Loans would exceed its Commitment; or
 - (b) the Base Currency Amount of the Loans would exceed the Total Commitments.
- 5.4.6 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount, currency and the Base Currency Amount of each Loan, the amount of its participation in that Loan and, if different, the amount of that participation to be made available in accordance with Clause 17 (*Payments*), in each case by the Specified Time.

6. **EXTENSION OPTION**

- 6.1 The Company may by notice to the Facility Agent (the **Initial Extension Request**) not more than 60 days and not less than 30 days before the first anniversary of the date of the Amendment Agreement (the **First Anniversary**), request that the Final Maturity Date be extended for a further period of one year.
- 6.2 The Company may by notice to the Facility Agent (the **Second Extension Request**) no more than 60 days and not less than 30 days before the second anniversary of the date of the Amendment Agreement (the **Second Anniversary**), request that the Final Maturity Date:
- (a) with respect to Lenders who have agreed to the Initial Extension Request, be extended for a further period of one year; and/or

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- (b) if no Initial Extension Request has been made, or with respect to Lenders who refused the Initial Extension Request:
- (i) be extended for a period of one year; or
 - (ii) be extended for a period of two years,
- as selected by the Company in the notice to the Facility Agent.

- 6.3 The Facility Agent must promptly notify the Lenders of any Initial Extension Request or Second Extension Request (an **Extension Request**).
- 6.4 Each Lender may, in its sole discretion, agree to any Extension Request. Each Lender that agrees to an Extension Request by the date falling 15 days before the relevant anniversary of the date of this Agreement, will extend its Commitment for a further period of one year or two years, as set out in the relevant Extension Request, from the then current Final Maturity Date and the Final Maturity Date of that Lender will be extended accordingly.
- 6.5 If any Lender fails to reply to an Extension Request on or before the date falling 15 days before the relevant anniversary of the date of this Agreement, it will be deemed to have refused that Extension Request and its Commitment will not be extended.
- 6.6 Subject to Clause 6.8 below, each Extension Request is irrevocable.
- 6.7 If one or more (but not all) of the Lenders agree to an Extension Request, then the Facility Agent must notify the Company and the Lenders which have agreed to the extension, identifying in that notification which Lenders have not agreed to the Extension Request.
- 6.8 The Company may, on the basis that one or more of the Lenders have not agreed to the Extension Request and no later than the date falling 5 days before the relevant anniversary of the date of this Agreement, withdraw the request by notice to the Facility Agent which will promptly notify the Lenders.

7. **OPTIONAL CURRENCIES**

7.1 **Selection**

- 7.1.1 The Company must select the currency of a Loan in its Request. The Company may select the Base Currency or an Optional Currency for a Loan.
- 7.1.2 Unless the Facility Agent otherwise agrees, the Loans may not be denominated at any one time in more than three currencies.

7.2 **Revocation of currency**

- 7.2.1 Notwithstanding any other term of this Agreement, if before the Specified Time on any Quotation Day the Facility Agent receives notice from a Lender that:
- (a) the Optional Currency requested is not readily available to it in the relevant interbank market in the amount and for the period required; or
 - (b) participating in a Loan in the proposed Optional Currency might contravene any law or regulation applicable to it, the Facility Agent must give notice to the Company to that effect promptly and in any event before the Specified Time on that day.
- 7.2.2 In this event:
- (a) that Lender must participate in the Loan in the Base Currency (in an amount equal to that Lender's proportion of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's proportion of the Base Currency Amount of the Rollover Loan that is due to be made); and
 - (b) the share of that Lender in the Loan and any other similarly affected Lender(s) will be treated as a separate Loan denominated in the Base Currency during that Term.
- 7.2.3 Any part of a Loan treated as a separate Loan under this sub-clause will not be taken into account for the purposes of any limit on the number of Loans or currencies outstanding at any one time.
- 7.2.4 A Loan will still be treated as a Rollover Loan if it is not denominated in the same currency as the maturing Loan by reason only of the operation of this sub-clause.

7.3 **Optional Currency equivalents**

Except as expressly provided in this Agreement, the equivalent in the Base Currency of a Loan or part of a Loan in an Optional Currency for the purposes of calculating:

- 7.3.1 whether any limit under this Agreement has been exceeded;
 - 7.3.2 the amount of a Loan;
 - 7.3.3 the share of a Lender in a Loan;
 - 7.3.4 the amount of any repayment of a Loan; or
 - 7.3.5 the undrawn amount of a Lender's Commitment,
- is its Base Currency Amount.

8. **ANCILLARY FACILITIES**

8.1 **Type of Facility**

An Ancillary Facility may be by way of:

- 8.1.1 a multicurrency overdraft facility;
- 8.1.2 a multicurrency guarantee, bonding, documentary or stand-by letter of credit facility;

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- 8.1.3 a short term multicurrency loan facility;
 - 8.1.4 a derivatives facility;
 - 8.1.5 a foreign exchange facility; or
 - 8.1.6 any other multicurrency facility or accommodation required in connection with the business of the Group and which is agreed by the Company with an Ancillary Lender.

8.2 Availability

- 8.2.1 If the Company and a Lender agree and except as otherwise provided in this Agreement, the Lender may provide all or part of its Commitment as an Ancillary Facility.
- 8.2.2 An Ancillary Facility shall not be made available unless, not later than three Business Days prior to the Ancillary Commencement Date for an Ancillary Facility, the Facility Agent has received from the Company:
 - (a) a notice in writing of the establishment of an Ancillary Facility and specifying:
 - (i) the proposed Ancillary Commencement Date and expiry date of the Ancillary Facility;
 - (ii) the proposed type of Ancillary Facility to be provided;
 - (iii) the proposed Ancillary Lender;
 - (iv) the proposed Ancillary Commitment, the maximum amount of the Ancillary Facility and, in the case of a Multi-account Overdraft, its Designated Gross Amount and its Designated Net Amount;
 - (v) the proposed currency of the Ancillary Facility (if not denominated in the Base Currency); and
 - (b) any other information which the Facility Agent may reasonably request in connection with the Ancillary Facility.
- 8.2.3 The Facility Agent shall promptly notify the Ancillary Lender and the other Lenders of the establishment of an Ancillary Facility.
- 8.2.4 Subject to compliance with sub-clause 8.2.2 above:
 - (a) the Lender concerned will become an Ancillary Lender; and
 - (b) the Ancillary Facility will be available,with effect from the date agreed by the Company and the Ancillary Lender.

8.3 Terms of Ancillary Facilities

- 8.3.1 Except as provided below, the terms of any Ancillary Facility will be those agreed by the Ancillary Lender and the Company.
- 8.3.2 Those terms:
- (a) must be based upon normal commercial terms at that time (except as varied by this Agreement);
 - (b) may only allow the Company to use the Ancillary Facility;
 - (c) may not allow the Ancillary Outstandings to exceed the Ancillary Commitment;
 - (d) may not allow the Ancillary Commitment of a Lender to exceed the Available Commitment of that Lender (before taking into account the effect of the Ancillary Facility on that Available Commitment); and
 - (e) must require that the Ancillary Commitment is reduced to nil, and that all Ancillary Outstandings are repaid not later than the Final Maturity Date (or such earlier date as the Commitment of the relevant Ancillary Lender (or its Affiliate) is reduced to zero).
- 8.3.3 If there is any inconsistency between any term of an Ancillary Facility and any term of this Agreement, this Agreement shall prevail except for (i) Clause 24.3 (*Calculations*) which shall not prevail for the purposes of calculating fees, interest or commission relating to an Ancillary Facility; (ii) an Ancillary Facility comprising more than one account where the terms of the Ancillary Documents shall prevail to the extent required to permit the netting of balances on those accounts; and (iii) where the relevant term of this Agreement would be contrary to, or inconsistent with, the law governing the relevant Ancillary Document, in which case that term of this Agreement shall not prevail.
- 8.3.4 Interest, commission and fees on Ancillary Facilities are dealt with in Clause 25.6 (*Interest, commission and fees on Ancillary Facilities*).

8.4 Repayment of Ancillary Facility

- 8.4.1 An Ancillary Facility shall cease to be available on the Final Maturity Date or such earlier date on which its expiry date occurs or on which it is cancelled in accordance with the terms of this Agreement.
- 8.4.2 If an Ancillary Facility expires or is cancelled in accordance with its terms the Ancillary Commitment of the Ancillary Lender shall be reduced to zero.
- 8.4.3 No Ancillary Lender may demand repayment or prepayment of any Ancillary Outstandings prior to the expiry date of the relevant Ancillary Facility unless:
- (a) required to reduce the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount;

- (b) the Total Commitments have been cancelled in full, or all outstanding Loans have become due and payable in accordance with the terms of this Agreement;
- (c) it becomes unlawful in any applicable jurisdiction for the Ancillary Lender to perform any of its obligations as contemplated by this Agreement or to fund, issue or maintain its participation in its Ancillary Facility (or it becomes unlawful for any Affiliate of the Ancillary Lender for the Ancillary Lender to do so); or
- (d) both:
 - (i) the Available Commitments; and
 - (ii) the notice of the demand given by the Ancillary Lender,would not prevent the Company funding the repayment of those Ancillary Outstandings in full by way of Loan.

8.4.4 If a Loan is made to repay Ancillary Outstandings in full, the relevant Ancillary Commitment shall be reduced to zero.

8.5 **Limitations on Ancillary Outstandings**

The Company shall procure that:

8.5.1 the Ancillary Outstandings under any Ancillary Facility shall not exceed the Ancillary Commitment applicable to that Ancillary Facility; and

8.5.2 in relation to a Multi-account Overdraft:

- (a) the Ancillary Outstandings shall not exceed the Designated Net Amount applicable to that Multi-account Overdraft; and
- (b) the Gross Outstandings shall not exceed the Designated Gross Amount applicable to that Multi-account Overdraft.

8.6 **Information**

The Company and each Ancillary Lender shall, promptly upon request by the Facility Agent, supply the Facility Agent with any information relating to the operation of an Ancillary Facility (including the Ancillary Outstandings) as the Facility Agent may reasonably request from time to time. The Company consents to all such information being released to the Facility Agent and the other Finance Parties.

8.7 **Affiliates of Lenders as Ancillary Lenders**

8.7.1 Subject to the terms of this Agreement, an Affiliate of a Lender may become an Ancillary Lender. In such case, the Lender and its Affiliate shall be treated as a single Lender whose Commitment is the amount set out opposite the relevant Lender's name in Schedule 1 (*Original Parties*) and/or the amount of any Commitment transferred to or assumed by that Lender under this Agreement, to the extent (in each case) not cancelled, reduced or transferred by it under this Agreement.

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- 8.7.2 The Company shall specify any relevant Affiliate of a Lender in any notice delivered by the Company to the Facility Agent pursuant to paragraph 8.2.2(a) of Clause 8.2 (*Availability*).
- 8.7.3 If a Lender assigns all of its rights and benefits or transfers all of its rights and obligations to a New Lender, its Affiliate shall cease to have any obligations under this Agreement or any Ancillary Document.
- 8.7.4 Where this Agreement or any other Finance Document imposes an obligation on an Ancillary Lender and the relevant Ancillary Lender is an Affiliate of a Lender which is not a party to that document, the relevant Lender shall ensure that the obligation is performed by its Affiliate.

8.8 **Commitment amounts**

Notwithstanding any other term of this Agreement, each Lender shall ensure that at all times its Commitment is not less than its Ancillary Commitment or the Ancillary Commitment of its Affiliate.

8.9 **Amendments and Waivers – Ancillary Facilities**

No amendment or waiver of a term of any Ancillary Facility shall require the consent of any Finance Party other than the relevant Ancillary Lender unless such amendment or waiver itself relates to or gives rise to a matter which would require an amendment of or under this Agreement (including, for the avoidance of doubt, under this Clause). In such a case, the provisions of this Agreement with regard to amendments and waivers will apply.

9. **REPAYMENT**

9.1 **Repayment of Loans**

9.1.1 The Company must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.

9.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 9.1.1 above may be re-borrowed.

9.2 **Cashless Rollover**

9.2.1 Without prejudice to the Company's obligation under Clause 9.1 above, if one or more Loans are to be made available to the Company:

- (a) on the same day that a maturing Loan is due to be repaid by the Company;
- (b) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of currency*)); and
- (c) in whole or in part for the purpose of refinancing the maturing Loan,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (i) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
 - (A) the Company will only be required to pay an amount in cash in the relevant currency equal to that excess; and
 - (B) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (ii) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
 - (A) the Company will not be required to make any payment in cash; and
 - (B) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation in the maturing Loan.

10. PREPAYMENT AND CANCELLATION

10.1 Mandatory prepayment - illegality

- 10.1.1 A Lender must notify the Company promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.
- 10.1.2 After notification under clause 10.1.1 above:
 - (a) the Company must repay or prepay the share of that Lender in each Loan made to it on the date specified in clause 10.1.3 below; and
 - (b) the Commitments of that Lender will be immediately cancelled.
- 10.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:
 - (a) the Business Day following receipt by the Company of notice from the Lender under sub-clause 10.1.1 above; or
 - (b) if later, the latest date allowed by the relevant law.

10.2 **Mandatory prepayment - change of control**

If, except in the context of a group reorganisation where the Company continues to be controlled directly or indirectly by PPL, the Company becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Company (for these purposes “associated person” means, in relation to any person, a person who is (i) “acting in concert” (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a “connected person” (as defined in section 839 of the Taxes Act) of that person and “control” means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

- 10.2.1 within five days of such date, the Company shall give notice of such change of control to the Facility Agent;
- 10.2.2 the Lenders and the Company shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;
- 10.2.3 if no such agreement is reached within the said period of 45 days then:
 - (a) any Lender may on 10 days’ notice to the Facility Agent and to the Company require the repayment of its share in each Loan and the repayment of its Ancillary Outstandings and cancel its Commitment; and
 - (b) the Majority Lenders may on 10 days’ notice to the Company require repayment in full of all outstanding Loans and Ancillary Outstandings and cancel the Total Commitments; and
- 10.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 10.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 10.2.3.

10.3 **Voluntary prepayment**

- 10.3.1 The Company may, by giving not less than five Business Days’ prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.
- 10.3.2 A prepayment of part of a Loan drawn in US Dollars must be in a minimum amount of \$5,000,000 and an integral multiple of U.S. \$1,000,000.
- 10.3.3 A prepayment of part of a Loan drawn in Sterling must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.3.4 A prepayment of part of a Loan drawn in euros must be in a minimum amount of ?5,000,000 and an integral multiple of ?1,000,000.

10.4 **Automatic cancellation**

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

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- 10.5 **Voluntary cancellation**
- 10.5.1 The Company may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.
- 10.5.2 Partial cancellation of the Total Commitments must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.5.3 Any cancellation in part shall be applied against the Commitment of each Lender pro rata.
- 10.6 **Involuntary prepayment and cancellation**
- 10.6.1 If the Company is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.
- 10.6.2 After notification under sub-clause 10.6.1 above:
- (a) the Company must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 10.6.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.
- 10.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Company in its notification.
- 10.6.4
- (a) If any Lender becomes a Defaulting Lender, the Company may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent 5 Business Days' notice of cancellation of the Available Commitment of that Lender.
- (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
- (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.
- 10.7 **Re-borrowing of Loans**
- Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

10.8 **Miscellaneous provisions**

- 10.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.
- 10.8.2 All prepayments made under Clause 10.2 (*Mandatory prepayment - change of control*) shall be applied *pro rata* to each Lender's participation in such Loan.
- 10.8.3 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- 10.8.4 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.
- 10.8.5 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- 10.8.6 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

11. **INTEREST**

11.1 **Calculation of interest**

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- 11.1.1 Margin; and
- 11.1.2 LIBOR or, in relation to any Loan in euro, EURIBOR.

11.2 **Payment of interest**

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

11.3 **Interest on overdue amounts**

- 11.3.1 If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.
- 11.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting reasonably):
- (a) select successive Terms of any duration of up to three months; and
 - (b) determine the appropriate Quotation Day for that Term.

11.3.3 Notwithstanding sub-clause 11.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 11.3.2 above.

11.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

11.4 **Notification of rates of interest**

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

12. **TERMS**

12.1 **Selection**

12.1.1 Each Loan has one Term only.

12.1.2 The Company must select the Term for a Loan in the relevant Request.

12.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or for a period of one to thirty days or any other period agreed between the Company and the Lenders.

12.1.4 The Company shall not use its right under paragraph 12.1.3 above to select for a Loan a Term of less than one month's duration more than six times in any calendar year.

12.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan.

12.2 **No overrunning the Final Maturity Date**

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

12.3 **Other adjustments**

12.3.1 The Facility Agent and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.

- 12.3.2 Subject to Clause 12.3.3 below, if two or more Terms end on the same date, those Loans will, unless the Company specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.
- 12.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Company requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the Base Currency Amounts specified in that Request, having an aggregate Base Currency Amount equal to the Base Currency Amount of the Loan immediately before its division.

12.4 **Notification**

The Facility Agent must notify the Company and the Lenders of the duration of each Term promptly after ascertaining its duration.

13. **MARKET DISRUPTION**

13.1 **Failure of a Reference Bank to supply a rate**

Subject to the other provisions of this Clause, if LIBOR or, if applicable, EURIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the applicable LIBOR or EURIBOR will be determined on the basis of the quotations of the remaining Reference Banks.

13.2 **Market disruption**

13.2.1 In this Clause, each of the following events is a **market disruption event**:

- (a) at or about noon on the Quotation Day for the relevant Term, LIBOR or if applicable EURIBOR is to be determined by reference to the Reference Banks and none or only one of the Reference Banks supplies a rate to the Facility Agent to determine LIBOR or, if applicable, EURIBOR for the relevant currency and Term; or
- (b) before close of business in London on the Quotation Day for the relevant Term, the Facility Agent receives notification from a Lender or Lenders whose participations in the relevant Loan exceed 50% of that Loan that the cost to it (or them) of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR or, if applicable, EURIBOR for the relevant Term.

13.2.2 The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.

13.2.3 After notification under sub-clause 13.2.1(a) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin; and
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select.

13.3 **Alternative basis of interest or funding**

13.3.1 If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

13.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

14. **TAX GROSS-UP AND INDEMNITIES**

14.1 **Definitions**

14.1.1 In this Agreement:

“Qualifying Lender” means:

(a) a Lender (other than a Lender within paragraph (b) below) which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:

(i) a Lender:

(A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document; or

(B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made,

and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

(ii) a Lender which is:

(A) a company resident in the United Kingdom for United Kingdom tax purposes;

(B) a partnership each member of which is:

(1) a company so resident in the United Kingdom; or

(2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

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- (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company; or
 - (iii) a Treaty Lender; or
 - (b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.

“**Tax Confirmation**” means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.

“**Tax Credit**” means a credit against, relief or remission for, or repayment of any Tax.

“**Treaty Lender**” means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender’s participation in the Loan is effectively connected; and

- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
- (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Company and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

“**Treaty State**” means a jurisdiction having a double taxation agreement (a “**Treaty**”) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

“**UK Non-Bank Lender**” means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement or Transfer Certificate which it executes on becoming a Party.

14.1.2 Unless a contrary indication appears, in this Clause 14 a reference to “determines” or “determined” means a determination made in the absolute discretion of the person making the determination.

14.2 Tax gross-up

14.2.1 The Company shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

14.2.2 The Company shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Company.

14.2.3 If a Tax Deduction is required by law to be made by the Company, the amount of the payment due from the Company shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

14.2.4 A payment shall not be increased under sub-clause 14.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or

- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a “**Direction**”) under section 931 of the ITA which relates to the payment and that Lender has received from the Company a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) the relevant Lender has not given a Tax Confirmation to the Company; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Company on the basis that the Tax Confirmation would have enabled the Company to have formed a reasonable belief that the payment was an “excepted payment” for the purpose of section 930 of the ITA; or
- (d) the relevant Lender is a Treaty Lender and the Company making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 14.2.7 below.

14.2.5 If the Company is required to make a Tax Deduction, the Company shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

14.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Company making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

14.2.7

- (a) Subject to paragraph (b) below, a Treaty Lender and the Company which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Company to obtain authorisation to make that payment without a Tax Deduction.
- (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or

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- (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with paragraph 14.2.10 below or paragraph 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Company making that payment has not complied with its obligations under paragraph 14.2.11 below or paragraph 14.6.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).
- 14.2.8 A UK Non-Bank Lender which becomes a Party on the day on which this Agreement is entered into gives a Tax Confirmation to the Company by entering into this Agreement.
- 14.2.9 A UK Non-Bank Lender shall promptly notify the Company and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 14.2.10 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
- 14.2.11 Where a Lender includes the indication described in paragraph 14.2.10 above in Schedule 1 (*Original Parties*), the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing provided that the Company shall not be liable in respect of any non-compliance with its obligations under this Clause 14.2.11 where such non-compliance is due to circumstances beyond the control of the Company (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Company, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 14.2.12 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with Clause 14.2.10 or Clause 14.6.1 will reasonably promptly notify the Facility Agent and the Company if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
- 14.2.13 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.2.10 above or sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*), the Company shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

14.3 **Tax indemnity**

- 14.3.1 Except as provided below, the Company must, within three Business Days of demand, indemnify a Finance Party against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.
- 14.3.2 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:
- (a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
 - (b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction, if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.
- 14.3.3 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:
- (a) is compensated for by an increased payment under Clause 14.2 (*Tax gross-up*);
 - (b) would have been compensated for by an increased payment under Clause 14.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 14.2 (*Tax gross-up*) applied; or
 - (c) relates to a FATCA Deduction required to be made by a Party.
- 14.3.4 A Finance Party making, or intending to make, a claim under sub-clause 14.3.1 above must promptly notify the Company of the event which will give, or has given, rise to the claim.

14.4 **Tax Credit**

If the Company makes a Tax Payment and the relevant Finance Party has obtained, used and retained any Tax Credit that is attributable to that Tax Payment, then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, that Finance Party must pay an amount to the Company which that Finance Party determines (in its discretion, acting reasonably) will leave it (after that payment) in the same after-tax position as it would have been in if the Tax Payment had not been required to be made by the Company. The relevant Finance Party shall take those steps it considers in its opinion reasonable to seek and claim any tax credit.

14.5 **Lender Status Confirmation**

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Company, which of the following categories it falls in:

- 14.5.1 not a Qualifying Lender;
- 14.5.2 a Qualifying Lender (other than a Treaty Lender); or
- 14.5.3 a Treaty Lender.

If a New Lender fails to indicate its status in accordance with this Clause 14.5 then such New Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Company). For the avoidance of doubt, a Transfer Certificate or assignment agreement shall not be invalidated by any failure of a Lender to comply with this Clause 14.5.

14.6 **HMRC DT Treaty Passport scheme confirmation**

- 14.6.1 A New Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) in the Transfer Certificate or Increase Confirmation which it executes by including its scheme reference number and its jurisdiction of tax residence in that Transfer Certificate or Increase Confirmation.
- 14.6.2 Where a New Lender includes the indication described in sub-clause 14.6.1 above in the relevant Transfer Certificate or Increase Confirmation the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date and shall promptly provide the Lender with a copy of that filing.

14.7 **Stamp taxes**

The Company shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

14.8 **VAT**

- 14.8.1 All amounts set out, or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, and accordingly, subject to sub-clause 14.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).

- 14.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the “**Supplier**”) to any other Finance Party (the “**Recipient**”) under a Finance Document, and any Party other than the Recipient (the “**Subject Party**”) is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Subject Party an amount equal to any credit or repayment obtained by the Recipient from the relevant tax authority which the Recipient reasonably determines is in respect of such VAT.
- 14.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.
- 14.8.4 Any reference in this Clause 14.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term “representative member” to have the same meaning as in the Value Added Tax Act 1994).

14.9 **FATCA Information**

- 14.9.1 Subject to sub-clause 14.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:
- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party; and
 - (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party’s compliance with FATCA;
 - (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party’s compliance with any other law, regulation, or exchange of information regime.
- 14.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 14.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- 14.9.3 Sub-clause 14.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 14.9.1. above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (a) any law or regulation;

- (b) any fiduciary duty; or
- (c) any duty of confidentiality.

14.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a) or (b) of sub-clause 14.9.1 above (including, for the avoidance of doubt, where sub-clause 14.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

14.10 **FATCA Deduction**

14.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction, or otherwise compensate the recipient of the payment for that FATCA Deduction.

14.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Company, the Facility Agent and the other Finance Parties.

15. **INCREASED COSTS**

15.1 **Increased Costs**

Except as provided below in this Clause, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 15.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;
- 15.1.2 compliance with any law or regulation made after the date of this Agreement **provided that** for the purposes of this Agreement and any other Finance Document, Dodd-Frank shall be deemed to be a law or regulation made after the date of this Agreement; or
- 15.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV.

15.2 **Exceptions**

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 15.2.1 compensated for under another Clause or would have been but for an exception to that Clause;

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- 15.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates;
 - 15.2.3 attributable to a FATCA Deduction required to be made by a Party;
 - 15.2.4 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation;
 - 15.2.5 attributable to the implementation or application of or compliance with the “International Convergence of Capital Measurement and Capital Standards, a Revised Framework” published by the Basel Committee in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) (**Basel II**) or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or
 - 15.2.6 not notified by the relevant Finance Party to the Facility Agent and the Company within three Months of that Finance Party becoming aware of such Increased Cost.

15.3 **Claims**

A Finance Party intending to make a claim for an Increased Cost must notify the Company promptly of the circumstances giving rise to, and the amount of, the claim.

16. **MITIGATION**

16.1 **Mitigation**

- 16.1.1 Each Finance Party must, in consultation with the Company (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:
 - (a) any Tax Payment or Increased Cost being payable to that Finance Party;
 - (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
 - (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
 - (d) the occurrence of any market disruption event,including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.
- 16.1.2 A Finance Party is not obliged to take any step under this Clause 16 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

- 16.1.3 Each Finance Party must promptly notify the Company of any circumstances as described in paragraphs (a) to (d) of sub-clause 16.1.1 of this Clause 16.1.
- 16.1.4 The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 16.1.
- 16.1.5 This Clause does not in any way limit the obligations of the Company under the Finance Documents.

16.2 **Substitution**

Notwithstanding Clause 16.1 (*Mitigation*), if any circumstances arise which result in:

- 16.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 16.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- 16.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank;
- 16.2.4 the occurrence of any market disruption event; or
- 16.2.5 any Lender becoming a Non-Consenting Lender,

then the Company, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a “**Replacement Finance Party**”) selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party’s participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party’s participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that:**

- 16.2.6 the Company shall have no right to replace the Facility Agent;
- 16.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Company to find a Replacement Finance Party;
- 16.2.8 the transfer must take place no later than 14 days after the notice referred to above;
- 16.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and
- 16.2.10 the Finance Party shall only be obliged to transfer its rights and obligations pursuant to this Clause 16.2 once it is satisfied that it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

16.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

- 16.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or
- 16.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

17. **PAYMENTS**

17.1 **Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents, excluding a payment under the terms of an Ancillary Document, must be made to the Facility Agent to its account at such office or bank:

- 17.1.1 in the principal financial centre of the country of the relevant currency; or
- 17.1.2 in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

17.2 **Funds**

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

17.3 **Distribution**

17.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank:

- (a) in the principal financial centre of the country of the relevant currency; or
- (b) in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.

17.3.2 The Facility Agent may apply any amount received by it for the Company in or towards payment (as soon as practicable after receipt) of any amount due from the Company under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

17.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

17.4 **Currency of account**

17.4.1 Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Clause.

17.4.2 Interest is payable in the currency in which the relevant amount in respect of which it is payable is denominated.

17.4.3 A repayment or prepayment of any principal amount (or overdue amount) is payable in the currency in which that principal amount (or overdue amount) is denominated on its due date.

17.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.

17.4.5 Each other amount payable under the Finance Documents is payable in Sterling.

17.4.6 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

17.5 **No set-off or counterclaim**

All payments made by the Company under the Finance Documents must be made without set-off or counterclaim.

17.6 **Business Days**

17.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.

17.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

17.7 **Impaired Agent**

- 17.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Company or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 17.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Company or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
- 17.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 17.7.3 A Party which has made a payment in accordance with this Clause 17.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.
- 17.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 23.14 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 17.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 17.3 (*Distribution*).
- 17.7.5 For the purposes of this Clause 17.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

17.8 **Partial payments**

- 17.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Company under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Company under the Finance Documents in the following order:
- (a) **first**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;
 - (b) **secondly**, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;
 - (c) **thirdly**, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and
 - (d) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.

17.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 17.8.1 of this Clause 17.8.

17.8.3 This Clause will override any appropriation made by the Company.

17.9 **Timing of payments**

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

18. **REPRESENTATIONS**

18.1 **Representations**

The representations set out in this Clause are made by the Company to each Finance Party on the date of this Agreement.

18.2 **Status**

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

18.3 **Powers and authority**

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

18.4 **Legal validity**

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

18.5 **Non-conflict**

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

18.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

18.5.2 its constitutional documents.

18.6 **No default**

18.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

18.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

18.7 **Authorisations**

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

18.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

18.7.2 to make the Finance Documents admissible in evidence in England and Wales,

have been obtained or effected (as appropriate) and are in full force and effect.

18.8 **Financial statements**

Its audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

18.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

18.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up,

except, in each case, as disclosed to the contrary in those financial statements.

18.9 **No material adverse change**

Other than as disclosed in writing to the Arranger prior to the date of this Agreement there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

18.10 **Litigation**

No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

18.11 **Winding Up**

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

18.12 **Non-Violation of other Agreements:**

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

18.13 **Governing Law and Enforcement**

- 18.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.
- 18.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

18.14 **Deduction of Tax**

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

- 18.14.1 a Qualifying Lender:
- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
 - (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
 - (c) falling within paragraph (b) of the definition of Qualifying Lender or;
- 18.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

18.15 **No filing or stamp taxes**

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

18.16 **No misleading information**

Save as disclosed in writing to the Facility Agent and the Arrangers prior to the Effective Date (as defined in the Amendment Agreement):

- 18.16.1 any written factual information provided by any member of the Group or on its behalf was true and accurate in all material respects as at the date of the relevant report or document or as at the date (if any) at which it is stated to be given;
- 18.16.2 the financial projections provided have been prepared on the basis of recent historical information and on the basis of reasonable assumptions as at the date provided; and
- 18.16.3 no event or circumstance has occurred or arisen and no information has been given or withheld that results in the information, opinions, intentions, forecasts or projections contained in such written information being untrue or misleading in any material respect.

18.17 **Pari Passu ranking**

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

18.18 **Licence**

The Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of the Licence.

18.19 **Sanctions**

No member of the Group or, to the knowledge of the Company, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the “**Person**”) currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury’s Office of Foreign Assets Control (the “**OFAC**”), the United Nations Security Council (the “**UNSC**”), the European Union, Her Majesty’s Treasury (the “**HMT**”), or other relevant sanctions authority (collectively, “**Sanctions**”), nor is any member of the Group located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions. The Company represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

18.20 **Anti- Corruption**

Each member of the Group has conducted its business in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance by that member of the Group with such laws.

18.21 **Times for making representations**

18.21.1 The representations set out in this Clause are made by the Company on the date of this Agreement.

18.21.2 The Repeating Representations are deemed to be repeated by the Company on the date of each Request and the first day of each Term.

18.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

19. **INFORMATION COVENANTS**

19.1 **Financial statements**

19.1.1 The Company must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its audited consolidated financial statements for each of its financial years; and
- (b) its interim consolidated financial statements for the first half-year of each of its financial years.

19.1.2 All financial statements must be supplied as soon as they are available and:

- (a) in the case of the Company's audited consolidated financial statements, within 180 days; and
- (b) in the case of the Company's interim financial statements, within 90 days,
of the end of the relevant financial period.

19.2 **Form of Financial Statement**

If any financial statement delivered or to be delivered to the Facility Agent under Clause 19.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

19.2.1 the Company and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Company, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 20 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

19.2.2 if amendments are agreed by the Company and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

19.2.3 if such amendments are not so agreed within 25 days, the Company shall:

- (a) within 30 days after the end of that 25 day period; and
- (b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 19.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

19.3 **Compliance Certificate**

- 19.3.1 The Company must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.
- 19.3.2 Each Compliance Certificate must be signed by two directors of the Company.

19.4 **Information - miscellaneous**

The Company must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

- 19.4.1 copies of all documents despatched by the Company to its creditors generally (or any class of them) in each case at the same time as they are despatched;
- 19.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;
- 19.4.3 promptly, details of the loss of the Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of the Licence;
- 19.4.4 promptly on receiving them, details of any modification of an Authorisation or other material regulatory notices from OFGEM or other government agency;
- 19.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which the Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);
- 19.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);
- 19.4.7 within 5 Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Company;
- 19.4.8 the Company shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Company), actuarial reports in relation to all pension schemes mentioned in sub-clause 21.15.1 of Clause 21.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Company is at that time a participating employer and to those reports which have been provided to the Company;
- 19.4.9 promptly on request, a list of the then current Material Subsidiaries; and
- 19.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

19.5 **Notification of Default**

- 19.5.1 The Company must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- 19.5.2 Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

19.6 **Use of websites**

- 19.6.1 Except as provided below, the Company may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:
- (a) the Facility Agent and the Lender agree;
 - (b) the Company and the Facility Agent designate an electronic website for this purpose;
 - (c) the Company notifies the Facility Agent of the address of and password for the website; and
 - (d) the information posted is in a format agreed between the Company and the Facility Agent.
- The Facility Agent must supply each relevant Lender with the address of and password for the website.
- 19.6.2 Notwithstanding the above, the Company must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:
- (a) any Lender not agreeing to receive information via the website; and
 - (b) any other Lender within ten Business Days of request by that Lender.
- 19.6.3 The Company must promptly upon becoming aware of its occurrence, notify the Facility Agent if:
- (a) the website cannot be accessed;
 - (b) the website or any information on the website is infected by any electronic virus or similar software;
 - (c) the password for the website is changed; or
 - (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.
- If the circumstances in paragraphs (a) or (b) above occur, the Company must supply any information required under this Agreement in paper form.

19.7 **Know your customer requirements**

19.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of the Company after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with “know your customer” or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

20. **FINANCIAL COVENANTS**

20.1 **Definitions**

In this Clause:

“Cash” means, at any time, cash denominated in a currency of the United States of America, the United Kingdom, any member state of the European Union or any Participating Member State in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;

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- (c) there is no Security Interest over that cash other than Security Interests permitted under sub-clause 21.5.3(k) of Clause 21.5 (*Negative pledge*); and
 - (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

“**Cash Equivalent Investments**” means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor’s Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody’s Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor’s Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody’s Investor Services Limited;
 - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days’ notice; or
- (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under sub-clauses 21.5.3(l) and (k) of Clause 21.5 (*Negative pledge*)).

“**Consolidated EBITDA**” means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

“**Interest Payable**” means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the Base Currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

“**Measurement Period**” means each period of twelve months ending on 31 March or 30 September.

“**Regulatory Asset Base**” means at any date, the regulatory asset base of the Company for such date as last determined and notified to the Company by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

“**Total Net Debt**” means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

20.2 Interpretation

20.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

20.2.2 Any amount in a currency other than the Base Currency is to be taken into account at its Base Currency equivalent calculated on the basis of:

- (a) the Agent’s Spot Rate of Exchange on the day the relevant amount falls to be calculated; or
- (b) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.

20.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

20.3 **Interest cover**

The Company must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

20.4 **Asset Cover**

The Company must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of its Regulatory Asset Base.

21. **GENERAL COVENANTS**

21.1 **General**

The Company agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Material Subsidiary or each member of the Group, the Company must ensure that each of its Material Subsidiaries or each of its Subsidiaries, as the case may be, performs that covenant.

21.2 **Authorisations**

The Company must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or, subject to the Reservations, for the validity or enforceability of, any Finance Document.

21.3 **Compliance with laws**

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

21.4 **Pari passu ranking**

The Company must ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

21.5 **Negative pledge**

In this Clause 21.5, “**Quasi-Security Interest**” means an arrangement or transaction described in sub-clause 21.5.2 below.

21.5.1 Except as provided below, neither the Company nor any Material Subsidiary may create or allow to exist any Security Interest or Quasi-Security Interest on any of its assets.

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- 21.5.2 Except as provided below, neither the Company nor any Material Subsidiary may:
- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Company or any Material Subsidiary;
 - (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
 - (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
 - (d) enter into any other preferential arrangement having a similar effect,
- in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.
- 21.5.3 Sub-clauses 21.5.1 and 21.5.2 do not apply to:
- (a) any lien arising by operation of law and in the ordinary course of trading;
 - (b) any netting or set-off arrangement entered into by the Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances (including a Multi-Account Overdraft) of members of the Group;
 - (c) any Security Interest or Quasi-Security Interest created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
 - (d) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
 - (e) any Security Interest or Quasi-Security Interest arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
 - (f) any Security Interest or Quasi-Security Interest created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
 - (g) any Security Interest or Quasi-Security Interest outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;

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- (h) any Security Interest or Quasi-Security Interest created or outstanding on or over any asset of any company which becomes a Material Subsidiary of the Company after the date of this Agreement where such Security Interest or Quasi-Security Interest is created prior to the date on which such company becomes a Material Subsidiary of the Company and is not created or increased in contemplation of such company being acquired and/or becoming a Material Subsidiary of the Company and the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of such company becoming a Material Subsidiary of the Company;
 - (i) any Quasi-Security Interest arising as a result of a disposal which is a disposal permitted under sub-clause 21.6.2;
 - (j) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
 - (k) any Security Interest or Quasi-Security Interest over bank accounts of the Company in favour of the account holding bank with whom it maintains a banking relationship in the ordinary course of trade and granted as part of that bank's standard terms and conditions;
 - (l) any Security Interest or Quasi-Security Interest created or outstanding with the prior approval of the Majority Lenders; and
 - (m) any Security Interest or Quasi-Security Interest created or outstanding on or over assets of the Company or any of its Material Subsidiaries provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security Interest created or outstanding under this exception on or over such assets shall not at any time exceed £25,000,000 or its equivalent.

21.6 Disposals

21.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash) where the higher of the market value and the net consideration receivable (when aggregated with the higher of the market value and the net consideration receivable from any previous disposal by members of the Group) exceeds £5,000,000 (or its equivalent) in total during the term of this Agreement.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity (including, without limitation, disposals of subsidiaries or lines of business, provided that this shall not include a disposal of the core electricity distribution business);

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- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
 - (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
 - (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 12 months of that disposal (or, if contractually committed to be used within 12 months, are actually used within 18 months of that disposal);
 - (e) the disposal of assets by one wholly-owned Subsidiary of the Company to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Company by one of its Subsidiaries;
 - (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, provided that the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £50,000,000;
 - (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account;
 - (h) arising as a result of any Security Interest or Quasi-Security Interest permitted under sub-clause 21.5.3 above;
 - (i) the application or disposal of cash not otherwise prohibited under the Finance Documents;
 - (j) any disposal by a member of Group compulsorily required by law or regulation having the force of law or any order of any government entity made thereunder and having the force of law provided that and to the extent permitted by such law or regulation:
 - (i) such disposal is made for fair market value; and
 - (ii) such disposal does not have a Material Adverse Effect.

21.7 **Environmental matters**

21.7.1 The Company will and will ensure that its Material Subsidiaries will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

21.7.2 The Company will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against any member of the Group which is current, pending or threatened; and
- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against any member of the Group,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

21.8 **Insurance**

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

21.9 **Merger**

The Company shall not enter into any amalgamation, demerger, merger or corporate reconstruction.

21.10 **Change of business**

The Company shall procure that no substantial change is made to the general nature of the business of the Company or the Group from that carried on at the date of this Agreement.

21.11 **Acquisitions**

21.11.1 Except as provided below, neither the Company nor any Material Subsidiary may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

21.11.2 Provided that no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 21.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 21.6.2 of Clause 21.6 (*Disposals*) above;
- (b) an acquisition where the consideration (including associated costs and expenses) for the acquisition (when aggregated with the consideration

(including associated costs and expenses) for any other acquisition permitted under this paragraph) during the term of this Agreement does not exceed 2.5% of the sum of the issued share capital, share premium and consolidated reserves (including retained earnings) of the Company, as shown by its most recent audited consolidated financial statements; and

(c) any acquisition which the Majority Lenders shall have consented to in writing.

21.12 **Prohibition on the Debt Purchase Transactions of the Group**

The Company shall not, and shall procure that each other member of the Group shall not, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

21.13 **Prohibition on Subsidiary Financial Indebtedness**

The Company shall procure that no member of the Group (other than the Company) will incur or allow to remain outstanding any Financial Indebtedness unless the relevant member of the Group is a special purpose vehicle incorporated solely for the purpose of incurring such Financial Indebtedness and which does not undertake any other activities.

21.14 **Arm's length transactions**

The Company shall not (and the Company shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value where to do so would be in contravention of the Licence, provided that if, at any time, the Licence is not in effect, the Company shall not (and shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value.

21.15 **Pensions**

21.15.1 The Company shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).

21.15.2 Except for in respect of the Electricity Supply Pension Scheme (and in particular the E.On Group, Networks Group and in the case of merger, the WPD Group), the Company shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.

21.15.3 The Company shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 21.15.2 above paid or required (by law or otherwise).

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- 21.15.4 The Company shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.
- 21.15.5 The Company shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

21.16 **Licence**

The Company will at all times:

- 21.16.1 comply with the terms of the Licence in all material respects;
- 21.16.2 without prejudice to the generality of sub-clause 21.16.1 above, comply with the ring fencing provisions of the Licence in all respects; and
- 21.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of the Licence.

21.17 **Investment Grade Rating**

The Company shall procure that the long-term, unsecured and non credit-enhanced debt obligations of the Company shall be rated Baa3/BBB-, or such higher rating as required by the Licence, or above, by at least one of Moody's and Standard and Poor's and shall not be rated below Baa3/BBB-, or such higher rating as required by the Licence, by either of Moody's or Standard and Poor's.

21.18 **Sanctions**

- 21.18.1 Neither the Company, nor any other member of the Group, shall be the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), and no member of the Group shall be located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.
- 21.18.2 The Company undertakes that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity (the "**Person**"), to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.
- 21.18.3 The Company shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Syria, Cuba, Iran, North Korea, Sudan or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

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- 21.19 **Anti-Corruption**
- 21.19.1 The Company shall not (and shall ensure that no other member of the Group will) use the proceeds, or cause or permit the proceeds of any Loan to be used, directly or indirectly, in any way that would be in breach of applicable anti-corruption laws.
- 21.19.2 The Company shall (and shall ensure that each other member of the Group will):
- (a) conduct its businesses in compliance with applicable anti-corruption laws; and
 - (b) maintain policies and procedures designed to promote and achieve compliance with such laws.
22. **DEFAULT**
- 22.1 **Events of Default**
- Each of the events set out in this Clause is an Event of Default.
- 22.2 **Non-payment**
- The Company fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:
- (a) administrative or technical error; or
 - (b) a Disruption Event,
- and payment is made within 5 Business Days of its due date.
- 22.3 **Breach of other obligations**
- 22.3.1 The Company does not perform or comply with its obligations under Clause 20 (*Financial Covenants*), Clause 21.5 (*Negative pledge*), Clause 21.6 (*Disposals*) or Clause 21.11 (*Acquisitions*).
- 22.3.2 The Company does not perform or comply with any of its other obligations under any Finance Document in any material respect or any representation or warranty by the Company in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 20 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Company becoming aware of such non-compliance or misrepresentation, as the case may be.
- 22.4 **Cross-default**
- 22.4.1 Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.

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- 22.4.2 Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.3 Any commitment for any Financial Indebtedness of any member of the Group is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).
- 22.4.4 Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.5 No Event of Default will occur under this Clause 22.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 22.4.1 to 22.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

22.5 **Insolvency**

- 22.5.1 Any of the following occurs in respect of the Company:
- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
 - (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
 - (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
 - (d) a moratorium is declared in respect of any of its indebtedness.
- 22.5.2 If a moratorium occurs in respect of the Company, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

22.6 **Insolvency proceedings**

- 22.6.1 Except as provided below, any of the following occurs in respect of the Company:
- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
 - (b) any person presents a petition for its winding-up, administration or dissolution;
 - (c) an order for its winding-up, administration or dissolution is made;
 - (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;

- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

22.6.2 Sub-clause 22.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

22.7 **Creditors' process**

A distress, attachment, execution or other legal process material in relation to the Company's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Company and is not discharged or stayed within 30 days.

22.8 **Licence**

Either:

22.8.1 notice is given to revoke or terminate the Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

22.8.2 the Licence is revoked,

in either case, other than in circumstances which permit the Company or its Subsidiaries to carry on the distribution business of the Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the Licence, issued under the Act or pursuant to the Utilities Act, 2000.

22.9 **Balancing and Settlement Code**

22.9.1 The Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where the Company is able to carry on its distribution business; or

22.9.2 the Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

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- 22.10 **Unlawfulness and invalidity**
- 22.10.1 It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents in any material respect.
- 22.10.2 Any obligation or obligations of the Company under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.
- 22.11 **Cessation of business**
- The Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 21.6 (*Disposals*).
- 22.12 **Repudiation and rescission of agreements**
- The Company (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.
- 22.13 **Ownership of other Group companies**
- The Company ceases to own (directly or indirectly) 100% of the shares in any of its Subsidiaries:
- (a) which is engaged in the core electricity distribution business; or
 - (b) in respect of which it has any actual or contingent financial obligations other than as a result of a solvent liquidation or reorganisation so long as any payments or assets distributed as a result of such solvent liquidation or reorganisation are distributed to other members of the Group.
- 22.14 **Material Adverse Effect**
- Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.
- 22.15 **Acceleration**
- If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Company:
- 22.15.1 cancel the Total Commitments and/or Ancillary Commitments; and/or
- 22.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:
- (a) immediately due and payable; and/or
 - (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders; and/or

- 22.15.3 declare that full cash cover in respect of all or part of the amounts outstanding under the Ancillary Facilities is immediately due and payable whereupon it shall become immediately due and payable or payable on demand at which time it shall become payable on demand by the Facility Agent on the instructions of the Majority Lenders.
- Any notice given under this sub-clause will take effect in accordance with its terms.

23. **THE ADMINISTRATIVE PARTIES**

23.1 **Appointment and duties of the Facility Agent**

23.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.

23.1.2 Each Finance Party irrevocably authorises the Facility Agent to:

- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
- (b) execute each Finance Document expressed to be executed by the Facility Agent.

23.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.

23.1.4 The Facility Agent shall provide to the Company within three Business Days of a request by the Company (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

23.2 **Role of the Arrangers**

Except as specifically provided in the Finance Documents, the Arranger does not have any obligations of any kind to any other Party in connection with any Finance Document.

23.3 **No fiduciary duties**

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person. No Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

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- 23.4 **Individual position of an Administrative Party**
- 23.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.
- 23.4.2 Each Administrative Party and each Ancillary Lender may:
- (a) carry on any business with the Company or its related entities (including acting as an agent or a trustee for any other financing); and
 - (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Company or its related entities.
- 23.5 **Reliance**
- The Facility Agent may:
- 23.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;
- 23.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;
- 23.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and
- 23.5.4 act under the Finance Documents through its personnel and agents.
- 23.6 **Majority Lenders' instructions**
- 23.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.
- 23.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.
- 23.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.
- 23.7 **Responsibility**
- 23.7.1 No Administrative Party and no Ancillary Lender is responsible to any other Finance Party for the adequacy, accuracy or completeness of:
- (a) any Finance Document or any other document; or
 - (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.

- 23.7.2 Without affecting the responsibility of the Company for information supplied by it or on its behalf in connection with any Finance Document, each Lender and each Ancillary Lender confirms that it:
- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets); and
 - (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.

23.7.3

- (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
- (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it may not rely on any statement in relation to those requirements made by any other person.

23.8 **Exclusion of liability**

- 23.8.1 Neither the Facility Agent nor any Ancillary Lender is liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- 23.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.
- 23.8.3 No Party (other than the Facility Agent or the Ancillary Lender) may take any proceedings against any officer, employee or agent of the Facility Agent or any Ancillary Lender in respect of any claim it might have against the Facility Agent or any Ancillary Lender or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent or any Ancillary Lender may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

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- 23.9 **Default**
- 23.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.
- 23.9.2 If the Facility Agent:
- (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
 - (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,
- it must promptly notify the Lenders.
- 23.10 **Information**
- 23.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.
- 23.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 23.10.3 Except as provided above, the Facility Agent has no duty:
- (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of the Company or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or
 - (b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Company.
- 23.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.
- 23.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.
- 23.10.6 The Company irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.
- 23.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Company and shall disclose the same upon the written request of the Company or the Majority Lenders.

23.11 **Indemnities**

- 23.11.1 Without limiting the liability of the Company under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Company for such loss or liability.
- 23.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.
- 23.11.3 The Company must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:
- (a) investigating any event which the Facility Agent reasonably believes to be a Default; or
 - (b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

23.12 **Compliance**

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

23.13 **Resignation of the Facility Agent**

- 23.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Company.
- 23.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Company, in which case the Majority Lenders may appoint a successor Facility Agent.
- 23.13.3 If no successor Facility Agent has been appointed under sub-clause 23.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.
- 23.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Company prior to the appointment. Any successor Facility Agent must have an office in the U.K.

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- 23.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term “**Facility Agent**” will mean the successor Facility Agent.
- 23.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.
- 23.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 23.13.6 above, it will have no further obligations under any Finance Document.
- 23.14 **Replacement of the Facility Agent**
- 23.14.1 After consultation with the Company, the Majority Lenders may, by giving 30 days’ notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).
- 23.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- 23.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 23 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).
- 23.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- 23.15 **Relationship with Lenders**
- 23.15.1 Subject to Clause 29.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days’ prior notice from that Lender to the contrary.

23.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

23.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

23.16 **Facility Agent's management time**

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

23.17 **Notice period**

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

23.18 **Subordination Deed**

The Facility Agent will execute any Subordination Deed within two Business Days of receipt of a request (which shall include an execution version of such Subordination Deed) from the Company.

24. **EVIDENCE AND CALCULATIONS**

24.1 **Accounts**

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

24.2 **Certificates and determinations**

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

24.3 **Calculations**

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

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25. **FEES**
- 25.1 **Agency fee**
The Company must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Company.
- 25.2 **Arrangement and participation fees**
The Company must pay the upfront fees in the manner agreed between the Arrangers and the Company.
- 25.3 **Co-ordination fee**
The Company must pay a co-ordination fee in the manner agreed between the Joint Coordinators and the Company.
- 25.4 **Commitment fee**
- 25.4.1 The Company must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.
- 25.4.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.
- 25.4.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.
- 25.5 **Utilisation fee**
- 25.5.1 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate Base Currency Amount of all Loans exceeds 33.3 per cent. of the Total Commitments.
- 25.5.2 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans for each day on which the Base Currency Amount of all Loans exceeds 66.6 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 25.5.1 above is not payable in respect of any day for which the fee described in this sub-clause 25.5.2 is payable.
- 25.5.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.
- 25.5.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.6 **Interest, commission and fees on Ancillary Facilities**

The rate and time of payment of interest, commission, fees and any other remuneration in respect of each Ancillary Facility shall be determined by agreement between the relevant Ancillary Lender and the Company based upon normal market rates and terms.

26. **INDEMNITIES AND BREAK COSTS**

26.1 **Currency indemnity**

26.1.1 The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

- (a) that Finance Party receiving an amount in respect of the Company's liability under the Finance Documents; or
- (b) that liability being converted into a claim, proof, judgment or order,

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

26.1.2 Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

26.2 **Other indemnities**

The Company shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

26.2.1 the occurrence of any Event of Default;

26.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or

26.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Company otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

26.3 **Break Costs**

26.3.1 The Company must pay to each Lender its Break Costs within three Business Days of demand.

26.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:

- (a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

(b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

26.3.3 Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Clause.

27. **EXPENSES**

27.1 **Initial costs**

The Company must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

27.2 **Subsequent costs**

The Company must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

27.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Increase Confirmation) executed after the date of this Agreement; and

27.2.2 any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by this Agreement.

27.3 **Enforcement costs**

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

28. **AMENDMENTS AND WAIVERS**

28.1 **Procedure**

28.1.1 Except as provided in this Clause 28, any term of the Finance Documents (other than the Fee Letters) may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.

28.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 28.1.1 above. Any such amendment or waiver is binding on all the Parties.

28.2 **Exceptions**

28.2.1 An amendment or waiver which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) Clause 2.3 (*Nature of a Finance Party's rights and obligations*);
- (c) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (d) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (e) an increase in, or an extension of, a Commitment or the Total Commitments;
- (f) a term of a Finance Document which expressly requires the consent of each Lender;
- (g) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (h) Clause 10.1 (*Mandatory prepayment – illegality*) or Clause 10.2 (*Mandatory prepayment – change of control*); or
- (i) this Clause,

may only be made with the consent of all the Lenders.

28.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party or an Ancillary Lender may only be made with the consent of that Administrative Party or Ancillary Lender.

28.3 **Disenfranchisement of Defaulting Lenders**

28.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitments.

28.3.2 For the purposes of this Clause 28.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

28.4 **Replacement of a Defaulting Lender**

28.4.1 The Company may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender.

to a Lender or other bank, financial institution, trust, fund or other entity (a "**Replacement Lender**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

28.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Company shall have no right to replace the Facility Agent;
- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Company to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 28.4.1 above;
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents; and
- (e) the Defaulting Lender shall only be obliged to transfer its rights and obligations pursuant to sub-clause 28.4.1 above once it is satisfied that it has

complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to the transfer to the Replacement Lender.

28.5 **Excluded Commitments**

If a Lender does not accept or reject a request for an amendment, waiver or consent within 15 Business Days of receipt of such request (or such longer period as the Company and the Facility Agent may agree), or abstains from accepting or rejecting a request for an amendment, waiver or consent, its Commitments shall not be included for the purpose of calculating the Total Commitments or participations under the Facility when ascertaining whether any relevant percentage (including, for the avoidance of doubt, unanimity) of Total Commitments and/or participations has been obtained to approve that request.

28.6 **Change of currency**

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Company) determines is necessary to reflect the change.

28.7 **Waivers and remedies cumulative**

The rights of each Finance Party under the Finance Documents:

28.7.1 may be exercised as often as necessary;

28.7.2 are cumulative and not exclusive of its rights under the general law; and

28.7.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

29. **CHANGES TO THE PARTIES**

29.1 **Assignments and transfers by the Company**

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

29.2 **Assignments and transfers by Lenders**

29.2.1 A Lender (the **Existing Lender**) may, subject to the following provisions of this Clause 29, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the **New Lender**).

29.2.2 Unless the Company and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.

- 29.2.3 An Existing Lender must consult with the Company for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.
- 29.2.4 The Facility Agent is not obliged to accept an assignment or execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.
- 29.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:
- (a) the obligations are novated in accordance with the following provisions of this Clause 29; or
 - (b) the New Lender confirms to the Facility Agent and the Company in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are assigned or transferred to the New Lender.
- 29.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £2,000.
- 29.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

29.3 **Procedure for transfer by way of novations**

29.3.1 In this Clause:

Transfer Date means, for a Transfer Certificate, the later of:

- (a) the proposed Transfer Date specified in that Transfer Certificate; and
- (b) the date on which the Facility Agent executes that Transfer Certificate.

29.3.2 A novation is effected if:

- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
- (b) the Facility Agent executes it.

Subject to sub-clause 29.2.4 of Clause 29.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

29.3.3 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

29.3.4 29.3.4 Subject to Clause 29.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
- (b) the Existing Lender will be released from those obligations and cease to have those rights.

29.4 **Limitation of responsibility of Existing Lender**

29.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

29.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and
- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

29.4.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
- (b) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.

29.5 **Costs resulting from change of Lender or Facility Office**

If:

29.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and

29.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Company would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 14 (*Tax gross-up and indemnities*) or Clause 15 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 29.5 shall not apply in relation to Clause 14 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Company making the payment has not complied with its obligations under sub-clause 14.1.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

29.6 **Changes to the Reference Banks**

29.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

29.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the Facility Agent (after consultation with the Company) shall designate by notice to the Company and the Lenders.

29.7 **Copy of Transfer Certificate or Increase Confirmation to Company**

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Company a copy of that Transfer Certificate or Increase Confirmation.

29.8 **Security over Lenders' rights**

In addition to the other rights provided to Lenders under this Clause 29, each Lender may without consulting with or obtaining consent from the Company, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by the Company or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

29.9 **Pro rata interest settlement**

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a “*pro rata basis*” to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 29.3 (*Procedure for transfer by way of novations*)) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

- 29.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date (“**Accrued Amounts**”) and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and
- 29.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable for the account of the Existing Lender; and
 - (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 29.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

In this Clause 29.9, references to “**Term**” shall be construed to include a reference to any other period for accrual of fees.

30. **CONFIDENTIALITY AND DISCLOSURE OF INFORMATION**

30.1 **Confidential Information**

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 30.2 (*Disclosure of Confidential Information*) and Clause 30.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

30.2 **Disclosure of Confidential Information**

Any Finance Party may disclose:

30.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 30.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;

30.2.2 to any person:

- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent and, in each case, to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Company and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (c) appointed by any Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
- (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in sub-clause 30.2.2 (a) or (b) above;
- (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 29.8 (*Security over Lenders' rights*);
- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Company;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to sub-clause 30.2.2 (a), (b) and (c) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
- (ii) in relation to sub-clause 30.2.2 (d) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
- (iii) in relation to sub-clause 30.2.2 (e), (f) and (g) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;

30.2.3 to any person appointed by that Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 30.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Company and the relevant Finance Party;

30.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Company if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

30.3 **Disclosure to numbering service providers**

30.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Company the following information:

- (a) name of the Company;

-
- (b) country of domicile of the Company;
 - (c) place of incorporation of the Company;
 - (d) date of this Agreement;
 - (e) the names of the Facility Agent and the Arranger;
 - (f) date of each amendment and restatement of this Agreement;
 - (g) amount of Total Commitments;
 - (h) currencies of the Facility;
 - (i) type of Facility;
 - (j) ranking of Facility;
 - (k) Final Maturity Date for the Facility;
 - (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
 - (m) such other information agreed between such Finance Party and the Company,
- to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

30.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Company by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

30.3.3 The Company represents that none of the information set out in paragraphs (a) to (m) of sub-clause 30.3.1 above is, nor will at any time be, unpublished price-sensitive information.

30.3.4 The Facility Agent shall notify the Company and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Company; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Company by such numbering service provider.

31. CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS

31.1 Confidentiality and disclosure

31.1.1 The Facility Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by sub-clause 31.1.2, 31.1.3 and 31.1.4 below.

-
- 31.1.2 The Facility Agent may disclose:
- (a) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the Company pursuant to Clause 11.4 (*Notification of rates of interest*); and
 - (b) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a Confidentiality Undertaking.
- 31.1.3 The Facility Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:
- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors and partners if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
 - (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
 - (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
 - (d) any person with the consent of the relevant Lender or Reference Bank, as the case may be.
- 31.1.4 The Facility Agent's obligations in this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations are without

prejudice to its obligations to make notifications under Clause 11.4 (*Notification of rates of interest*) provided that (other than pursuant to paragraph (a) of sub-clause 31.1.2 above) the Facility Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

31.2 Other obligations

31.2.1 The Facility Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Facility Agent, any Reference Bank Quotation for any unlawful purpose.

31.2.2 The Facility Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:

- (a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 31.1.3 above except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
- (b) upon becoming aware that any information has been disclosed in breach of this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

32. **SET-OFF**

32.1.1 A Finance Party may set off any matured obligation owed to it by the Company under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Company, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

32.1.2 Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

33. **PRO RATA SHARING**

33.1 **Redistribution**

33.1.1 If any amount owing by the Company under this Agreement to a Lender (the “**recovering Lender**”) is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a “**recovery**”), then:

- (a) the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;

(b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and

(c) the recovering Lender must pay to the Facility Agent an amount equal to the excess (the “**redistribution**”).

Sub-clause 33.1.1 above shall not apply to any amount received or recovered by an Ancillary Lender in respect of any cash cover provided for the benefit of that Ancillary Lender.

33.2 **Effect of redistribution**

33.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Company under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

33.2.2 When the Facility Agent makes a distribution under sub-clause 33.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

33.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 33.2.2 above, the Company will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

33.2.4 If:

(a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Company; and

(b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 33.2.2 above will operate in reverse to the extent of the reimbursement.

33.3 **Exceptions**

Notwithstanding any other term of this Clause 32.1.1, a recovering Lender need not pay a redistribution to the extent that:

33.3.1 it would not, after the payment, have a valid claim against the Company in the amount of the redistribution; or

33.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

(a) the recovering Lender notified the Facility Agent of those proceedings; and

(b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

33.4 **Ancillary Lenders**

33.4.1 This Clause 32 shall not apply to any receipt or recovery by a Lender in its capacity as an Ancillary Lender at any time prior to service of notice under Clause 22.15 (*Acceleration*).

33.4.2 Following service of notice under Clause 22.15 (*Acceleration*), this Clause 32 shall apply to all receipts or recoveries by Ancillary Lenders except to the extent that the receipt or recovery represents a reduction from the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount.

34. **SEVERABILITY**

34.1 If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

34.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

34.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

35. **COUNTERPARTS**

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

36. **NOTICES**

36.1 **In writing**

36.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:

(a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or

(b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.

36.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.

36.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

36.2 **Contact details**

36.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

36.2.2 The contact details of the Company for this purpose are:

Address: Avonbank, Feeder Road, Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@westempower.co.uk
Attention: Julie Hunt

The contact details of the Facility Agent for this purpose are:

Address: 2 King Edward Street, London EC1A 1HQ
Fax number: +44 208313 2149
E-mail: emea.7115loansagency@bankofamerica.com
Attention: Loans Agency

36.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

36.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

36.3 **Effectiveness**

36.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

36.3.2 A communication given under sub-clause 36.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

36.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

36.4 **The Company**

All formal communication under the Finance Documents to or from the Company must be sent through the Facility Agent.

36.5 **Communication when Facility Agent is Impaired Agent**

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

37. **LANGUAGE**

37.1.1 Any notice given in connection with a Finance Document must be in English.

37.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

38. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

39. **ENFORCEMENT**

39.1 **Jurisdiction**

39.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

39.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Company waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

39.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)	£38,571,428.57	
Bank of America Merrill Lynch International Limited	£30,000,000.00	
Barclays Bank PLC	£38,571,428.57	
HSBC Bank plc	£38,571,428.58	
Lloyds Bank plc	£38,571,428.57	
Mizuho Bank, Ltd	£38,571,428.57	
The Royal Bank of Scotland plc	£38,571,428.57	
Royal Bank of Canada	£38,571,428.57	
Total	£ 300,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT DOCUMENTS

[SATISFIED]

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**SCHEDULE 3
REQUESTS**

To: Bank of America Merrill Lynch International Limited as Facility Agent
From: Western Power Distribution (West Midlands) plc
Date: [X]

**Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time)
(the "Agreement")**

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [X]
 - (b) Amount/currency: [X]
 - (c) Term: [X]
3. Our payment instructions are: [X]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. We confirm that as at [relevant testing date] Consolidated EBITDA was [X] and Interest Payable was [X]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [X] to 1.
6. We confirm that as at [relevant testing date] Regulatory Asset Base was [X] and Total Net Debt was [X]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
7. This Request is irrevocable.

By:

Western Power Distribution (West Midlands) plc

**SCHEDULE 4
FORM OF TRANSFER CERTIFICATE**

To: **Bank of America Merrill Lynch International Limited** as Facility Agent
From: [THE EXISTING LENDER] (the **Existing Lender**) and [THE NEW LENDER] (the **New Lender**)
Date: [✗]

**Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time)
(the "Agreement")**

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.

1. The Existing Lender and the New Lender agree to the Existing Lender transferring by novation to the New Lender, and in accordance with Clause 29.3 (*Procedure for transfer by way of novation*), all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment(s) and participations in Loans under the Agreement as specified in the Schedule below.
2. The proposed Transfer Date is [✗].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - (a) [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

-
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**
6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [X]), and is tax resident in [X] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

[NEW LENDER]

By:

By:

The Transfer Date is confirmed by the Facility Agent as [✕].

[✕]

By:

**SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE**

To: **Bank of America Merrill Lynch International Limited** as Facility Agent
From: **Western Power Distribution (West Midlands) plc**
Date: [✗]

**Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time)
(the "Agreement")**

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that as at [relevant testing date], Consolidated EBITDA was [✗] and Interest Payable was [✗], therefore the ratio of Consolidated EBITDA to Interest Payable was [✗] to 1.
3. We confirm that as at [relevant testing date], Regulatory Asset Base was [✗] and Total Net Debt was [✗]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:
[✗].
5. We confirm that the following companies were Material Subsidiaries at [relevant testing date]:
[✗].
6. [We confirm that no Default is outstanding as at [relevant testing date].]¹

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

By:

Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

**SCHEDULE 6
FORM OF INCREASE CONFIRMATION**

To: **Bank of America Merrill Lynch International Limited** as Facility Agent and **Western Power Distribution (West Midlands) plc** as Company
From: [the *Increase Lender*] (the “**Increase Lender**”)
Dated: [✕]

**Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time)
(the “Agreement”)**

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
2. We refer to Clause 2.2 (*Increase*) of the Agreement.
3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the “**Relevant Commitment**”) as if it was an Original Lender under the Agreement.
4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the “**Increase Date**”) is [✕].
5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule.
7. The Increase Lender expressly acknowledges the limitations on the Lenders’ obligations referred to in Clause 2.2 (*Increase*).
8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - 8.1.1 [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - 8.1.2 [a Treaty Lender;]
 - 8.1.3 [not a Qualifying Lender].*
9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - 9.1.1 a company resident in the United Kingdom for United Kingdom tax purposes; or

-
- 9.1.2 a partnership each member of which is:
- (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- 9.1.3 a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [X]), and is tax resident in [X] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
 - ** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
 - *** Insert jurisdiction of tax residence.
 - **** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 7
TIMETABLES**

	Loans in euro	Loans in sterling	Loans in other currencies
Facility Agent notifies the Company if a currency is approved as an Optional Currency in accordance with Clause 4.3 (<i>Conditions relating to Optional Currencies</i>)	—	—	U-4
Delivery of a duly completed Request (Clause 5.2 (<i>Completion of Requests</i>))	U-3	U-1	U-3
	9:30 a.m.	9:30 a.m.	9:30 a.m.
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 (<i>Advance of Loan</i>) and notifies the Lenders of the Loan in accordance with Clause 5.4 (<i>Advance of Loan</i>)	U-3	U-1	U-3
	Noon	Noon	Noon
Facility Agent receives a notification from a Lender under Clause 7.2.1 (<i>Revocation of a currency</i>)	Quotation Day	—	Quotation Day
Facility Agent gives notice in accordance with Clause 7.2 (<i>Revocation of a currency</i>)	Quotation Day		Quotation Day
	5:30 p.m.	—	5:30 p.m.
LIBOR or EURIBOR is fixed	Quotation Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Quotation Day as of 11:00 a.m.	Quotation Day as of 11:00 a.m.

“U” = date of utilisation

“U-X” = X Business Days prior to date of utilisation.

**SCHEDULE 8
FORM OF SUBORDINATION DEED**

THIS SUBORDINATION DEED is entered into as a deed on [] and is made **BETWEEN:**

1. WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC (registered number 03600574) (the **Company**);
2. [SUBORDINATED CREDITOR] (the **Subordinated Creditor**); and
3. [✕], as Facility Agent acting on behalf of the Lenders (the **Facility Agent**).

1. **INTERPRETATION**

1.1 **Definitions**

In this Deed:

Agreement means the £300,000,000 Multicurrency Revolving Facility Agreement dated 4 April 2011 as amended from time to time between, amongst others, the Company and Bank of America Merrill Lynch International Limited as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document,

provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in 0 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [X].

1.2 Construction

1.2.1 Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.

1.2.2 The principles of construction set out in the Agreement will have effect as if set out in this Deed.

1.2.3 Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

2.2.1 make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or

2.2.2 secure, in any manner, all or any part of the Subordinated Debt; or

2.2.3 defease, in any manner, all or any part of the Subordinated Debt; or

-
- 2.2.4 give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or
- 2.2.5 procure any other person to do any of the acts or take any of the actions referred to paragraphs 2.2.1 to 2.2.4 above.
- 2.3 **Undertakings of the Subordinated Creditor**
- 2.3.1 The Subordinated Creditor will not without the prior written consent of the Lenders:
- (a) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any part of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
 - (b) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
- 2.3.2 The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
- 2.3.3 The Subordinated Creditor will not without the prior written consent of the Lenders:
- (a) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
 - (b) initiate or support or take any steps with a view to, or which may lead to:
 - (i) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (ii) any voluntary arrangement or assignment for the benefit of creditors; or
 - (iii) any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
 - (c) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
 - (d) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).
- 2.3.4 If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.

-
- 2.3.5 The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 22.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- 2.4.1 the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- 2.4.2 any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the “**rights**”) made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- 2.4.3 if the trust referred to in paragraph 2.4.2 above or paragraph 2.3.4 of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- 2.4.4 the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph 2.4.2 above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent’s own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and
- 2.4.5 the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph 2.4.2 above or to do anything which that

Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. **SET-OFF**

- 3.1.1 The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.
- 3.1.2 If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph 2.4.2 of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. **NEW MONEY**

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. **PROTECTION OF SUBORDINATION**

- 5.1.1 The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.
- 5.1.2 Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. **MISCELLANEOUS**

- 6.1.1 This Deed overrides anything in any Subordinated Finance Document to the contrary.
- 6.1.2 Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.
- 6.1.3 This Deed is a Finance Document.

7. **ASSIGNMENT**

- 7.1.1 The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.
- 7.1.2 The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and

on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. **TRUSTS**

8.1.1 The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.

8.1.2 The perpetuity period for each trust created by this Deed shall be 80 years.

9. **TERMINATION**

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. **GOVERNING LAW**

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. **JURISDICTION**

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: [✕], as Facility Agent acting on behalf of the Lenders.

To: **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC**

From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the “**Acceding Subordinated Creditor**”) in relation to the subordination deed (the “**Subordination Deed**”) dated [✕] between, among others, Western Power Distribution (West Midlands) plc as Company, [✕] as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC**)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wstempower.co.uk
Attention: Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED)
by **[ACCEDING SUBORDINATED CREDITOR]**)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)
by [AGENT])
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Facility Agent contact details:

Address:

Annex 2

Form of Certificate

To: [✗] as Facility Agent
From: [Western Power Distribution (West Midlands) plc]
Date: [✗]

Western Power Distribution (West Midlands) plc - £300,000,000 Revolving Facility Agreement dated 4 April 2011 (as amended and restated from time to time) (the “Agreement”) and Subordination Deed dated [✗] (as amended and restated from time to time) (the “Deed”)

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make [insert type of payment] of [insert amount and currency] under [insert description of relevant Subordinated Finance Document] on [insert date of payment].
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

By:
Director

By:
Director

SIGNATORIES

Company

EXECUTED as a DEED)
by WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wstempower.co.uk
Attention: Julie Hunt

Subordinated Creditor

EXECUTED as a DEED)
by [SUBORDINATED CREDITOR])
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)
by [X])
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Facility Agent contact details:

Address: Bracken House
One Friday Street
London EC4M 9JA

SIGNATORIES

THE COMPANY

Signed by:)
for and on behalf of)
)
WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC)

Address: Avonbank
Feeder Road
Bristol BS2 0TB
Fax: +44 (0)1179 332 108

West Midlands - Amendment and Restatement Agreement

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:

)
)
)
)
)
)

**ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS
SANTANDER GLOBAL BANKING & MARKETS)**

Address: 2 Triton Square
Regents Place
London NW1 3AN
Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)
Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero
Fax: +44 (0)845 602 7837

West Midlands - Amendment and Restatement Agreement

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
for and on behalf of)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL
LIMITED

Address: King Edward Street
London EC1A 1HQ
Fax: +44 (0)20 7995 2886

West Midlands - Amendment and Restatement Agreement

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
for and on behalf of)
)
BARCLAYS BANK PLC)

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

West Midlands - Amendment and Restatement Agreement

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
CREDIT SUISSE AG, LONDON BRANCH)
)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

West Midlands - Amendment and Restatement Agreement

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
HSBC BANK PLC)
)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

West Midlands - Amendment and Restatement Agreement

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
LLOYDS BANK PLC)
)

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

West Midlands - Amendment and Restatement Agreement

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
MIZUHO BANK, LTD.)
)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4301

West Midlands - Amendment and Restatement Agreement

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
THE ROYAL BANK OF SCOTLAND PLC)
)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

West Midlands - Amendment and Restatement Agreement

THE LEAD ARRANGER

Signed by:)
)
ROYAL BANK OF CANADA)

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

West Midlands - Amendment and Restatement Agreement

THE LENDERS

Signed by:)
)
)
ABBEY NATIONAL TREASURY SERVICES)
PLC (TRADING AS SANTANDER GLOBAL)
BANKING & MARKETS))

Address: 2 Triton Square
Regents Place
London NW1 3AN
Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)
Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero
Fax: +44 (0)845 602 7837

West Midlands - Amendment and Restatement Agreement

THE LENDERS

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH)
INTERNATIONAL LIMITED)

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

West Midlands - Amendment and Restatement Agreement

THE LENDERS

Signed by:)
)
BARCLAYS BANK PLC)
)

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

West Midlands - Amendment and Restatement Agreement

THE LENDERS

Signed by:)
)
CREDIT SUISSE AG, LONDON BRANCH)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

West Midlands - Amendment and Restatement Agreement

THE LENDERS

Signed by:)
)
HSBC BANK PLC)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

West Midlands - Amendment and Restatement Agreement

THE LENDERS

Signed by:)
)
MIZUHO BANK, LTD.)
)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4301

West Midlands - Amendment and Restatement Agreement

THE LENDERS

Signed by:)
)
ROYAL BANK OF CANADA)

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

West Midlands - Amendment and Restatement Agreement

THE LENDERS

Signed by:)
)
THE ROYAL BANK OF SCOTLAND PLC)
)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

West Midlands - Amendment and Restatement Agreement

THE ISSUING BANK

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH)
INTERNATIONAL LIMITED)

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

West Midlands - Amendment and Restatement Agreement

THE FACILITY AGENT

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH)
INTERNATIONAL LIMITED)

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

West Midlands - Amendment and Restatement Agreement

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
)

MIZUHO BANK, LTD.

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4053

West Midlands - Amendment and Restatement Agreement

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
)

HSBC BANK PLC

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

West Midlands - Amendment and Restatement Agreement

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	6 Months Ended June 30, 2014	Years Ended December 31,				
		2013	2012	2011	2010	2009
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes (a)	\$ 806	\$ 1,309	\$ 2,082	\$ 2,201	\$ 1,239	\$ 538
Adjustment to reflect earnings from equity method investments on a cash basis (b)			34	1	7	1
	<u>806</u>	<u>1,309</u>	<u>2,116</u>	<u>2,202</u>	<u>1,246</u>	<u>539</u>
Total fixed charges as below	548	1,096	1,065	1,022	698	513
Less:						
Capitalized interest	16	47	53	51	30	43
Preferred security distributions of subsidiaries on a pre-tax basis			5	23	21	24
Interest expense and fixed charges related to discontinued operations				3	12	15
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>532</u>	<u>1,049</u>	<u>1,007</u>	<u>945</u>	<u>635</u>	<u>431</u>
Total earnings	<u>\$ 1,338</u>	<u>\$ 2,358</u>	<u>\$ 3,123</u>	<u>\$ 3,147</u>	<u>\$ 1,881</u>	<u>\$ 970</u>
Fixed charges, as defined:						
Interest charges (c)	\$ 541	\$ 1,058	\$ 1,019	\$ 955	\$ 637	\$ 446
Estimated interest component of operating rentals	7	38	41	44	39	42
Preferred security distributions of subsidiaries on a pre-tax basis			5	23	21	24
Fixed charges of majority-owned share of 50% or less-owned persons					1	1
Total fixed charges (d)	<u>\$ 548</u>	<u>\$ 1,096</u>	<u>\$ 1,065</u>	<u>\$ 1,022</u>	<u>\$ 698</u>	<u>\$ 513</u>
Ratio of earnings to fixed charges	<u>2.4</u>	<u>2.2</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (e)	<u>2.4</u>	<u>2.2</u>	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>

- (a) In September 2013, PPL Montana executed a definitive agreement to sell certain hydroelectric generating facilities. The sale is not expected to close before the fourth quarter of 2014. To facilitate the sale, in December 2013, PPL Montana terminated a lease agreement which resulted in a \$697 million charge. See Note 8 to the Financial Statements in PPL's 2013 Form 10-K for additional information.
- (b) Includes other-than-temporary impairment loss of \$25 million in 2012.
- (c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
- (d) Interest on unrecognized tax benefits is not included in fixed charges.
- (e) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	6 Months Ended June 30, 2014	Years Ended December 31,				
		2013	2012	2011	2010	2009
Earnings, as defined:						
Income (Loss) from Continuing Operations Before						
Income Taxes (a)	\$ (105)	\$ (371)	\$ 738	\$ 1,212	\$ 881	\$ (13)
Adjustments to reflect earnings from equity method				1	7	1
investments on a cash basis						
	<u>(105)</u>	<u>(371)</u>	<u>738</u>	<u>1,213</u>	<u>888</u>	<u>(12)</u>
Total fixed charges as below	82	226	238	259	426	364
Less:						
Capitalized interest	11	36	47	47	33	44
Interest expense and fixed charges related to						
discontinued operations				3	147	102
Total fixed charges included in Income (Loss) from						
Continuing Operations Before Income Taxes	<u>71</u>	<u>190</u>	<u>191</u>	<u>209</u>	<u>246</u>	<u>218</u>
Total earnings	<u>\$ (34)</u>	<u>\$ (181)</u>	<u>\$ 929</u>	<u>\$ 1,422</u>	<u>\$ 1,134</u>	<u>\$ 206</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 80	\$ 207	\$ 214	\$ 223	\$ 387	\$ 321
Estimated interest component of operating rentals	2	19	24	36	38	42
Fixed charges of majority-owned share of 50% or						
less-owned persons					1	1
Total fixed charges (c)	<u>\$ 82</u>	<u>\$ 226</u>	<u>\$ 238</u>	<u>\$ 259</u>	<u>\$ 426</u>	<u>\$ 364</u>
Ratio of earnings to fixed charges (d)	<u>(0.4)</u>	<u>(0.8)</u>	<u>3.9</u>	<u>5.5</u>	<u>2.7</u>	<u>0.6</u>

- (a) In September 2013, PPL Montana executed a definitive agreement to sell certain hydroelectric generating facilities. The sale is not expected to close before the fourth quarter of 2014. To facilitate the sale, in December 2013, PPL Montana terminated a lease agreement which resulted in a \$697 million charge. See Note 8 to the Financial Statements in PPL Energy Supply's 2013 Form 10-K for additional information.
- (b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
- (c) Interest on unrecognized tax benefits is not included in fixed charges.
- (d) For the six months ended June 30, 2014, there was less than one-to-one coverage. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was \$116 million.

2013 earnings were lower as a result of the PPL Montana lease termination referred to in (a) above, which resulted in less than one-to-one coverage. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was \$407 million.

As a result of PPL Energy Supply's 2011 distribution of its interest in PPL Global to PPL Energy Funding and related reclassification of PPL Global's operating results as Discontinued Operations, earnings for 2009 were lower, which resulted in less than one-to-one coverage. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was \$158 million.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	6 Months Ended June 30, 2014	Years Ended December 31,				
		2013	2012	2011	2010	2009
Earnings, as defined:						
Income Before Income Taxes	\$ 221	\$ 317	\$ 204	\$ 257	\$ 192	\$ 221
Total fixed charges as below	62	117	107	105	102	121
Total earnings	<u>\$ 283</u>	<u>\$ 434</u>	<u>\$ 311</u>	<u>\$ 362</u>	<u>\$ 294</u>	<u>\$ 342</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 60	\$ 113	\$ 104	\$ 102	\$ 101	\$ 120
Estimated interest component of operating rentals	2	4	3	3	1	1
Total fixed charges (b)	<u>\$ 62</u>	<u>\$ 117</u>	<u>\$ 107</u>	<u>\$ 105</u>	<u>\$ 102</u>	<u>\$ 121</u>
Ratio of earnings to fixed charges	<u>4.6</u>	<u>3.7</u>	<u>2.9</u>	<u>3.4</u>	<u>2.9</u>	<u>2.8</u>
Preferred stock dividend requirements on a pre-tax basis						
			\$ 6	\$ 21	\$ 23	\$ 28
Fixed charges, as above	<u>\$ 62</u>	<u>\$ 117</u>	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>
Total fixed charges and preferred stock dividends	<u>\$ 62</u>	<u>\$ 117</u>	<u>\$ 113</u>	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 149</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>4.6</u>	<u>3.7</u>	<u>2.8</u>	<u>2.9</u>	<u>2.4</u>	<u>2.3</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)					Predecessor (b)	
	6 Months Ended June 30, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:							
Income from Continuing Operations							
Before Income Taxes	\$ 290	\$ 551	\$ 331	\$ 419	\$ 70	\$ 300	\$ (1,235)
Adjustment to reflect earnings from equity method investments on a cash basis (c)			33	(1)		(4)	11
Loss on impairment of goodwill							1,493
Mark to market impact of derivative instruments					2	(20)	(19)
	<u>290</u>	<u>551</u>	<u>364</u>	<u>418</u>	<u>72</u>	<u>276</u>	<u>250</u>
Total fixed charges as below	<u>86</u>	<u>151</u>	<u>157</u>	<u>153</u>	<u>25</u>	<u>158</u>	<u>186</u>
Total earnings	<u>\$ 376</u>	<u>\$ 702</u>	<u>\$ 521</u>	<u>\$ 571</u>	<u>\$ 97</u>	<u>\$ 434</u>	<u>\$ 436</u>
Fixed charges, as defined:							
Interest charges (d) (e)	\$ 83	\$ 145	\$ 151	\$ 147	\$ 24	\$ 153	\$ 176
Estimated interest component of operating rentals	3	6	6	6	1	5	5
Estimated discontinued operations interest component of rental expense							5
Total fixed charges	<u>\$ 86</u>	<u>\$ 151</u>	<u>\$ 157</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 158</u>	<u>\$ 186</u>
Ratio of earnings to fixed charges	<u>4.4</u>	<u>4.6</u>	<u>3.3</u>	<u>3.7</u>	<u>3.9</u>	<u>2.7</u>	<u>2.3</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes other-than-temporary impairment loss of \$25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(e) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)					Predecessor (b)	
	6 Months Ended June 30, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:							
Income Before Income Taxes	\$ 138	\$ 257	\$ 192	\$ 195	\$ 29	\$ 167	\$ 142
Mark to market impact of derivative instruments					1	(20)	(20)
	<u>138</u>	<u>257</u>	<u>192</u>	<u>195</u>	<u>30</u>	<u>147</u>	<u>122</u>
Total fixed charges as below	<u>25</u>	<u>36</u>	<u>44</u>	<u>46</u>	<u>8</u>	<u>40</u>	<u>46</u>
Total earnings	<u>\$ 163</u>	<u>\$ 293</u>	<u>\$ 236</u>	<u>\$ 241</u>	<u>\$ 38</u>	<u>\$ 187</u>	<u>\$ 168</u>
Fixed charges, as defined:							
Interest charges (c) (d)	\$ 24	\$ 34	\$ 42	\$ 44	\$ 8	\$ 38	\$ 44
Estimated interest component of operating rentals	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>		<u>2</u>	<u>2</u>
Total fixed charges	<u>\$ 25</u>	<u>\$ 36</u>	<u>\$ 44</u>	<u>\$ 46</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 46</u>
Ratio of earnings fixed charges	<u>6.5</u>	<u>8.1</u>	<u>5.4</u>	<u>5.2</u>	<u>4.8</u>	<u>4.7</u>	<u>3.7</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(d) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)					Predecessor (b)	
	6 Months Ended June 30, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:							
Income Before Income Taxes	\$ 189	\$ 360	\$ 215	\$ 282	\$ 55	\$ 218	\$ 200
Adjustment to reflect earnings from equity method investments on a cash basis (c)			33	(1)		(4)	11
Mark to market impact of derivative instruments							1
	<u>189</u>	<u>360</u>	<u>248</u>	<u>281</u>	<u>55</u>	<u>214</u>	<u>212</u>
Total fixed charges as below	<u>41</u>	<u>73</u>	<u>72</u>	<u>73</u>	<u>11</u>	<u>71</u>	<u>79</u>
Total earnings	<u>\$ 230</u>	<u>\$ 433</u>	<u>\$ 320</u>	<u>\$ 354</u>	<u>\$ 66</u>	<u>\$ 285</u>	<u>\$ 291</u>
Fixed charges, as defined:							
Interest charges (d)	\$ 39	\$ 70	\$ 69	\$ 70	\$ 10	\$ 69	\$ 76
Estimated interest component of operating rentals	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>
Total fixed charges	<u>\$ 41</u>	<u>\$ 73</u>	<u>\$ 72</u>	<u>\$ 73</u>	<u>\$ 11</u>	<u>\$ 71</u>	<u>\$ 79</u>
Ratio of earnings to fixed charges	<u>5.6</u>	<u>5.9</u>	<u>4.4</u>	<u>4.8</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes other-than-temporary impairment loss of \$25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ William H. Spence

William H. Spence
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Paul A. Farr
 Paul A. Farr
 President
 (Principal Executive Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, STEPHEN K. BREININGER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Stephen K. Breininger
 Stephen K. Breininger
 Controller
 (Principal Financial Officer and Principal Accounting Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Gregory N. Dudkin
 Gregory N. Dudkin
 President
 (Principal Executive Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, DENNIS A. URBAN, JR., certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Dennis A. Urban, Jr.
 Dennis A. Urban, Jr.
 Controller
 (Principal Financial Officer and Principal Accounting
 Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 31, 2014

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul A. Farr, the Principal Executive Officer of the Company, and Stephen K. Breininger, the Principal Financial Officer and Principal Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 31, 2014

/s/ Paul A. Farr

Paul A. Farr
President
(Principal Executive Officer)
PPL Energy Supply, LLC

/s/ Stephen K. Breininger

Stephen K. Breininger
Controller
(Principal Financial Officer and Principal Accounting Officer)
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Dennis A. Urban, Jr., the Principal Financial Officer and Principal Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 31, 2014

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal Accounting Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 31, 2014

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 31, 2014

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 31, 2014

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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FORM 8-K

PPL CORP - PPL

Filed: August 13, 2014 (period: August 12, 2014)

Report of unscheduled material events or corporate changes.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 12, 2014

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 8 - Other Events

Item 8.01 Other Events

On August 12, 2014, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU" and, together with LG&E, the "Companies") issued a press release announcing that they will withdraw their proposal to build a new natural gas combined-cycle generating unit in western Kentucky, but will continue with plans to build a solar generation facility in central Kentucky. The decision is based upon revised estimates of future capacity timing requirements for the Companies following the election by certain of KU's municipal customers to terminate their wholesale power contracts in 2019.

The withdrawn project had been anticipated to be constructed at KU's Green River generating station by 2018 for an estimated cost of approximately \$700 million. The Companies will continue with their plans for construction of an estimated 10MW solar generation facility, anticipated to cost approximately \$36 million, at KU's E.W. Brown generating station. Subject to regulatory applications, permitting and construction schedules, such facility is planned to be operational in 2016.

A copy of the Companies' press release is filed herewith as Exhibit 99.1 and incorporated herein by reference.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

- 99.1 - Press Release dated August 12, 2014 of Louisville Gas and Electric Company and Kentucky Utilities Company announcing the withdrawal of their proposal to build a new natural gas combined-cycle generating unit.

Statements in this report and the accompanying press release, including statements with respect to future events and their timing, as well as statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although PPL Corporation, LG&E and KU Energy LLC and the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: regulatory and construction approvals and permitting; customer and market demand and prices for electricity; political, regulatory or economic conditions in states and regions where PPL Corporation, LG&E and KU Energy LLC and the Companies conduct business; and the progress of actual construction, including the cost of the relevant equipment, assets or facilities. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's, LG&E and KU Energy LLC's and the Companies' Form 10-K and other reports on file with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Stephen K. Breininger
Stephen K. Breininger
Controller

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: August 13, 2014

Media Line
T 502-627-4999
F 502-627-3629

August 12, 2014

**LG&E and KU withdraw request
for Green River natural gas combined-cycle generating plant;
Still pursuing solar generating facility request**

(LOUISVILLE, Ky.)— Louisville Gas and Electric Company and Kentucky Utilities Company informed the Kentucky Public Service Commission today that they will withdraw their application for a second natural gas combined-cycle generating facility, but plan to continue to pursue a solar generating facility.

The announcement comes as a result of nine municipal utility customers' decision to terminate in 2019 their wholesale power contracts with Kentucky Utilities. Those contracts total approximately 320 megawatts of peak demand.

LG&E and KU filed the request with the KPSC in January to build an approximately 700-megawatt NGCC generating facility in Muhlenberg County and a 10-megawatt solar photovoltaic facility in Mercer County. The need for the NGCC, which was expected to be completed by 2018 and cost approximately \$700 million, was based in part on energy forecasts through 2035 that included serving the municipal customers.

Following the municipal utilities' termination notices, LG&E and KU put the new generation requests on hold for 90 days to weigh the impacts of the termination notices on future generation plans. As a result, LG&E and KU have decided to withdraw their application for the NGCC. Plans remain in place for the \$36 million solar facility at KU's existing Brown facility. If approved, the solar unit would go online in 2016.

"We've analyzed the situation carefully and believe that it is in the best interest of all of our customers to withdraw our current application for the natural gas combined-cycle unit in Western Kentucky," said Paul W. Thompson, chief operating officer. "Removing more than 300 megawatts of demand changes our load forecasts and thus delays the need for new generation."

###

Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve a total of 1.2 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 321,000 natural gas and 397,000 electric customers in Louisville and 16 surrounding counties. KU serves 543,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com.

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FORM 10-Q

PPL CORP - PPL

Filed: November 07, 2014 (period: September 30, 2014)

Quarterly report with a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- [X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2014
- OR
- [] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	PPL Energy Supply, LLC (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, \$0.01 par value, 665,072,010 shares outstanding at October 31, 2014.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 31, 2014.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 31, 2014.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 31, 2014.

This document is available free of charge at the Investor Center on PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

**PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Brunner Island - PPL Brunner Island, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Energy Supply, PPL Global and other subsidiaries.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Montour - PPL Montour, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides services to PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, a subsidiary of PPL Generation that owns a nuclear-powered generating station.

PPL WEM - PPL WEM Holdings Limited, an indirect U.K. subsidiary of PPL Global.

PPL WW - PPL WW Holdings Limited, an indirect U.K. subsidiary of PPL Global.

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Subsidiary Registrant(s) - Registrants that are direct or indirect wholly owned subsidiaries of PPL: PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company.

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Purchase Contract(s) - a contract that is a component of a 2010 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to May 1, 2014.

2013 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2013.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and changes to the AEPS.

AEPS - Alternative Energy Portfolio Standard.

AFUDC - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Baseload generation - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

CAIR - the EPA's Clean Air Interstate Rule.

Cane Run Unit 7 - a natural gas combined-cycle unit under construction in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 640 MW (141 MW and 499 MW to LG&E and KU) in 2015.

CCR - Coal Combustion Residuals. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

COBRA - Consolidated Omnibus Budget Reconciliation Act, which provides individuals the option to temporarily continue employer group health insurance coverage after termination of employment.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for the furnishing of utility service to the public.

CSAPR - Cross-State Air Pollution Rule.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

DNO - Distribution Network Operator.

DOJ - U.S. Department of Justice.

DPCR4 - Distribution Price Control Review 4, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2005.

DPCR5 - Distribution Price Control Review 5, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2010.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - the Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of costs and revenues lost by implementing DSM programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and by-products from the production of energy from coal.

EEI - Electric Energy, Inc., owns and operates a coal-fired plant and a natural gas facility in southern Illinois. KU's 20% ownership interest in EEI is accounted for as an equity method investment.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ERCOT - the Electric Reliability Council of Texas, operator of the electricity transmission network and electricity energy market in most of Texas.

ESOP - Employee Stock Ownership Plan.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

Fitch - Fitch, Inc., a credit rating agency.

FTRs - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations, known as source and sink.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved LG&E's recovery of costs associated with gas service lines, gas risers, leak mitigation, and gas main replacements. Rate recovery became effective on January 1, 2013.

IBEW - International Brotherhood of Electrical Workers.

If-Converted Method - A method applied to calculate diluted EPS for a company with outstanding convertible debt. The method is applied as follows: Interest charges (after tax) applicable to the convertible debt are added back to net income and the convertible debt is assumed to have been converted to equity at the beginning of the period, and the resulting common shares are treated as outstanding shares. Both adjustments are made only for purposes of calculating diluted EPS. This method was applied in 2013 and 2014 to PPL's Equity Units prior to settlement.

Intermediate and peaking generation - includes the output provided by PPL's oil- and natural gas-fired units.

IRS - Internal Revenue Service, a U.S. government agency.

ISO - Independent System Operator.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LIBOR - London Interbank Offered Rate.

LTIP - Long Term Infrastructure Improvement Plan.

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MPSC - Montana Public Service Commission.

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle generating plant.

NorthWestern - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

NRC - Nuclear Regulatory Commission, the U.S. federal agency that regulates nuclear power facilities.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

Opacity - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity of power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined summer rating capacities of 2,120 MW.

PADEP - the Pennsylvania Department of Environmental Protection, a state government agency.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts, which are components of the 2010 and 2011 Equity Units.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index in order to allow for the effects of inflation. Since the beginning of DPCR5 in April 2010, RAV additions have been based on a percentage of annual total expenditures.

RCRA - Resource Conservation and Recovery Act of 1976.

RECs - renewable energy credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies changes and additions to the grid necessary to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects assigned to them by the PJM Board.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RIIO-ED1 - RIIO represents "Revenues = Incentive + Innovation + Outputs - Electricity Distribution." RIIO-ED1 refers to the initial eight-year rate review period applicable to WPD commencing April 1, 2015.

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and ultimate parent company of the entities that own the competitive power generation business to be contributed to Talen Energy other than the competitive power generation business to be contributed by virtue of the spinoff of a newly formed parent of PPL Energy Supply.

RJS Power - RJS Power Holdings LLC, a Delaware limited liability company controlled by Riverstone, that owns the competitive power generation business to be contributed, directly or indirectly, by its owners to Talen Energy other than the competitive power generation business to be contributed by virtue of the spinoff of a newly formed parent of PPL Energy Supply.

RMC - Risk Management Committee.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

SNCR - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

Spark Spread - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

Talen Energy - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2 or 549 MW of the capacity.

Tolling agreement - agreement whereby the owner of an electricity generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

TRA - Tennessee Regulatory Authority, the state agency that has jurisdiction over the regulation of rates and service of utilities in Tennessee.

Treasury Stock Method - A method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

USWA – United Steelworkers of America.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

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FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2013 Form 10-K and Form 10-Q for the period ended June 30, 2014 and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical, nuclear decommissioning liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery or revenue filings by PPL Electric, LG&E, KU or WPD;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions, including the PPL Energy Supply spinoff transaction with Riverstone and the anticipated formation of Talen Energy and our ability to realize expected benefits from such business transactions.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenues				
Utility	\$ 1,860	\$ 1,739	\$ 5,852	\$ 5,344
Unregulated wholesale energy	1,109	913	203	2,380
Unregulated retail energy	282	263	909	755
Energy-related businesses	198	159	512	423
Total Operating Revenues	<u>3,449</u>	<u>3,074</u>	<u>7,476</u>	<u>8,902</u>
Operating Expenses				
Operation				
Fuel	452	494	1,701	1,464
Energy purchases	859	555	(284)	1,663
Other operation and maintenance	684	658	2,082	2,009
Depreciation	307	284	913	845
Taxes, other than income	92	86	283	261
Energy-related businesses	186	151	492	403
Total Operating Expenses	<u>2,580</u>	<u>2,228</u>	<u>5,187</u>	<u>6,645</u>
Operating Income	869	846	2,289	2,257
Other Income (Expense) - net	144	(117)	38	18
Interest Expense	258	244	775	747
Income from Continuing Operations Before Income Taxes	755	485	1,552	1,528
Income Taxes	265	81	520	329
Income from Continuing Operations After Income Taxes	490	404	1,032	1,199
Income (Loss) from Discontinued Operations (net of income taxes)	7	7	10	30
Net Income	497	411	1,042	1,229
Net Income Attributable to Noncontrolling Interests		1		1
Net Income Attributable to PPL Shareowners	\$ 497	\$ 410	\$ 1,042	\$ 1,228
Amounts Attributable to PPL Shareowners:				
Income from Continuing Operations After Income Taxes	\$ 490	\$ 403	\$ 1,032	\$ 1,198
Income (Loss) from Discontinued Operations (net of income taxes)	7	7	10	30
Net Income	<u>\$ 497</u>	<u>\$ 410</u>	<u>\$ 1,042</u>	<u>\$ 1,228</u>
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners:				
Basic	\$ 0.73	\$ 0.64	\$ 1.58	\$ 1.98
Diluted	\$ 0.73	\$ 0.61	\$ 1.56	\$ 1.86
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.74	\$ 0.65	\$ 1.60	\$ 2.03
Diluted	\$ 0.74	\$ 0.62	\$ 1.57	\$ 1.90
Dividends Declared Per Share of Common Stock	\$ 0.3725	\$ 0.3675	\$ 1.1175	\$ 1.1025
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	664,432	631,046	649,561	601,275
Diluted	666,402	664,343	665,501	662,094

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$ 497	\$ 411	\$ 1,042	\$ 1,229
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of (\$9), \$8, (\$3), \$1	(48)	87	80	(165)
Available-for-sale securities, net of tax of \$1, (\$15), (\$20), (\$42)	(1)	15	18	40
Qualifying derivatives, net of tax of \$2, \$2, \$31, (\$41)	(5)	(9)	(52)	77
Defined benefit plans:				
Net actuarial gain (loss), net of tax of (\$1), \$0, \$1, \$0	(1)		(3)	
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$4, \$1, \$6, \$2	(3)		(5)	(2)
Qualifying derivatives, net of tax of \$3, \$11, \$4, \$68	(12)	(6)	2	(122)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0		(1)		(1)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$3), (\$3)	1	2	3	5
Net actuarial loss, net of tax of (\$9), (\$12), (\$26), (\$37)	29	33	84	101
Total other comprehensive income (loss) attributable to PPL Shareowners	(40)	121	127	(67)
Comprehensive income (loss)	457	532	1,169	1,162
Comprehensive income attributable to noncontrolling interests		1		1
Comprehensive income (loss) attributable to PPL Shareowners	\$ 457	\$ 531	\$ 1,169	\$ 1,161

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 1,042	\$ 1,229
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	930	859
Amortization	168	164
Defined benefit plans - expense	71	135
Deferred income taxes and investment tax credits	266	301
Unrealized (gains) losses on derivatives, and other hedging activities	117	126
Adjustment to WPD line loss accrual	65	45
Stock compensation expense	52	45
Other	38	2
Change in current assets and current liabilities		
Accounts receivable	(29)	(79)
Accounts payable	(126)	(140)
Unbilled revenues	163	197
Fuel, materials and supplies	(60)	(14)
Counterparty collateral	(18)	(77)
Taxes payable	208	76
Uncertain tax positions	1	(104)
Other	(5)	(89)
Other operating activities		
Defined benefit plans - funding	(322)	(505)
Other assets	8	(59)
Other liabilities	59	111
Net cash provided by operating activities	<u>2,628</u>	<u>2,223</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(2,878)	(2,768)
Expenditures for intangible assets	(74)	(61)
Purchases of nuclear plant decommissioning trust investments	(124)	(102)
Proceeds from the sale of nuclear plant decommissioning trust investments	112	92
Proceeds from the receipt of grants	164	5
Net (increase) decrease in restricted cash and cash equivalents	(187)	13
Other investing activities	13	33
Net cash provided by (used in) investing activities	<u>(2,974)</u>	<u>(2,788)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	296	862
Retirement of long-term debt	(545)	(309)
Repurchase of common stock		(74)
Issuance of common stock	1,037	1,409
Payment of common stock dividends	(718)	(645)
Debt issuance and credit facility costs	(21)	(37)
Contract adjustment payments	(21)	(72)
Net increase (decrease) in short-term debt	398	(148)
Other financing activities	(7)	(20)
Net cash provided by (used in) financing activities	<u>419</u>	<u>966</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>13</u>	<u>(11)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>86</u>	<u>390</u>
Cash and Cash Equivalents at Beginning of Period	1,102	901
Cash and Cash Equivalents at End of Period	<u>\$ 1,188</u>	<u>\$ 1,291</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,188	\$ 1,102
Restricted cash and cash equivalents	274	83
Accounts receivable (less reserve: 2014, \$48; 2013, \$64)		
Customer	911	923
Other	139	97
Unbilled revenues	676	835
Fuel, materials and supplies	763	702
Prepayments	117	153
Deferred income taxes	242	246
Price risk management assets	732	942
Assets of discontinued operations	647	
Regulatory assets	28	33
Other current assets	43	37
Total Current Assets	5,760	5,153
Investments		
Nuclear plant decommissioning trust funds	911	864
Other investments	36	43
Total Investments	947	907
Property, Plant and Equipment		
Regulated utility plant	30,169	27,755
Less: accumulated depreciation - regulated utility plant	5,315	4,873
Regulated utility plant, net	24,854	22,882
Non-regulated property, plant and equipment		
Generation	11,179	11,881
Nuclear fuel	624	591
Other	869	834
Less: accumulated depreciation - non-regulated property, plant and equipment	6,323	6,172
Non-regulated property, plant and equipment, net	6,349	7,134
Construction work in progress	3,194	3,071
Property, Plant and Equipment, net	34,397	33,087
Other Noncurrent Assets		
Regulatory assets	1,253	1,246
Goodwill	4,187	4,225
Other intangibles	936	947
Price risk management assets	366	337
Other noncurrent assets	343	357
Total Other Noncurrent Assets	7,085	7,112
Total Assets	\$ 48,189	\$ 46,259

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,099	\$ 701
Long-term debt due within one year	235	315
Accounts payable	1,208	1,308
Taxes	281	114
Interest	354	325
Dividends	248	232
Price risk management liabilities	897	829
Regulatory liabilities	92	90
Other current liabilities	998	998
Total Current Liabilities	<u>5,412</u>	<u>4,912</u>
Long-term Debt	<u>20,522</u>	<u>20,592</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,423	3,928
Investment tax credits	161	342
Price risk management liabilities	377	415
Accrued pension obligations	952	1,286
Asset retirement obligations	739	687
Regulatory liabilities	1,028	1,048
Other deferred credits and noncurrent liabilities	601	583
Total Deferred Credits and Other Noncurrent Liabilities	<u>8,281</u>	<u>8,289</u>
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
Common stock - \$0.01 par value (a)	7	6
Additional paid-in capital	9,388	8,316
Earnings reinvested	6,017	5,709
Accumulated other comprehensive loss	(1,438)	(1,565)
Total Equity	<u>13,974</u>	<u>12,466</u>
Total Liabilities and Equity	<u>\$ 48,189</u>	<u>\$ 46,259</u>

(a) 780,000 shares authorized; 664,653 and 630,321 shares issued and outstanding at September 30, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	PPL Shareowners						Total
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non-controlling interests	
June 30, 2014	664,018	\$ 7	\$ 9,358	\$ 5,768	\$ (1,398)		\$ 13,735
Common stock issued	635		21				21
Stock-based compensation			9				9
Net income				497			497
Dividends and dividend equivalents				(248)			(248)
Other comprehensive income (loss)					(40)		(40)
September 30, 2014	<u>664,653</u>	<u>\$ 7</u>	<u>\$ 9,388</u>	<u>\$ 6,017</u>	<u>\$ (1,438)</u>		<u>\$ 13,974</u>
December 31, 2013	630,321	\$ 6	\$ 8,316	\$ 5,709	\$ (1,565)		\$ 12,466
Common stock issued	34,332	1	1,048				1,049
Stock-based compensation			24				24
Net income				1,042			1,042
Dividends and dividend equivalents				(734)			(734)
Other comprehensive income (loss)					127		127
September 30, 2014	<u>664,653</u>	<u>\$ 7</u>	<u>\$ 9,388</u>	<u>\$ 6,017</u>	<u>\$ (1,438)</u>		<u>\$ 13,974</u>
June 30, 2013	591,622	\$ 6	\$ 7,195	\$ 5,863	\$ (2,128)	\$ 18	\$ 10,954
Common stock issued	40,117		1,151				1,151
Common stock repurchased	(1,500)		(46)				(46)
Stock-based compensation			5				5
Net income				410		1	411
Dividends and dividend equivalents				(233)		(1)	(234)
Other comprehensive income (loss)					121		121
September 30, 2013	<u>630,239</u>	<u>\$ 6</u>	<u>\$ 8,305</u>	<u>\$ 6,040</u>	<u>\$ (2,007)</u>	<u>\$ 18</u>	<u>\$ 12,362</u>
December 31, 2012	581,944	\$ 6	\$ 6,936	\$ 5,478	\$ (1,940)	\$ 18	\$ 10,498
Common stock issued	50,725		1,433				1,433
Common stock repurchased	(2,430)		(74)				(74)
Cash settlement of equity forward agreements			(13)				(13)
Stock-based compensation			23				23
Net income				1,228		1	1,229
Dividends and dividend equivalents				(666)		(1)	(667)
Other comprehensive income (loss)					(67)		(67)
September 30, 2013	<u>630,239</u>	<u>\$ 6</u>	<u>\$ 8,305</u>	<u>\$ 6,040</u>	<u>\$ (2,007)</u>	<u>\$ 18</u>	<u>\$ 12,362</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenues				
Unregulated wholesale energy	\$ 1,109	\$ 913	\$ 203	\$ 2,380
Unregulated wholesale energy to affiliate	20	11	68	37
Unregulated retail energy	283	265	913	758
Energy-related businesses	189	143	469	378
Total Operating Revenues	1,601	1,332	1,653	3,553
Operating Expenses				
Operation				
Fuel	212	258	953	780
Energy purchases	708	389	(893)	1,088
Other operation and maintenance	232	232	746	714
Depreciation	74	75	225	223
Taxes, other than income	14	14	45	40
Energy-related businesses	172	138	451	366
Total Operating Expenses	1,412	1,106	1,527	3,211
Operating Income	189	226	126	342
Other Income (Expense) - net	10	1	23	17
Interest Expense	31	37	95	123
Income from Continuing Operations Before Income Taxes	168	190	54	236
Income Taxes	74	71	16	91
Income from Continuing Operations After Income Taxes	94	119	38	145
Income (Loss) from Discontinued Operations (net of income taxes)	7	6	10	28
Net Income	101	125	48	173
Net Income Attributable to Noncontrolling Interests		1		1
Net Income Attributable to PPL Energy Supply Member	\$ 101	\$ 124	\$ 48	\$ 172
Amounts Attributable to PPL Energy Supply Member:				
Income from Continuing Operations After Income Taxes	\$ 94	\$ 118	\$ 38	\$ 144
Income (Loss) from Discontinued Operations (net of income taxes)	7	6	10	28
Net Income	\$ 101	\$ 124	\$ 48	\$ 172

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 101	\$ 125	\$ 48	\$ 173
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Available-for-sale securities, net of tax of \$1, (\$15), (\$20), (\$42)	(1)	15	18	40
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$4, \$1, \$6, \$2	(3)		(5)	(2)
Qualifying derivatives, net of tax of \$2, \$19, \$11, \$63	(5)	(29)	(18)	(96)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$2), (\$2)	1	1	2	3
Net actuarial loss, net of tax of \$0, (\$2), (\$2), (\$7)	1	3	4	11
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	(7)	(10)	1	(44)
Comprehensive income (loss)	94	115	49	129
Comprehensive income attributable to noncontrolling interests		1		1
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ 94	\$ 114	\$ 49	\$ 128

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 48	\$ 173
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	242	237
Amortization	117	111
Defined benefit plans - expense	34	39
Deferred income taxes and investment tax credits	(150)	112
Impairment of assets	20	
Unrealized (gains) losses on derivatives, and other hedging activities	216	98
Other	19	9
Change in current assets and current liabilities		
Accounts receivable	(1)	71
Accounts payable	(45)	(108)
Unbilled revenues	41	135
Fuel, materials and supplies	(67)	(18)
Taxes payable	70	(43)
Counterparty collateral	(18)	(77)
Price risk management assets and liabilities	(34)	1
Other	(9)	10
Other operating activities		
Defined benefit plans - funding	(32)	(107)
Other assets	(2)	(32)
Other liabilities	16	(28)
Net cash provided by operating activities	<u>465</u>	<u>583</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(276)	(341)
Expenditures for intangible assets	(38)	(33)
Purchases of nuclear plant decommissioning trust investments	(124)	(102)
Proceeds from the sale of nuclear plant decommissioning trust investments	112	92
Proceeds from the receipt of grants	164	4
Net (increase) decrease in restricted cash and cash equivalents	(199)	9
Other investing activities	17	20
Net cash provided by (used in) investing activities	<u>(344)</u>	<u>(351)</u>
Cash Flows from Financing Activities		
Retirement of long-term debt	(308)	(309)
Contributions from member	730	980
Distributions to member	(1,178)	(408)
Net increase (decrease) in short-term debt	590	(356)
Other financing activities		(1)
Net cash provided by (used in) financing activities	<u>(166)</u>	<u>(94)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(45)</u>	<u>138</u>
Cash and Cash Equivalents at Beginning of Period	<u>239</u>	<u>413</u>
Cash and Cash Equivalents at End of Period	<u>\$ 194</u>	<u>\$ 551</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 194	\$ 239
Restricted cash and cash equivalents	267	68
Accounts receivable (less reserve: 2014, \$2; 2013, \$21)		
Customer	203	233
Other	96	97
Accounts receivable from affiliates	44	45
Unbilled revenues	245	286
Fuel, materials and supplies	425	358
Prepayments	10	20
Deferred income taxes	35	
Price risk management assets	713	860
Assets of discontinued operations	578	
Other current assets	30	27
Total Current Assets	2,840	2,233
Investments		
Nuclear plant decommissioning trust funds	911	864
Other investments	32	37
Total Investments	943	901
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,188	11,891
Nuclear fuel	624	591
Other	296	288
Less: accumulated depreciation - non-regulated property, plant and equipment	6,157	6,046
Non-regulated property, plant and equipment, net	5,951	6,724
Construction work in progress	408	450
Property, Plant and Equipment, net	6,359	7,174
Other Noncurrent Assets		
Goodwill	72	86
Other intangibles	254	266
Price risk management assets	328	328
Other noncurrent assets	77	86
Total Other Noncurrent Assets	731	766
Total Assets	\$ 10,873	\$ 11,074

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 590	
Long-term debt due within one year	235	\$ 304
Accounts payable	272	393
Accounts payable to affiliates	42	4
Taxes	101	31
Interest	42	22
Price risk management liabilities	850	750
Other current liabilities	243	278
Total Current Liabilities	<u>2,375</u>	<u>1,782</u>
Long-term Debt	<u>1,983</u>	<u>2,221</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,185	1,114
Investment tax credits	27	205
Price risk management liabilities	287	320
Accrued pension obligations	103	111
Asset retirement obligations	413	393
Other deferred credits and noncurrent liabilities	135	130
Total Deferred Credits and Other Noncurrent Liabilities	<u>2,150</u>	<u>2,273</u>
Commitments and Contingent Liabilities (Note 10)		
Member's Equity	<u>4,365</u>	<u>4,798</u>
Total Liabilities and Equity	<u>\$ 10,873</u>	<u>\$ 11,074</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	<u>Member's equity</u>	<u>Non- controlling interests</u>	<u>Total</u>
June 30, 2014	\$ 4,569		\$ 4,569
Net income	101		101
Other comprehensive income (loss)	(7)		(7)
Distributions	(298)		(298)
September 30, 2014	<u>\$ 4,365</u>		<u>\$ 4,365</u>
December 31, 2013	\$ 4,798		\$ 4,798
Net income	48		48
Other comprehensive income (loss)	1		1
Contributions from member	730		730
Distributions	(1,212)		(1,212)
September 30, 2014	<u>\$ 4,365</u>		<u>\$ 4,365</u>
June 30, 2013	\$ 3,541	\$ 18	\$ 3,559
Net income	124	1	125
Other comprehensive income (loss)	(10)		(10)
Contributions from member	875		875
Distributions		(1)	(1)
September 30, 2013	<u>\$ 4,530</u>	<u>\$ 18</u>	<u>\$ 4,548</u>
December 31, 2012	\$ 3,830	\$ 18	\$ 3,848
Net income	172	1	173
Other comprehensive income (loss)	(44)		(44)
Contributions from member	980		980
Distributions	(408)	(1)	(409)
September 30, 2013	<u>\$ 4,530</u>	<u>\$ 18</u>	<u>\$ 4,548</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenues	\$ 477	\$ 464	\$ 1,518	\$ 1,391
Operating Expenses				
Operation				
Energy purchases	128	144	431	436
Energy purchases from affiliate	20	11	68	37
Other operation and maintenance	133	134	402	391
Depreciation	47	45	137	132
Taxes, other than income	25	25	80	77
Total Operating Expenses	353	359	1,118	1,073
Operating Income	124	105	400	318
Other Income (Expense) - net	3	2	6	5
Interest Expense	33	30	91	80
Income Before Income Taxes	94	77	315	243
Income Taxes	37	26	121	83
Net Income (a)	\$ 57	\$ 51	\$ 194	\$ 160

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 194	\$ 160
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	137	132
Amortization	13	13
Defined benefit plans - expense	10	16
Deferred income taxes and investment tax credits	65	103
Other	(20)	(7)
Change in current assets and current liabilities		
Accounts receivable	(45)	(14)
Accounts payable	(25)	(42)
Unbilled revenues	40	34
Taxes payable	45	24
Other	4	(19)
Other operating activities		
Defined benefit plans - funding	(20)	(88)
Other assets	8	6
Other liabilities	6	9
Net cash provided by operating activities	<u>412</u>	<u>327</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(700)	(688)
Expenditures for intangible assets	(25)	(20)
Net (increase) decrease in notes receivable from affiliates	150	
Other investing activities	13	11
Net cash provided by (used in) investing activities	<u>(562)</u>	<u>(697)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	296	348
Retirement of long-term debt	(10)	
Contributions from parent	95	205
Payment of common stock dividends to parent	(121)	(94)
Net increase (decrease) in short-term debt	(20)	
Other financing activities	(4)	(4)
Net cash provided by (used in) financing activities	<u>236</u>	<u>455</u>
Net Increase (Decrease) in Cash and Cash Equivalents	86	85
Cash and Cash Equivalents at Beginning of Period	<u>25</u>	<u>140</u>
Cash and Cash Equivalents at End of Period	<u>\$ 111</u>	<u>\$ 225</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 111	\$ 25
Accounts receivable (less reserve: 2014, \$18; 2013, \$18)		
Customer	309	284
Other	27	5
Accounts receivable from affiliates	2	4
Notes receivable from affiliate		150
Unbilled revenues	76	116
Materials and supplies	35	35
Prepayments	28	40
Deferred income taxes	89	85
Other current assets	13	22
Total Current Assets	690	766
Property, Plant and Equipment		
Regulated utility plant	7,430	6,886
Less: accumulated depreciation - regulated utility plant	2,523	2,417
Regulated utility plant, net	4,907	4,469
Other, net	2	2
Construction work in progress	713	591
Property, Plant and Equipment, net	5,622	5,062
Other Noncurrent Assets		
Regulatory assets	772	772
Intangibles	234	211
Other noncurrent assets	37	35
Total Other Noncurrent Assets	1,043	1,018
Total Assets	\$ 7,355	\$ 6,846

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt		\$ 20
Long term debt due within one year		10
Accounts payable	\$ 280	295
Accounts payable to affiliates	53	57
Taxes	52	51
Interest	27	34
Regulatory liabilities	81	76
Other current liabilities	92	82
Total Current Liabilities	585	625
Long-term Debt	2,602	2,305
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,490	1,399
Accrued pension obligations	84	96
Regulatory liabilities	18	15
Other deferred credits and noncurrent liabilities	59	57
Total Deferred Credits and Other Noncurrent Liabilities	1,651	1,567
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	1,435	1,340
Earnings reinvested	718	645
Total Equity	2,517	2,349
Total Liabilities and Equity	\$ 7,355	\$ 6,846

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
June 30, 2014	66,368	\$ 364	\$ 1,435	\$ 695	\$ 2,494
Net income				57	57
Cash dividends declared on common stock				(34)	(34)
September 30, 2014	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,435</u>	<u>\$ 718</u>	<u>\$ 2,517</u>
December 31, 2013	66,368	\$ 364	\$ 1,340	\$ 645	\$ 2,349
Net income				194	194
Capital contributions from PPL			95		95
Cash dividends declared on common stock				(121)	(121)
September 30, 2014	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,435</u>	<u>\$ 718</u>	<u>\$ 2,517</u>
June 30, 2013	66,368	\$ 364	\$ 1,340	\$ 606	\$ 2,310
Net income				51	51
Cash dividends declared on common stock				(28)	(28)
September 30, 2013	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,340</u>	<u>\$ 629</u>	<u>\$ 2,333</u>
December 31, 2012	66,368	\$ 364	\$ 1,135	\$ 563	\$ 2,062
Net income				160	160
Capital contributions from PPL			205		205
Cash dividends declared on common stock				(94)	(94)
September 30, 2013	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 1,340</u>	<u>\$ 629</u>	<u>\$ 2,333</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenues	\$ 753	\$ 744	\$ 2,409	\$ 2,226
Operating Expenses				
Operation				
Fuel	240	237	748	684
Energy purchases	24	23	184	146
Other operation and maintenance	197	188	609	582
Depreciation	89	84	262	249
Taxes, other than income	13	12	39	36
Total Operating Expenses	<u>563</u>	<u>544</u>	<u>1,842</u>	<u>1,697</u>
Operating Income	190	200	567	529
Other Income (Expense) - net	(2)	(4)	(6)	(6)
Interest Expense	42	37	125	110
Interest Expense with Affiliate				1
Income from Continuing Operations Before Income Taxes	146	159	436	412
Income Taxes	<u>55</u>	<u>59</u>	<u>165</u>	<u>153</u>
Income from Continuing Operations After Income Taxes	91	100	271	259
Income (Loss) from Discontinued Operations (net of income taxes)				1
Net Income (a)	<u>\$ 91</u>	<u>\$ 100</u>	<u>\$ 271</u>	<u>\$ 260</u>

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 271	\$ 260
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	262	249
Amortization	18	19
Defined benefit plans - expense	18	38
Deferred income taxes and investment tax credits	251	99
Other	11	6
Change in current assets and current liabilities		
Accounts receivable	(31)	(78)
Accounts payable	7	34
Accounts payable to affiliates	(2)	1
Unbilled revenues	49	19
Fuel, materials and supplies	4	1
Taxes payable	5	83
Accrued interest	36	30
Other	(10)	
Other operating activities		
Defined benefit plans - funding	(43)	(159)
Settlement of interest rate swaps		98
Other assets		9
Other liabilities	5	14
Net cash provided by operating activities	<u>851</u>	<u>723</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(843)	(891)
Net (increase) decrease in notes receivable from affiliates	70	
Other investing activities		2
Net cash provided by (used in) investing activities	<u>(773)</u>	<u>(889)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	22	27
Net increase (decrease) in short-term debt	103	87
Debt issuance and credit facility costs	(3)	
Distributions to member	(327)	(116)
Contributions from member	139	146
Net cash provided by (used in) financing activities	<u>(66)</u>	<u>144</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>12</u>	<u>(22)</u>
Cash and Cash Equivalents at Beginning of Period	35	43
Cash and Cash Equivalents at End of Period	<u>\$ 47</u>	<u>\$ 21</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 47	\$ 35
Accounts receivable (less reserve: 2014, \$25; 2013, \$22)		
Customer	219	224
Other	44	20
Unbilled revenues	131	180
Fuel, materials and supplies	274	278
Prepayments	28	21
Notes receivable from affiliates		70
Deferred income taxes	69	159
Regulatory assets	25	27
Other current assets	4	3
Total Current Assets	841	1,017
Property, Plant and Equipment		
Regulated utility plant	9,399	8,526
Less: accumulated depreciation - regulated utility plant	996	778
Regulated utility plant, net	8,403	7,748
Other, net	4	3
Construction work in progress	1,812	1,793
Property, Plant and Equipment, net	10,219	9,544
Other Noncurrent Assets		
Regulatory assets	481	474
Goodwill	996	996
Other intangibles	185	221
Price risk management assets from affiliates	6	
Other noncurrent assets	99	98
Total Other Noncurrent Assets	1,767	1,789
Total Assets	\$ 12,827	\$ 12,350

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 348	\$ 245
Notes payable with affiliates	22	
Accounts payable	429	346
Accounts payable to affiliates	1	3
Customer deposits	51	50
Taxes	44	39
Price risk management liabilities	4	4
Regulatory liabilities	11	14
Interest	59	23
Other current liabilities	113	111
Total Current Liabilities	1,082	835
Long-term Debt	4,566	4,565
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,131	965
Investment tax credits	132	135
Accrued pension obligations	116	152
Asset retirement obligations	275	245
Regulatory liabilities	1,010	1,033
Price risk management liabilities	38	32
Price risk management liabilities with affiliates	4	
Other deferred credits and noncurrent liabilities	243	238
Total Deferred Credits and Other Noncurrent Liabilities	2,949	2,800
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	4,230	4,150
Total Liabilities and Equity	\$ 12,827	\$ 12,350

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Member's Equity
June 30, 2014	\$ 4,225
Net income	91
Contributions from member	20
Distributions to member	(106)
September 30, 2014	<u>\$ 4,230</u>
December 31, 2013	\$ 4,150
Net income	271
Contributions from member	139
Distributions to member	(327)
Other comprehensive income (loss)	(3)
September 30, 2014	<u>\$ 4,230</u>
June 30, 2013	\$ 4,022
Net income	100
Distributions to member	(47)
September 30, 2013	<u>\$ 4,075</u>
December 31, 2012	\$ 3,786
Net income	260
Contributions from member	146
Distributions to member	(116)
Other comprehensive income (loss)	(1)
September 30, 2013	<u>\$ 4,075</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenues				
Retail and wholesale	\$ 334	\$ 332	\$ 1,096	\$ 1,003
Electric revenue from affiliate	13	11	74	46
Total Operating Revenues	347	343	1,170	1,049
Operating Expenses				
Operation				
Fuel	99	100	320	284
Energy purchases	20	18	167	129
Energy purchases from affiliate	3	2	11	6
Other operation and maintenance	94	93	286	278
Depreciation	39	37	116	110
Taxes, other than income	6	6	19	18
Total Operating Expenses	261	256	919	825
Operating Income	86	87	251	224
Other Income (Expense) - net		(1)	(3)	(3)
Interest Expense	13	10	37	30
Income Before Income Taxes	73	76	211	191
Income Taxes	27	27	78	69
Net Income (a)	\$ 46	\$ 49	\$ 133	\$ 122

(a) Net income equals comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

**CONDENSED
STATEMENTS OF CASH FLOWS**
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 133	\$ 122
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	116	110
Amortization	9	9
Defined benefit plans - expense	7	13
Deferred income taxes and investment tax credits	31	22
Other	(2)	10
Change in current assets and current liabilities		
Accounts receivable	(8)	(20)
Accounts payable	8	18
Accounts payable to affiliates	(4)	7
Unbilled revenues	27	10
Fuel, materials and supplies	5	2
Taxes payable	10	32
Accrued Interest	9	3
Other	1	9
Other operating activities		
Defined benefit plans - funding	(12)	(45)
Settlement of interest rate swaps		49
Other assets	1	9
Other liabilities	(4)	2
Net cash provided by operating activities	<u>327</u>	<u>362</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(422)	(376)
Net cash provided by (used in) investing activities	<u>(422)</u>	<u>(376)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	123	17
Debt issuance and credit facility costs	(1)	
Payment of common stock dividends to parent	(83)	(67)
Contributions from parent	73	54
Net cash provided by (used in) financing activities	<u>112</u>	<u>4</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>17</u>	<u>(10)</u>
Cash and Cash Equivalents at Beginning of Period	<u>8</u>	<u>22</u>
Cash and Cash Equivalents at End of Period	<u>\$ 25</u>	<u>\$ 12</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 25	\$ 8
Accounts receivable (less reserve: 2014, \$2; 2013, \$2)		
Customer	93	102
Other	12	9
Unbilled revenues	58	85
Accounts receivable from affiliates	10	
Fuel, materials and supplies	149	154
Prepayments	5	7
Regulatory assets	23	17
Other current assets	2	3
Total Current Assets	377	385
Property, Plant and Equipment		
Regulated utility plant	3,606	3,383
Less: accumulated depreciation - regulated utility plant	429	332
Regulated utility plant, net	3,177	3,051
Construction work in progress	912	651
Property, Plant and Equipment, net	4,089	3,702
Other Noncurrent Assets		
Regulatory assets	305	303
Goodwill	389	389
Other intangibles	102	120
Price risk management assets from affiliates	3	
Other noncurrent assets	34	35
Total Other Noncurrent Assets	833	847
Total Assets	\$ 5,299	\$ 4,934

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 143	\$ 20
Accounts payable	250	166
Accounts payable to affiliates	20	24
Customer deposits	24	24
Taxes	21	11
Price risk management liabilities	4	4
Regulatory liabilities	9	9
Interest	15	6
Other current liabilities	33	32
Total Current Liabilities	<u>519</u>	<u>296</u>
Long-term Debt	<u>1,353</u>	<u>1,353</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	613	582
Investment tax credits	37	38
Accrued pension obligations	9	19
Asset retirement obligations	69	68
Regulatory liabilities	471	482
Price risk management liabilities	38	32
Price risk management liabilities with affiliates	2	
Other deferred credits and noncurrent liabilities	105	104
Total Deferred Credits and Other Noncurrent Liabilities	<u>1,344</u>	<u>1,325</u>
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,437	1,364
Earnings reinvested	222	172
Total Equity	<u>2,083</u>	<u>1,960</u>
Total Liabilities and Equity	<u>\$ 5,299</u>	<u>\$ 4,934</u>

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	<u>Common stock shares outstanding (a)</u>	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Earnings reinvested</u>	<u>Total</u>
June 30, 2014	21,294	\$ 424	\$ 1,417	\$ 199	\$ 2,040
Net income				46	46
Capital contributions from LKE			20		20
Cash dividends declared on common stock				(23)	(23)
September 30, 2014	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,437</u>	<u>\$ 222</u>	<u>\$ 2,083</u>
December 31, 2013	21,294	\$ 424	\$ 1,364	\$ 172	\$ 1,960
Net income				133	133
Capital contributions from LKE			73		73
Cash dividends declared on common stock				(83)	(83)
September 30, 2014	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,437</u>	<u>\$ 222</u>	<u>\$ 2,083</u>
June 30, 2013	21,294	\$ 424	\$ 1,332	\$ 133	\$ 1,889
Net income				49	49
Cash dividends declared on common stock				(19)	(19)
September 30, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,332</u>	<u>\$ 163</u>	<u>\$ 1,919</u>
December 31, 2012	21,294	\$ 424	\$ 1,278	\$ 108	\$ 1,810
Net income				122	122
Capital contributions from LKE			54		54
Cash dividends declared on common stock				(67)	(67)
September 30, 2013	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,332</u>	<u>\$ 163</u>	<u>\$ 1,919</u>

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenues				
Retail and wholesale	\$ 419	\$ 412	\$ 1,313	\$ 1,223
Electric revenue from affiliate	3	2	11	6
Total Operating Revenues	422	414	1,324	1,229
Operating Expenses				
Operation				
Fuel	141	137	428	400
Energy purchases	4	5	17	17
Energy purchases from affiliate	13	11	74	46
Other operation and maintenance	97	91	302	286
Depreciation	50	46	145	138
Taxes, other than income	7	6	20	18
Total Operating Expenses	312	296	986	905
Operating Income	110	118	338	324
Other Income (Expense) - net	(1)	(2)	(1)	(1)
Interest Expense	19	17	58	51
Income Before Income Taxes	90	99	279	272
Income Taxes	34	36	106	101
Net Income (a)	\$ 56	\$ 63	\$ 173	\$ 171

(a) Net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 173	\$ 171
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	145	138
Amortization	8	9
Defined benefit plans - expense	4	16
Deferred income taxes and investment tax credits	129	73
Other	11	(3)
Change in current assets and current liabilities		
Accounts receivable	(11)	(46)
Accounts payable	6	25
Accounts payable to affiliates	4	(9)
Unbilled revenues	22	9
Fuel, materials and supplies	(1)	(1)
Taxes payable	(12)	39
Accrued interest	18	15
Other	(8)	(3)
Other operating activities		
Defined benefit plans - funding	(4)	(62)
Settlement of interest rate swaps		49
Other assets	(2)	(2)
Other liabilities	4	1
Net cash provided by operating activities	<u>486</u>	<u>419</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(418)	(512)
Other investing activities		2
Net cash provided by (used in) investing activities	<u>(418)</u>	<u>(510)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	(20)	70
Debt issuance and credit facility costs	(1)	
Payment of common stock dividends to parent	(112)	(83)
Contributions from parent	66	92
Net cash provided by (used in) financing activities	<u>(67)</u>	<u>79</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1	(12)
Cash and Cash Equivalents at Beginning of Period	<u>21</u>	<u>21</u>
Cash and Cash Equivalents at End of Period	<u>\$ 22</u>	<u>\$ 9</u>

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 22	\$ 21
Accounts receivable (less reserve: 2014, \$3; 2013, \$4)		
Customer	126	122
Other	8	9
Unbilled revenues	73	95
Fuel, materials and supplies	125	124
Prepayments	11	4
Regulatory assets	2	10
Other current assets	3	6
Total Current Assets	370	391
Property, Plant and Equipment		
Regulated utility plant	5,793	5,143
Less: accumulated depreciation - regulated utility plant	567	446
Regulated utility plant, net	5,226	4,697
Other, net	1	1
Construction work in progress	897	1,139
Property, Plant and Equipment, net	6,124	5,837
Other Noncurrent Assets		
Regulatory assets	176	171
Goodwill	607	607
Other intangibles	83	101
Price risk management assets from affiliates	3	
Other noncurrent assets	59	56
Total Other Noncurrent Assets	928	935
Total Assets	\$ 7,422	\$ 7,163

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 130	\$ 150
Accounts payable	166	159
Accounts payable to affiliates	29	25
Customer deposits	27	26
Taxes	21	33
Regulatory liabilities	2	5
Interest	29	11
Other current liabilities	38	36
Total Current Liabilities	442	445
Long-term Debt	2,091	2,091
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	786	658
Investment tax credits	95	97
Accrued pension obligations	2	11
Asset retirement obligations	206	177
Regulatory liabilities	539	551
Price risk management liabilities with affiliates	2	
Other deferred credits and noncurrent liabilities	89	89
Total Deferred Credits and Other Noncurrent Liabilities	1,719	1,583
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,571	2,505
Accumulated other comprehensive income (loss)		1
Earnings reinvested	291	230
Total Equity	3,170	3,044
Total Liabilities and Equity	\$ 7,422	\$ 7,163

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2014 and December 31, 2013.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
June 30, 2014	37,818	\$ 308	\$ 2,571	\$ 261		\$ 3,140
Net income				56		56
Cash dividends declared on common stock				(26)		(26)
September 30, 2014	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,571</u>	<u>\$ 291</u>		<u>\$ 3,170</u>
December 31, 2013	37,818	\$ 308	\$ 2,505	\$ 230	\$ 1	\$ 3,044
Net income				173		173
Capital contributions from LKE			66			66
Cash dividends declared on common stock				(112)		(112)
Other comprehensive income (loss)					(1)	(1)
September 30, 2014	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,571</u>	<u>\$ 291</u>	<u>\$</u>	<u>\$ 3,170</u>
June 30, 2013	37,818	\$ 308	\$ 2,440	\$ 179	\$ 1	\$ 2,928
Net income				63		63
Cash dividends declared on common stock				(28)		(28)
September 30, 2013	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,440</u>	<u>\$ 214</u>	<u>\$ 1</u>	<u>\$ 2,963</u>
December 31, 2012	37,818	\$ 308	\$ 2,348	\$ 126	\$ 1	\$ 2,783
Net income				171		171
Capital contributions from LKE			92			92
Cash dividends declared on common stock				(83)		(83)
September 30, 2013	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,440</u>	<u>\$ 214</u>	<u>\$ 1</u>	<u>\$ 2,963</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for their related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2013 is derived from that Registrant's 2013 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2013 Form 10-K. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the September 30, 2014 financial statements.

(PPL and PPL Energy Supply)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of PPL Montana's hydroelectric generating facilities expected to be sold in the fourth quarter of 2014. "Assets of discontinued operations" on the Balance Sheet at September 30, 2014, includes the related assets. Corresponding amounts at December 31, 2013, have not been reclassified on the Balance Sheet as of that date. See Note 8 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations.

(PPL Energy Supply)

During the three and nine months ended September 30, 2014, PPL Energy Supply recorded \$14 million (\$9 million after-tax) and \$17 million (\$11 million after-tax) increases to "Energy-related businesses" revenues on the 2014 Statement of Income related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. The impact of the errors is not material to the previously-issued financial statements and is not expected to be material to the full year results for 2014.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2013 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable *(PPL, PPL Energy Supply and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program designed to facilitate competitive markets for electricity in Pennsylvania, PPL Electric purchases certain accounts receivable from alternative electricity suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three and nine months ended September 30, 2014, PPL Electric purchased \$260 million and \$874 million of accounts receivable from unaffiliated third parties and \$77 million and \$261 million from

PPL EnergyPlus. During the three and nine months ended September 30, 2013, PPL Electric purchased \$259 million and \$738 million of accounts receivable from unaffiliated third parties and \$75 million and \$222 million from PPL EnergyPlus.

New Accounting Guidance Adopted *(All Registrants)*

Accounting for Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Registrants retrospectively adopted accounting guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements when the amount of the obligation is fixed at the reporting date. If the obligation is determined to be in the scope of this guidance, it will be measured as the sum of the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires additional disclosures for these obligations.

The adoption of this guidance did not have a significant impact on the Registrants.

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Effective January 1, 2014, PPL prospectively adopted accounting guidance that requires a cumulative translation adjustment to be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For the step acquisition of previously held equity method investments that are foreign entities, this guidance clarifies that the amount of accumulated other comprehensive income that is reclassified and included in the calculation of a gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

The initial adoption of this guidance did not have a significant impact on PPL; however, the impact in future periods could be material.

Presentation of Unrecognized Tax Benefits When Net Operating Loss Carryforwards, Similar Tax Losses, or Tax Credit Carryforwards Exist

Effective January 1, 2014, the Registrants prospectively adopted accounting guidance that requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

The adoption of this guidance did not have a significant impact on the Registrants.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2013 Form 10-K for a discussion of reportable segments and related information.

In June 2014, PPL and PPL Energy Supply, which primarily represents PPL's Supply segment, executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. The transaction is expected to close in the first or second quarter of 2015. Upon completion of this transaction, PPL will no longer have a Supply segment. See Note 8 for additional information.

Financial data for the segments and reconciliation to PPL's consolidated results for the periods ended September 30 are:

	Three Months		Nine Months	
	2014	2013	2014	2013
Income Statement Data				
Revenues from external customers				
U.K. Regulated	\$ 644	\$ 543	\$ 1,964	\$ 1,763
Kentucky Regulated	753	744	2,409	2,226
Pennsylvania Regulated	477	463	1,516	1,388
Supply (a)	1,571	1,321	1,575	3,516
Corporate and Other	4	3	12	9
Total	<u>\$ 3,449</u>	<u>\$ 3,074</u>	<u>\$ 7,476</u>	<u>\$ 8,902</u>
Intersegment electric revenues				
Supply	\$ 20	\$ 11	\$ 68	\$ 37
Net Income Attributable to PPL Shareowners				
U.K. Regulated (a)	\$ 295	\$ 183	\$ 688	\$ 741
Kentucky Regulated	82	93	247	227
Pennsylvania Regulated	57	51	194	160
Supply (a)	86	91	16	122
Corporate and Other (b)	(23)	(8)	(103)	(22)
Total	<u>\$ 497</u>	<u>\$ 410</u>	<u>\$ 1,042</u>	<u>\$ 1,228</u>

	September 30,		December 31,	
	2014	2013	2014	2013
Balance Sheet Data				
Assets				
U.K. Regulated			\$ 16,543	\$ 15,895
Kentucky Regulated			12,493	12,016
Pennsylvania Regulated			7,355	6,846
Supply			11,210	11,408
Corporate and Other (c)			588	94
Total assets			<u>\$ 48,189</u>	<u>\$ 46,259</u>

- (a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.
(b) 2014 includes certain costs related to the anticipated spinoff of PPL Energy Supply, including deferred income tax expense, third party transaction costs, and separation benefits. See Note 8 for additional information.
(c) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock method or the If-Converted Method, as applicable. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended September 30 used in the EPS calculation are:

	Three Months		Nine Months	
	2014	2013	2014	2013
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL shareowners				
	\$ 490	\$ 403	\$ 1,032	\$ 1,198
Less amounts allocated to participating securities	2	2	5	6
Income from continuing operations after income taxes available to PPL common shareowners - Basic				
	488	401	1,027	1,192
Plus interest charges (net of tax) related to Equity Units (a)		7	9	37
Income from continuing operations after income taxes available to PPL common shareowners - Diluted				
	<u>\$ 488</u>	<u>\$ 408</u>	<u>\$ 1,036</u>	<u>\$ 1,229</u>
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted				
	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 10</u>	<u>\$ 30</u>

	Three Months		Nine Months	
	2014	2013	2014	2013
Net income attributable to PPL shareowners	\$ 497	\$ 410	\$ 1,042	\$ 1,228
Less amounts allocated to participating securities	2	2	5	6
Net income available to PPL common shareowners - Basic	495	408	1,037	1,222
Plus interest charges (net of tax) related to Equity Units (a)		7	9	37
Net income available to PPL common shareowners - Diluted	\$ 495	\$ 415	\$ 1,046	\$ 1,259

Shares of Common Stock (Denominator)

Weighted-average shares - Basic EPS	664,432	631,046	649,561	601,275
Add incremental non-participating securities:				
Share-based payment awards	1,970	1,163	1,860	1,035
Equity Units (a)		32,134	14,080	59,171
Forward sale agreements				613
Weighted-average shares - Diluted EPS	666,402	664,343	665,501	662,094

Basic EPS

Available to PPL common shareowners:				
Income from continuing operations after income taxes	\$ 0.73	\$ 0.64	\$ 1.58	\$ 1.98
Income (loss) from discontinued operations (net of income taxes)	0.01	0.01	0.02	0.05
Net Income Available to PPL common shareowners	\$ 0.74	\$ 0.65	\$ 1.60	\$ 2.03

Diluted EPS

Available to PPL common shareowners:				
Income from continuing operations after income taxes	\$ 0.73	\$ 0.61	\$ 1.56	\$ 1.86
Income (loss) from discontinued operations (net of income taxes)	0.01	0.01	0.01	0.04
Net Income Available to PPL common shareowners	\$ 0.74	\$ 0.62	\$ 1.57	\$ 1.90

(a) The If-Converted Method was applied to the Equity Units prior to settlement. See Note 7 for additional information on the 2011 Equity Units, including the issuance of PPL common stock on May 1, 2014 to settle the 2011 Purchase Contracts.

For the periods ended September 30, PPL issued common stock related to stock-based compensation plans, ESOP and DRIP as follows (in thousands):

	Three Months		Nine Months	
	2014	2013	2014	2013
Stock-based compensation plans (a)	210	85	2,228	1,469
ESOP				275
DRIP	425		425	549

(a) Includes stock options exercised, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

For the periods ended September 30, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Nine Months	
	2014	2013	2014	2013
Stock options	527	1,136	1,901	4,793
Performance units		1		73
Restricted stock units			41	39

5. Income Taxes

Reconciliations of income taxes for the periods ended September 30 are:

(PPL)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income from Continuing Operations Before				
Income Taxes at statutory tax rate - 35%	\$ 264	\$ 170	\$ 543	\$ 535
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	27	11	21	27
State valuation allowance adjustments (a)	3	38	49	38
Impact of lower U.K. income tax rates (b)	(50)	(38)	(126)	(101)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	26	10	47	5
Federal and state tax reserve adjustments (d)	(1)	(1)		(41)
Federal and state income tax return adjustments	2	(4)	2	(4)
Impact of the U.K. Finance Acts on deferred tax balances (b)		(93)		(93)
Federal income tax credits		(3)	(3)	(8)
Amortization of investment tax credit	(1)		(5)	(5)
Depreciation not normalized	(3)	(2)	(7)	(6)
Intercompany interest on U.K. financing entities	(2)	(2)	(6)	(7)
Other		(5)	5	(11)
Total increase (decrease)	1	(89)	(23)	(206)
Total income taxes	\$ 265	\$ 81	\$ 520	\$ 329

- (a) As a result of the PPL Energy Supply spinoff announcement, PPL recorded deferred income tax expense during the three and nine months ended September 30, 2014 to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply. See Note 8 for additional information on the anticipated spinoff.

During the three and nine months ended September 30, 2013, PPL recorded an increase in state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income over the remaining carryforward period of Pennsylvania net operating losses.

- (b) The U.K.'s Finance Act of 2013, enacted in July 2013, reduced the U.K. statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20% effective April 1, 2015. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2013 related to both rate decreases.
- (c) For the three and nine months ended September 30, 2014, PPL recorded \$19 million and \$40 million increases to income tax expense primarily attributable to the expected taxable amount of cash repatriation in 2014.

During the three and nine months ended September 30, 2013, PPL recorded \$10 million and \$24 million increases to income tax expense primarily attributable to a revision in the expected taxable amount of cash repatriation in 2013.

During the nine months ended September 30, 2013, PPL recorded a tax benefit of \$19 million associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that was reflected on an amended 2010 U.S. tax return.

- (d) In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in 2011. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition and oral argument was held in February 2013. In May 2013, the Supreme Court reversed the Third Circuit's opinion and ruled that the WPT is a creditable tax. As a result of the Supreme Court ruling, PPL recorded a tax benefit of \$44 million during the nine months ended September 30, 2013, of which \$19 million relates to interest.

(PPL Energy Supply)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income from Continuing Operations Before				
Income Taxes at statutory tax rate - 35%	\$ 59	\$ 67	\$ 19	\$ 83
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	16	6	(3)	8
State valuation allowance adjustments		4		4
Federal and state tax reserve adjustments	(1)			6
Federal income tax credits	(3)	(3)	(5)	(6)
State deferred tax rate change			3	
Other	3	(3)	2	(4)
Total increase (decrease)	15	4	(3)	8
Total income taxes	\$ 74	\$ 71	\$ 16	\$ 91

(PPL Electric)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 33	\$ 27	\$ 110	\$ 85
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	5	17	13
Federal and state tax reserve adjustments		(2)	(1)	(6)
Depreciation not normalized	(2)	(2)	(5)	(6)
Other	1	(2)		(3)
Total increase (decrease)	4	(1)	11	(2)
Total income taxes	\$ 37	\$ 26	\$ 121	\$ 83

(LKE)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income from Continuing Operations Before				
Income Taxes at statutory tax rate - 35%	\$ 51	\$ 56	\$ 153	\$ 144
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	6	6	16	14
Amortization of investment tax credit	(1)	(1)	(3)	(3)
Other	(1)	(2)	(1)	(2)
Total increase (decrease)	4	3	12	9
Total income taxes	\$ 55	\$ 59	\$ 165	\$ 153

(LG&E)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 26	\$ 27	\$ 74	\$ 67
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	3	8	7
Other	(2)	(3)	(4)	(5)
Total increase (decrease)	1		4	2
Total income taxes	\$ 27	\$ 27	\$ 78	\$ 69

(KU)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 32	\$ 35	\$ 98	\$ 95
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	4	10	10
Other	(1)	(3)	(2)	(4)
Total increase (decrease)	2	1	8	6
Total income taxes	\$ 34	\$ 36	\$ 106	\$ 101

6. Utility Rate Regulation

(All Registrants except PPL Energy Supply)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Current Regulatory Assets:				
Environmental cost recovery	\$ 3	\$ 7		
Gas supply clause	20	10		
Fuel adjustment clause		2		
Demand side management		8		
Other	5	6	3	6
Total current regulatory assets	\$ 28	\$ 33	\$ 3	\$ 6
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 486	\$ 509	\$ 250	\$ 257
Taxes recoverable through future rates	313	306	313	306
Storm costs	130	147	47	53
Unamortized loss on debt	79	85	51	57
Interest rate swaps	54	44		
Accumulated cost of removal of utility plant	111	98	111	98
AROs	72	44		
Other	8	13		1
Total noncurrent regulatory assets	\$ 1,253	\$ 1,246	\$ 772	\$ 772

Current Regulatory Liabilities:				
Generation supply charge	\$ 33	\$ 23	\$ 33	\$ 23
Gas supply clause	4	3		
Transmission service charge	2	8	2	8
Fuel adjustment clause	1	4		
Transmission formula rate	42	20	42	20
Universal service rider		10		10
Storm damage expense	1	14	1	14
Gas line tracker	5	6		
Other	4	2	3	1
Total current regulatory liabilities	\$ 92	\$ 90	\$ 81	\$ 76
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 697	\$ 688		
Coal contracts (a)	69	98		
Power purchase agreement - OVEC (a)	94	100		
Net deferred tax assets	27	30		
Act 129 compliance rider	18	15	18	15
Defined benefit plans	29	26		
Interest rate swaps	90	86		
Other	4	5		
Total noncurrent regulatory liabilities	\$ 1,028	\$ 1,048	\$ 18	\$ 15

	LKE		LG&E		KU	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Current Regulatory Assets:						
Environmental cost recovery	\$ 3	\$ 7	\$ 3	\$ 2	\$ 5	
Gas supply clause	20	10	20	10		
Fuel adjustment clause		2		2		
Demand side management		8		3		5
Other	2				2	
Total current regulatory assets	\$ 25	\$ 27	\$ 23	\$ 17	\$ 2	\$ 10
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 236	\$ 252	\$ 159	\$ 164	\$ 77	\$ 88
Storm costs	83	94	45	51	38	43
Unamortized loss on debt	28	28	18	18	10	10
Interest rate swaps	54	44	52	44	2	
AROs	72	44	27	21	45	23
Other	8	12	4	5	4	7
Total noncurrent regulatory assets	\$ 481	\$ 474	\$ 305	\$ 303	\$ 176	\$ 171
Current Regulatory Liabilities:						
Gas supply clause	\$ 4	\$ 3	\$ 4	\$ 3		
Fuel adjustment clause	1	4			1	4
Gas line tracker	5	6	5	6		
Other	1	1			1	1
Total current regulatory liabilities	\$ 11	\$ 14	\$ 9	\$ 9	\$ 2	\$ 5

	LKE		LG&E		KU	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal						
of utility plant	\$ 697	\$ 688	\$ 305	\$ 299	\$ 392	\$ 389
Coal contracts (a)	69	98	30	43	39	55
Power purchase agreement - OVEC (a)	94	100	65	69	29	31
Net deferred tax assets	27	30	24	26	3	4
Defined benefit plans	29	26			29	26
Interest rate swaps	90	86	45	43	45	43
Other	4	5	2	2	2	3
Total noncurrent regulatory liabilities	\$ 1,010	\$ 1,033	\$ 471	\$ 482	\$ 539	\$ 551

(a) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

U. K. Activities (PPL)

Ofgem Review of Line Loss Calculation

In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during the first quarter of 2014 WPD increased its existing liability by \$65 million for over-recovery of line losses with a reduction to "Utility" revenues on the Statement of Income. The total recorded liability at September 30, 2014 was \$105 million, all of which will be refunded to customers from April 1, 2015 through March 31, 2019. The recorded liability at December 31, 2013 was \$74 million. Other activity impacting the liability included reductions in the liability that have been included in tariffs and foreign exchange movements. In June 2014, WPD applied for judicial review of certain of Ofgem's decisions related to closing out the DPCR4 line loss mechanism. The court has set a hearing for November 20, 2014 to hear WPD's application for permission to seek judicial review. The primary relief sought is for Ofgem to reconsider the overall proportionality of penalties imposed on WPD. The entire process could last through the second quarter of 2015. PPL cannot predict the outcome of this matter.

Kentucky Activities (PPL, LKE, LG&E and KU)

CPCN Filings

In January 2014, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to build an NGCC generating unit, Green River Unit 5, at KU's Green River generating site and a solar generating facility at the E. W. Brown generating site. In April 2014, LG&E and KU filed a motion to hold further proceedings in abeyance to allow the companies to assess the potential impact of certain events on their future capacity needs, including the receipt of termination notices to be generally effective in 2019 from certain KU municipal wholesale customers. In August 2014, LG&E and KU submitted a motion to withdraw their request to construct the Green River NGCC and the KPSC issued an order granting that request. LG&E's and KU's CPCN application continues to request approval to construct the E. W. Brown solar generating facility. LG&E and KU entered into a stipulation in this proceeding agreeing to certain matters with some interveners. A hearing is scheduled to be held in November 2014, and a final order is anticipated before the end of the year. See "Federal Matters - FERC Wholesale Formula Rates" below for additional information relating to the municipal wholesale customers.

Rate Case Proceedings

On November 4, 2014, LG&E and KU announced that on November 26, 2014, they anticipate filing requests with the KPSC for increases in annual base electricity rates of approximately \$30 million at LG&E and approximately \$153 million at KU and an increase in annual base gas rates of approximately \$14 million at LG&E. The proposed base rate increases would result in electricity rate increases of 2.7% at LG&E and 9.6% at KU and a gas rate increase of 4.2% at LG&E and would become effective in July 2015. LG&E's and KU's applications each include a request for authorized returns-on-equity of 10.50%. The applications are based on a forecasted test year of July 1, 2015 through June 30, 2016. LG&E and KU cannot predict the outcome of these proceedings.

Pennsylvania Activities (PPL and PPL Electric)

Storm Damage Expense Rider

In its December 2012 final rate case order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider (SDER). In March 2013, PPL Electric filed its proposed SDER with the PUC and, as part of that filing, requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy. PPL Electric proposed that the SDER become effective January 1, 2013 at a zero rate with qualifying storm costs incurred in 2013 and the 2012 Hurricane Sandy costs included in rates effective January 1, 2014. As of December 31, 2013, PPL Electric had a \$14 million regulatory liability balance for amounts expected to be refunded to customers for revenues collected to cover storm costs in excess of actual storm costs incurred during 2013. In April 2014, the PUC issued a final order approving the SDER. The SDER will be effective January 1, 2015 and initially include actual storm costs compared to collections from December 2013 through November 2014. As a result of the order, PPL Electric reduced its regulatory liability by \$12 million. Also, as part of the order, PPL Electric can recover Hurricane Sandy storm damage costs through the SDER over a three-year period beginning January 2015. On June 20, 2014, the Office of Consumer Advocate filed a petition for review of the April 2014 order with the Commonwealth Court of Pennsylvania. The case remains pending. See "Storm Costs" below for additional information on Hurricane Sandy costs.

Storm Costs

In February 2013, PPL Electric received an order from the PUC granting permission to defer qualifying costs in excess of insurance recoveries associated with Hurricane Sandy. At September 30, 2014 and December 31, 2013, \$29 million was included on the Balance Sheets as a regulatory asset.

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are subject to significant penalties.

Act 129 requires Default Service Providers (DSP) to provide electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

In January 2013, the PUC approved PPL Electric's DSP procurement plan for the period June 1, 2013 through May 31, 2015. In April 2014, PPL Electric filed a new DSP procurement plan with the PUC for the period June 1, 2015 through May 31, 2017. In September 2014, the parties filed with the presiding Administrative Law Judge a partial settlement resolving all but two issues in the proceeding related to the structure of the DSP, without direct financial impact on PPL Electric. The parties filed briefs on those two issues. In October 2014, a Recommended Decision was issued approving the partial settlement. This proceeding remains pending before the PUC but is not expected to have a material impact on PPL Electric.

Smart Meter Rider

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric conducted pilot projects and technical evaluations of its current advanced metering technology and concluded that the current technology does not meet all of the Act 129 requirements. PPL Electric recovered the cost of its evaluations through a cost recovery mechanism, the Smart Meter Rider (SMR). In August 2013, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter Plan during 2013 and its planned actions for 2014. PPL Electric also submitted revised SMR charges that became effective January 1, 2014. On June 30, 2014, PPL Electric filed its final Smart Meter Plan with the PUC. In that plan, PPL Electric proposes to replace all of its current meters with advanced meters that meet the Act 129 requirements. Full deployment of the new meters is expected to be complete by the end of 2019. The total cost of the project is estimated to be approximately \$450 million. PPL Electric proposes to recover these costs through the SMR which the PUC previously has approved for recovery of such costs. The PUC assigned PPL Electric's plan to an Administrative Law Judge for hearings and preparation of a recommended decision. PPL Electric cannot predict the outcome of this proceeding.

Distribution System Improvement Charge

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC.

In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC and, in an order entered on May 23, 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four technical recovery calculation issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. In August 2014, the presiding Administrative Law Judge issued a recommended decision which would not have a significant impact on PPL Electric. This matter remains pending before the PUC.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form 1 filed under the FERC's Uniform System of Accounts.

PPL Electric initiated its formula rate 2012, 2011 and 2010 Annual Updates. Each update was subsequently challenged by a group of municipal customers, whose challenges were opposed by PPL Electric. Between 2011 and 2013, numerous hearings before the FERC and settlement conferences were convened in an attempt to resolve these matters. Beginning in the second half of 2013, PPL Electric and the group of municipal customers exchanged confidential settlement proposals. In September 2014, the parties filed a Joint Offer of Settlement with the FERC resolving all issues in the pending challenges, and including refunds of certain insignificant amounts to the municipalities. The settlement judge certified the uncontested settlement to the FERC with a recommendation that it be approved.

FERC Wholesale Formula Rates (LKE and KU)

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Certain elements, including the new formula rate, became effective April 23, 2014, subject to refund. In April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts. Such terminations are to be effective in 2019, except in the case of one municipality with a 2017 effective date. In July 2014, KU agreed on settlement terms with the two municipal customers that did not provide termination notices and filed the settlement proposal with the FERC for its approval. In August 2014, the FERC issued an order on the interim settlement agreement allowing the proposed rates to become effective pending a final order. If approved, the settlement agreement will resolve the rate case with respect to these two municipalities, including an authorized return on equity of 10% or the return on equity awarded to other parties in this case, whichever is lower. Also in July 2014, KU made a contractually required filing with the FERC that addressed certain rate recovery matters affecting the nine terminating municipalities during the remaining term of their contracts. KU and the terminating municipalities continue settlement discussions in this proceeding. KU cannot currently predict the outcome of its FERC applications regarding its wholesale power agreements with the municipalities.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Energy Supply, PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets.

The following credit facilities were in place at:

	Expiration Date	September 30, 2014				December 31, 2013	
		Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Issued
PPL							
U.K.							
PPL WW Syndicated Credit Facility	Dec. 2016	£ 210	£ 97		£ 113	£ 103	
WPD (South West) Syndicated Credit Facility	July 2019	245			245		
WPD (East Midlands) Syndicated Credit Facility	July 2019	300			300		
WPD (West Midlands) Syndicated Credit Facility	July 2019	300			300		
Uncommitted Credit Facilities		105		£ 5	100		£ 5
Total U.K. Credit Facilities (a)		£ 1,160	£ 97	£ 5	£ 1,058	£ 103	£ 5
U.S.							
PPL Capital Funding							
Syndicated Credit Facility	July 2019	\$ 300			\$ 300		
Syndicated Credit Facility (b)	Nov. 2018	300			300	\$ 270	
Bilateral Credit Facility	Mar. 2015	150			150		
Uncommitted Credit Facilities		65			65		
Total PPL Capital Funding Credit Facilities		\$ 815			\$ 815	\$ 270	
PPL Energy Supply							
Syndicated Credit Facility (b)	Nov. 2017	\$ 3,000	\$ 590	\$ 82	\$ 2,328		\$ 29
Letter of Credit Facility	Mar. 2015	150		113	37		138
Uncommitted Credit Facilities		175		74	101		77
Total PPL Energy Supply Credit Facilities		\$ 3,325	\$ 590	\$ 269	\$ 2,466		\$ 244
PPL Electric							
Syndicated Credit Facility	July 2019	\$ 300		\$ 1	\$ 299		\$ 21
LKE							
Syndicated Credit Facility (b)	Oct. 2018	\$ 75	\$ 75			\$ 75	
LG&E							
Syndicated Credit Facility	July 2019	\$ 500		\$ 143	\$ 357		\$ 20
KU							
Syndicated Credit Facility	July 2019	\$ 400		\$ 130	\$ 270		\$ 150
Letter of Credit Facility (c)	May 2016	198		198			198
Total KU Credit Facilities		\$ 598		\$ 328	\$ 270		\$ 348

- (a) PPL WW's amounts borrowed at September 30, 2014 and December 31, 2013 were USD-denominated borrowings of \$161 million and \$166 million, which bore interest at 1.86% and 1.87%. At September 30, 2014, the unused capacity under the U.K. credit facilities was \$1.8 billion.
- (b) At September 30, 2014, interest rates on outstanding borrowings were 2.04% for PPL Energy Supply and 1.66% for LKE. At December 31, 2013, interest rates on outstanding borrowings were 1.79% for PPL Capital Funding and 1.67% for LKE.
- (c) In October 2014, the KU letter of credit facility was terminated and replaced with a new letter of credit facility with the same capacity expiring October 2017.

PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are

supported by the respective Registrant's Syndicated Credit Facility.
The following commercial paper programs were in place at:

	September 30, 2014			December 31, 2013		
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Electric		\$ 300		\$ 300	0.23%	\$ 20
LG&E	0.29%	350	\$ 143	207	0.29%	20
KU	0.29%	350	130	220	0.32%	150
Total		\$ 1,000	\$ 273	\$ 727		\$ 190

In August 2014, PPL Energy Supply terminated its commercial paper program.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, which provides PPL Energy Supply the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At September 30, 2014, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an \$800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2018, but is subject to automatic one-year renewals under certain conditions. There were \$59 million of secured obligations outstanding under this facility at September 30, 2014.

(PPL Electric and LKE)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt and Equity Securities

(PPL)

In March 2014, PPL Capital Funding remarketed \$978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired \$228 million of the 4.32% Junior Subordinated Notes due 2019 and issued \$350 million of 2.189% Junior Subordinated Notes due 2017 and \$400 million of 3.184% Junior Subordinated Notes due 2019. Simultaneously, the newly issued Junior Subordinated Notes were exchanged for \$350 million of 3.95% Senior Notes due 2024 and \$400 million of 5.00% Senior Notes due 2044. The transaction was accounted for as a debt extinguishment, resulting in a \$(9) million gain (loss) on extinguishment of the Junior Subordinated Notes, recorded to "Interest Expense" on the Statement of Income. Except for the \$228 million retirement of the 4.32% Junior Subordinated Notes and fees related to the transactions, the activity was non-cash and was excluded from the Statement of Cash Flows for the nine months ended September 30, 2014. In May 2014, PPL issued 31.7 million shares of common stock at \$30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of \$978 million, which were used to repay short-term debt and for general corporate purposes.

(PPL and PPL Energy Supply)

In August 2014, PPL Energy Supply repaid the entire \$300 million principal amount of its 5.40% Senior Notes upon maturity.

(PPL and PPL Electric)

In June 2014, PPL Electric issued \$300 million of 4.125% First Mortgage Bonds due 2044. PPL Electric received proceeds of \$294 million, net of a discount and underwriting fees, which were used for capital expenditures, to repay short-term debt and for general corporate purposes.

Distributions (PPL)

In August 2014, PPL declared its quarterly common stock dividend, payable October 1, 2014, at 37.25 cents per share (equivalent to \$1.49 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See Note 8 in the 2013 Form 10-K for additional information.

Divestitures

Anticipated Spinoff of PPL Energy Supply

(PPL and PPL Energy Supply)

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. Under the terms of the agreements, at closing, PPL will spin off to PPL shareowners the parent of PPL Energy Supply, recently formed for purposes of this transaction, which by merging with a special purpose subsidiary of Talen Energy, will immediately thereafter become a subsidiary of Talen Energy. Substantially contemporaneous with the spinoff and merger, RJS Power will be contributed, directly or indirectly, by its owners to become a subsidiary of Talen Energy. Following completion of these transactions, PPL shareowners will own 65% of Talen Energy and affiliates of Riverstone will own 35%. PPL will have no continuing ownership interest in, control of, or affiliation with Talen Energy and PPL's shareowners will receive a number of Talen Energy shares at closing based on the number of PPL shares owned as of the spinoff record date. The spinoff will have no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes and is subject to customary closing conditions, including receipt of certain regulatory approvals by the NRC, FERC, DOJ and PUC. In addition, there must be available, subject to certain conditions, at least \$1 billion of undrawn capacity after excluding any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding, under a Talen Energy (or its subsidiaries) revolving credit or similar facility. The transaction is expected to close in the first or second quarter of 2015.

(PPL, PPL Energy Supply and PPL Electric)

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in the third quarter of 2014 and staffing selections are in progress and expected to be completed by the end of 2014.

The new organizational plans identify the need to resize and restructure the organizations of both PPL and PPL Energy Supply. As a result, during the third quarter of 2014, estimated charges for employee separation benefits were recorded in "Other operation and maintenance" on the Statement of Income and in "Other current liabilities" on the Balance Sheet as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>
Separation benefits	\$ 30	\$ 12	\$ 1
Number of positions	265	100	10

The separation benefits incurred include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. As staffing selections are completed, revisions to the estimated costs will be recognized primarily in the fourth quarter of 2014.

Additional costs to be incurred include accelerated stock based compensation and pro-rated performance based cash incentive and stock based compensation awards primarily for PPL Energy Supply employees and for PPL employees who will become PPL Energy Supply employees in connection with the transaction. These costs will be recognized at the spinoff closing date. PPL and PPL Energy Supply estimate these additional costs will be in the range of \$30 million to \$40 million.

(PPL)

As a result of the spinoff announcement, PPL recorded \$3 million and \$49 million of deferred income tax expense during the three and nine months ended September 30, 2014, to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.

In addition, PPL recorded \$5 million and \$21 million of third-party costs during the three and nine months ended September 30, 2014 related to this transaction primarily in "Other Income (Expense) - net" on the Statement of Income, for investment bank advisory, legal, consulting and accounting fees. PPL currently estimates a range of total third-party costs that will ultimately be incurred of between \$60 million and \$70 million.

The assets and liabilities of PPL Energy Supply will continue to be classified as "held and used" on PPL's Balance Sheet until the closing of the transaction. The spinoff announcement was evaluated and determined not to be an event or a change in circumstance that required a recoverability test or a goodwill impairment assessment. However, an impairment loss could be recognized by PPL at the spinoff date if the aggregate carrying amount of PPL Energy Supply's assets and liabilities exceeds its aggregate fair value at that date. PPL cannot currently predict whether an impairment loss will be recorded at the spinoff date.

(PPL Energy Supply)

PPL Energy Supply will treat the combination with RJS Power as an acquisition, as PPL Energy Supply will be considered the accounting acquirer in accordance with business combination accounting guidance.

Discontinued Operations

Montana Hydro Sale Agreement (PPL and PPL Energy Supply)

In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern 633 MW of hydroelectric generating facilities located in Montana for \$900 million in cash, subject to certain adjustments. Total net cash proceeds of the sale are currently estimated to be \$880 million. The sale includes 11 hydroelectric power facilities and related assets, included in the Supply segment.

In September 2014, the MPSC approved the transaction. As a result, these hydroelectric generating facilities met the "held for sale" criteria in the third quarter of 2014. The sale is expected to close in the fourth quarter of 2014.

Following are the components of Discontinued Operations in the Statements of Income for the periods ended September 30.

	Three Months		Nine Months	
	2014	2013	2014	2013
Operating revenues	\$ 33	\$ 31	\$ 103	\$ 110
Operating expenses	20	20	77	59
Operating income (loss)	13	11	26	51
Interest expense (a)	2	2	6	8
Income (loss) before income taxes	11	9	20	43
Income tax expense (benefit)	4	3	10	15
Income (Loss) from Discontinued Operations	\$ 7	\$ 6	\$ 10	\$ 28

(a) Represents allocated interest expense based upon debt attributable to the generation facilities being sold.

The major classes of "Assets of discontinued operations" on the Balance Sheet at September 30, 2014, were \$544 million of PP&E, net and \$82 million of Goodwill for PPL (\$14 million for PPL Energy Supply). Corresponding amounts at December 31, 2013 were \$614 million of PP&E, net, and similar amounts for Goodwill, which have not been reclassified on the Balance Sheet as of that date.

Development

Hydroelectric Expansion Projects (PPL and PPL Energy Supply)

In January 2014, the U.S. Department of Treasury awarded \$56 million for Specified Energy Property in Lieu of Tax Credits for the Rainbow hydroelectric redevelopment project in Great Falls, Montana. PPL Energy Supply accepted and accounted for the receipt of the grant in the first quarter of 2014. PPL Energy Supply was required to recapture \$60 million of investment tax credits previously recorded related to the Rainbow project as a result of the grant receipt. The impact on the financial statements for the grant receipt and recapture of investment tax credits was included in "Income (Loss) from Discontinued Operations (net of income taxes)" and was not significant for the three and nine months ended September 30, 2014, and will not be significant in future periods.

In July 2014, the U.S. Department of Treasury awarded \$108 million for Specified Energy Property in Lieu of Tax Credits for the Holtwood hydroelectric project in Holtwood, Pennsylvania. PPL Energy Supply accepted and accounted for the receipt of the grant in the third quarter of 2014. PPL Energy Supply was required to recapture \$117 million of investment tax credits previously recorded related to the Holtwood project as a result of the grant receipt. The impact on the financial statements for the grant receipt and recapture of investment tax credits was not significant for the three and nine months ended September 30, 2014, and will not be significant in future periods.

Future Capacity Needs (PPL, LKE, LG&E and KU)

Construction activity continues on the previously announced NGCC unit, Cane Run Unit 7, scheduled to be operational in May 2015. In October 2013, LG&E and KU announced plans to build a second NGCC unit, Green River Unit 5, at KU's Green River generating site. Subject to finalizing details, regulatory applications, permitting and construction schedules, the facility was to have approximately 700 MW of capacity at a cost of \$700 million and was originally planned to be operational in 2018. At the same time, LG&E and KU also announced plans for a 10 MW solar generation facility to be operational in 2016 at a cost of approximately \$36 million. In August 2014, LG&E and KU submitted a motion to withdraw their request to construct the Green River NGCC and the KPSC issued an order granting that request. LG&E's and KU's CPCN application continues to request approval to construct the E. W. Brown solar generating facility. A final Order is anticipated during the first quarter of 2015.

9. Defined Benefits

(PPL, PPL Energy Supply and PPL Electric)

Effective July 1, 2014, PPL's primary defined benefit pension plan and postretirement medical plan were closed to newly hired IBEW Local 1600 employees. All of PPL's defined benefit pension plans are now closed to newly hired employees.

(All Registrants except PPL Electric and KU)

Certain net periodic defined benefit costs are applied to accounts that are further distributed between capital and expense, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE.

Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL, PPL Energy Supply, LKE and LG&E for the periods ended September 30:

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2014	2013	2014	2013	2014	2013	2014	2013
PPL								
Service cost	\$ 26	\$ 31	\$ 18	\$ 18	\$ 77	\$ 94	\$ 54	\$ 52
Interest cost	58	53	90	79	175	160	268	238
Expected return on plan assets	(75)	(73)	(133)	(115)	(224)	(220)	(395)	(346)
Amortization of:								
Prior service cost	5	6			15	17		
Actuarial (gain) loss	8	20	34	37	23	60	100	112
Net periodic defined benefit costs (credits) prior to termination benefits	22	37	9	19	66	111	27	56
Termination benefits (a)	(7)				13			
Net periodic defined benefit costs (credits)	\$ 15	\$ 37	\$ 9	\$ 19	\$ 79	\$ 111	\$ 27	\$ 56

(a) See Note 10 for details of a one-time voluntary retirement window offered to certain bargaining unit employees.

	Pension Benefits			
	Three Months		Nine Months	
	2014	2013	2014	2013
PPL Energy Supply				
Service cost	\$ 1	\$ 1	\$ 4	\$ 5
Interest cost	3	2	7	6
Expected return on plan assets	(3)	(2)	(8)	(7)
Amortization of:				
Actuarial (gain) loss		1	1	2
Net periodic defined benefit costs (credits)	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 4</u>	<u>\$ 6</u>
LKE				
Service cost	\$ 5	\$ 6	\$ 16	\$ 19
Interest cost	17	16	50	47
Expected return on plan assets	(21)	(20)	(62)	(61)
Amortization of:				
Prior service cost	1	1	3	3
Actuarial (gain) loss	4	8	10	25
Net periodic defined benefit costs (credits)	<u>\$ 6</u>	<u>\$ 11</u>	<u>\$ 17</u>	<u>\$ 33</u>
LG&E				
Service cost		\$ 1	\$ 1	\$ 2
Interest cost	\$ 4	3	11	10
Expected return on plan assets	(4)	(5)	(14)	(15)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial (gain) loss	1	3	4	10
Net periodic defined benefit costs (credits)	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 9</u>

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2014	2013	2014	2013
PPL				
Service cost	\$ 3	\$ 4	\$ 9	\$ 11
Interest cost	8	7	24	21
Expected return on plan assets	(6)	(6)	(19)	(18)
Amortization of:				
Actuarial (gain) loss		1		4
Net periodic defined benefit costs (credits)	<u>\$ 5</u>	<u>\$ 6</u>	<u>\$ 14</u>	<u>\$ 18</u>
LKE				
Service cost	\$ 1	\$ 2	\$ 3	\$ 4
Interest cost	2	2	7	6
Expected return on plan assets	(1)	(2)	(4)	(4)
Amortization of:				
Prior service cost	1	1	2	2
Net periodic defined benefit costs (credits)	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 8</u>	<u>\$ 8</u>

(All Registrants except PPL)

In addition to the specific plans they sponsor, PPL Energy Supply subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services, and LG&E is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable.

For the periods ended September 30, PPL Services allocated the following net periodic defined benefit costs to PPL Energy Supply subsidiaries and PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU.

	Three Months		Nine Months	
	2014	2013	2014	2013
	PPL Energy Supply (a)	\$ 2	\$ 11	\$ 32
PPL Electric (a)	3	9	18	27
LG&E	2	3	6	9
KU	2	4	6	13

- (a) For PPL Energy Supply and PPL Electric, the three months ended September 30, 2014 include \$(5) million and \$(2) million and the nine months ended September 30, 2014 include \$11 million and \$2 million of termination benefits related to a one-time voluntary retirement window offered to certain bargaining unit employees. See Note 10 for additional information.

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL Electric)

See Note 11 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification (PPL and LKE)

See footnote (h) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(PPL and PPL Energy Supply)

Sierra Club Litigation

On March 6, 2013, the Sierra Club and the MEIC filed a complaint in the U.S. District Court, District of Montana, Billings Division against PPL Montana and the other Colstrip Steam Electric Station (Colstrip) co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, NorthWestern and PacifiCorp. PPL Montana operates Colstrip on behalf of the co-owners. The suit alleges certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements and listed 39 separate claims for relief. The complaint requests injunctive relief and civil penalties on average of \$36,000 per day per violation, including a request that the owners remediate environmental damage and that \$100,000 of the civil penalties be used for beneficial mitigation projects.

In July 2013, the Sierra Club and MEIC filed an additional Notice, identifying additional plant projects that are alleged not to be in compliance with the Clean Air Act and, in September 2013, filed an amended complaint. The amended complaint dropped all claims regarding pre-2001 plant projects, as well as the plaintiffs' Title V and opacity claims. It did, however, add claims with respect to a number of post-2000 plant projects, which effectively increased the number of projects subject to the litigation by about 40. PPL Montana and the other Colstrip owners filed a motion to dismiss the amended complaint in October 2013. In May 2014, the court dismissed the plaintiffs' independent Best Available Control Technology claims and their Prevention of Significant Deterioration (PSD) claims for three projects, but denied the owners' motion to dismiss the plaintiffs' other PSD claims on statute of limitation grounds. In October 2014, trial as to liability in this matter was re-scheduled to August 2015. A trial date with respect to remedies, if there is a finding of liability, has not been scheduled. On August 27, 2014, the Sierra Club and MEIC filed a second amended complaint. This complaint includes the same causes of action articulated in the first amended complaint, but alleges those claims in regard to only eight projects at the plant between 2001 and 2013. On September 26, 2014, the Colstrip owners filed an answer to the second amended complaint. Discovery is ongoing. PPL Montana believes it and the other co-owners have numerous defenses to the allegations set forth in this complaint and will vigorously assert the same. PPL Montana cannot predict the ultimate outcome of this matter at this time.

Notice of Intent to File Suit

On October 20, 2014, PPL Energy Supply received a notice letter from the Chesapeake Bay Foundation (CBF) alleging violations of the Clean Water Act and Pennsylvania Clean Streams Law at the Brunner Island generation plant. The letter was sent to PPL Brunner Island and the PADEP and is intended to provide notice of the alleged violations and CBF's intent to file suit in Federal court after expiration of the 60 day statutory notice period. Among other things, the letter alleges that PPL Brunner Island failed to comply with the terms of its National Pollutant Discharge Elimination System permit and associated

regulations related to the application of nutrient credits to the facility's discharges of nitrogen to the Susquehanna River. The letter also alleges that PADEP has failed to ensure that credits generated from nonpoint source pollution reduction activities that PPL Brunner Island applies to its discharges meet the eligibility and certification requirements under PADEP's nutrient trading program regulations. If a court-approved settlement cannot be reached, CBF plans to seek injunctive relief, monetary penalties, fees and costs of litigation. PPL and PPL Energy Supply cannot predict the outcome of this matter.

(PPL, LKE and LG&E)

Cane Run Environmental Claims

On December 16, 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, on July 17, 2014 the court dismissed the plaintiffs' RCRA claims and all but one of its Clean Air Act claims, but declined to dismiss their common law tort claims. Upon motion of LG&E and PPL, the district court certified for appellate review the issue of whether the common law claims are preempted by statute, but the U.S. Court of Appeals for the Sixth Circuit has yet to accept the case for review. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on operations of the Cane Run plant. LG&E has previously announced that it anticipates retiring the coal-fired units at Cane Run before the end of 2015.

Mill Creek Environmental Claims

In May 2014, the Sierra Club filed a citizen suit against LG&E in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Water Act. The Sierra Club alleges that various discharges at the Mill Creek plant constitute violations of the plant's water discharge permit. The Sierra Club seeks civil penalties, injunctive relief, plus costs and attorney's fees. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on the operations of the Mill Creek plant but believe the plant is operating in compliance with the permits.

Regulatory Issues

(All Registrants except PPL Energy Supply)

See Note 6 for information on regulatory matters related to utility rate regulation.

(PPL, PPL Energy Supply and PPL Electric)

New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC (the Act). To create incentives for the development of new, in-state electricity generation facilities, the Act implemented a long-term capacity agreement pilot program (LCAPP). The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In February 2011, PPL and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution and requesting declaratory and injunctive relief barring implementation of the Act by the BPU Commissioners. In October 2013, the U.S. District Court in New Jersey issued a decision finding the Act unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision was appealed to the U.S. Court of Appeals for the Third Circuit (Third Circuit) by CPV Power Development, Inc., Hess Newark, LLC and the State of New Jersey. In September 2014, the Third Circuit affirmed the District Court's decision.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electricity generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland (District Court) challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution, and requested declaratory and injunctive relief barring implementation of the order by the MD PSC Commissioners. In September 2013, the District Court issued a decision finding the MD PSC order unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision was appealed to the U.S. Court of Appeals for the Fourth Circuit (Fourth Circuit) by CPV Power Development, Inc. and the State of Maryland. In June 2014, the Fourth Circuit affirmed the District Court's opinion and subsequently denied the appellants' motion for rehearing.

Pacific Northwest Markets (PPL and PPL Energy Supply)

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, the FERC initiated proceedings to consider additional evidence. In July 2012, PPL Montana and the City of Tacoma, one of the two parties claiming refunds at FERC, reached a settlement whereby PPL Montana paid \$75 thousand to resolve the City of Tacoma's \$23 million claim. The settlement does not resolve the remaining claim outstanding at September 30, 2014 by the City of Seattle for approximately \$50 million. Hearings before a FERC Administrative Law Judge (ALJ) regarding the City of Seattle's refund claims were completed in October 2013 and briefing was completed in January 2014. In March 2014, the ALJ issued an initial decision denying the City of Seattle's complaint against PPL Montana. The initial decision is pending review by the FERC.

Although PPL and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

(All Registrants)

FERC Market-Based Rate Authority

In 1998, the FERC authorized LG&E, KU and PPL EnergyPlus to make wholesale sales of electricity and related products at market-based rates. In those orders, the FERC directed LG&E, KU and PPL EnergyPlus, respectively, to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by LG&E, KU, PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. In December 2013, PPL and these subsidiaries filed market-based rate updates for the Eastern and Western regions. In June 2014, the FERC accepted PPL's and its subsidiaries' updated market power analysis finding that they qualify for continued market-based rate authority in the Western region, which acceptance became final in July 2014. The filings for the Eastern region remain pending before the FERC. The Registrants cannot predict the ultimate outcome of the update filings for the Eastern region at this time.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

As previously reported, in October 2012, the FERC initiated its consideration of proposed changes to Reliability Standards to address the impacts of geomagnetic disturbances on the reliable operation of the bulk-power system, which might, among other things, lead to a requirement to install equipment that blocks geomagnetically induced currents on implicated transformers. On May 16, 2013, FERC issued Order No. 779, requiring NERC to submit two types of Reliability Standards for FERC's approval. The first type would require certain owners and operators of the nation's electricity infrastructure, such as the Registrants, to develop and implement operational procedures to mitigate the effects of geomagnetic disturbances on the bulk-power system. This NERC-proposed standard was filed by NERC with FERC for approval in January 2014 and was approved on June 19, 2014. The second type is to require owners and operators of the bulk-power system to assess certain geomagnetic disturbance events and develop and implement plans to protect the bulk-power system from those events and must be filed by NERC with FERC for approval by January 22, 2015. The Registrants may be required to make significant expenditures in new equipment or modifications to their facilities to comply with the new requirements. The Registrants are unable to predict the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for geomagnetic disturbances.

Environmental Matters - Domestic

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which are applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to related environmental compliance costs is reduced. As PPL Energy Supply is not a rate-regulated entity, it cannot seek to recover environmental compliance costs through the mechanism of rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

(All Registrants except PPL Electric)

Air

CSAPR (formerly Clean Air Transport Rule) and CAIR

In July 2011, the EPA adopted the CSAPR. The CSAPR replaced the EPA's previous CAIR which was invalidated in July 2008 by the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court). The CAIR subsequently was effectively reinstated by the D.C. Circuit Court in December 2008, pending finalization of the CSAPR. Like the CAIR, the CSAPR targeted sources in the eastern U.S. and would have required reductions in sulfur dioxide and nitrogen oxides in two phases (2012 and 2014).

In December 2011, the D.C. Circuit Court stayed implementation of the CSAPR and left the CAIR in effect pending a final decision on the validity of the rule. In August 2012, the D.C. Circuit Court issued a ruling invalidating the CSAPR, remanding the rule to the EPA for further action, and leaving the CAIR in place during the interim. In April 2014, the U.S. Supreme Court reversed and remanded the D.C. Circuit Court's August 2012 decision, and on October 23, 2014, the D.C. Circuit Court lifted the stay of CSAPR, granting EPA's request.

PPL, PPL Energy Supply, LKE, LG&E and KU are preparing for Phase 1 annual trading programs for nitrogen oxide and sulfur dioxide to commence on January 1, 2015. Phase 1 ozone season trading will begin on May 1, 2015. Phase 2 reductions impacting the annual and ozone season trading programs would take effect in 2017 and continue into the future. Based on analyses conducted in 2011 to prepare for CSAPR compliance, PPL, PPL Energy Supply, LKE, LG&E and KU do not anticipate significant compliance costs, however these analyses will be reviewed under current market and operating conditions to make further assessments on compliance impacts.

National Ambient Air Quality Standards

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies. The PADEP has issued a draft rule requiring reasonable reduction; however, the proposal is being questioned as too lenient by the EPA, other OTR states and environmental groups. The PADEP may impose more stringent emission limits than those set forth in the proposed rule which could have a significant impact on PPL Energy Supply's Pennsylvania coal plants. The EPA is expected to further tighten the ozone standard in the near term, which may require further nitrogen oxide reductions, particularly within the OTR.

In December 2012, the EPA issued final rules that tighten the National Ambient Air Quality Standard for fine particulates. The rules were challenged by industry groups, and on May 9, 2014 the D.C. Circuit Court upheld them. Under the final rules, states and the EPA have until 2015 to identify non-attainment areas, and states have until 2020 to achieve attainment for those areas.

In 2010, the EPA finalized a new National Ambient Air Quality Standard for sulfur dioxide and required states to identify areas that meet those standards and areas that are in non-attainment. In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Yellowstone County in Montana (Billings area) and part of Jefferson County in Kentucky. Attainment must be achieved by 2018. States are working on designations for other areas. In April 2014, the EPA proposed timeframes for completing these designations. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR or the CSAPR (as discussed above), or the MATS, or the Regional Haze requirements (as discussed below), such as upgraded or new sulfur dioxide scrubbers at certain plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment (as noted above) is not expected to be significant, as PPL Energy Supply previously announced its intent to place the plant in long-term reserve status beginning in April 2015.

Until final rules are promulgated, non-attainment designations are finalized and state compliance plans are developed, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the ultimate outcome of the new National Ambient Air Quality standards for ozone, sulfur dioxide and particulate matter.

MATS

In May 2011, the EPA published a proposed regulation requiring stringent reductions of mercury and other hazardous air pollutants from power plants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 16, 2012. The rule, which was challenged by industry groups and states, was upheld by the D.C. Circuit Court in April 2014. On July 14, 2014, a coalition of 23 states filed a petition seeking Supreme Court review of this decision. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. LG&E, KU and PPL Energy Supply have received compliance extensions for certain plants and PPL Energy Supply has a pending request, which was submitted on September 15, 2014, for its Colstrip plant.

At the time the MATS rule was proposed, LG&E and KU filed requests with the KPSC for environmental cost recovery based on their expected need to install environmental controls including chemical additive and fabric-filter baghouses to remove air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. LG&E's and

KU's anticipated retirement of certain coal-fired electricity generating units located at Cane Run and Green River is in response to MATS and other environmental regulations.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that installation of chemical additive systems and other controls may be necessary at certain coal-fired plants, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact of MATS on operating costs. With respect to PPL Energy Supply's Montana plants, modifications to the air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. For the Corette plant, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant was determined to be impaired in December 2013. See Note 18 in PPL's and PPL Energy Supply's 2013 Form 10-K for additional information.

PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below.

Regional Haze and Visibility

The EPA's regional haze programs were developed under the Clean Air Act to eliminate man-made visibility degradation by 2064. Under the programs, states are required to make reasonable progress every decade, through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977.

The primary power plant emissions affecting visibility are sulfur dioxide, nitrogen oxides and particulates. To date, the focus of regional haze activity has been the western U.S. because the EPA had determined that the regional trading program in the eastern U.S. under the CSAPR satisfies BART requirements to reduce sulfur dioxide and nitrogen oxides. Although the D.C. Circuit Court recently lifted the CSAPR stay in response to a U.S. Supreme Court action in April 2014, (see "CSAPR/CAIR" discussion above), decisions by the EPA and the courts will determine whether power plants located in the eastern U.S., including PPL's plants in Pennsylvania and Kentucky, will be subject to additional reductions in sulfur dioxide and nitrogen oxides as required by BART. In addition, LG&E's Mill Creek Units 3 and 4 are required to reduce sulfuric acid mist emissions because they were determined to have a significant regional haze impact. These reductions are required in the regional haze state implementation plan that the Kentucky Division for Air Quality submitted to the EPA. LG&E is currently installing sorbent injection technology to comply with these reductions, the costs of which are not expected to be significant.

In Montana, the EPA Region 8 developed the regional haze plan as the MDEQ declined to do so. The EPA finalized the Federal Implementation Plan (FIP) for Montana in September 2012. The final FIP assumed no additional controls for Corette or Colstrip Units 3 and 4, but proposed tighter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply expects to meet these tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above). Under the final FIP, Colstrip Units 1 and 2 may require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxides and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit and litigation is ongoing.

New Source Review (NSR)

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants, but they have received no further communications from the EPA since providing their responses. In January 2009, PPL, PPL Energy Supply and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during a Spring 2012 maintenance outage at Colstrip Unit 1. The EPA request remains an open matter. In September 2012, PPL Montana received an information request from the MDEQ regarding Colstrip Unit 1 and other projects. MDEQ formally suspended this request on June 6, 2014, in consideration of pending litigation (see "Legal Matters - Sierra Club Litigation" above). PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In August 2007, LG&E received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably

possible losses, if any.

States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. See "Legal Matters" above for information on a lawsuit filed by environmental groups in March 2013 against PPL Montana and other owners of Colstrip.

If PPL subsidiaries are found to have violated NSR regulations by significantly increasing pollutants through a major plant modification, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet stringent permit limits reflecting Best Available Control Technology (BACT) for pollutants meeting the National Ambient Air Quality Standards (NAAQS) in the area and reflecting Lowest Achievable Emission Rates for pollutants not meeting the NAAQS in the area. The costs to meet such limits, including installation of technology at certain units, could be material.

TC2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload coal-fired generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which, in January 2010, were incorporated into a final revised permit issued by the Kentucky Division for Air Quality. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on plant operations, including increased capital costs, if any.

Climate Change

(All Registrants)

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that applied beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. The EPA's rules were challenged in court and on June 23, 2014 the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG emissions under these provisions of the Clean Air Act but only for stationary sources that would otherwise have been subject to these provisions due to significant increases in emissions of other pollutants. As a result, any new sources or major modifications to an existing GHG source causing a net significant increase in GHG emissions must comply with BACT permit limits for GHGs if it would otherwise be subject to BACT or lowest achievable emissions rate limits due to significant increases in other pollutants.

In June 2013, President Obama released his Climate Action Plan that reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum, the EPA was directed to issue a revised proposal for new power plants (a prior proposal was issued in 2012) by September 20, 2013, with a final rule in a timely fashion thereafter, and to issue proposed standards for existing plants by June 1, 2014 with a final rule to be issued by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 30, 2016. The Administration's increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may also lead to more costly regulatory requirements. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect the Registrants and others in the industry as modifications to electricity delivery systems to improve the ability to withstand major storms may be needed in order to meet those requirements.

The EPA's revised proposal to regulate new sources under Section 111(b) of the Clean Air Act was published in the Federal Register on January 8, 2014. Unlike the EPA's prior proposal, the EPA's revised proposal established separate emission standards for coal and gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially available, the revised proposal effectively precludes the construction of new coal plants. The standard for NGCC power plants is the same as the EPA proposed in 2012 and is not continuously achievable.

The EPA's proposed regulation addressing GHG emissions from existing power plants under Section 111(d) of the Clean Air Act was published in the Federal Register on June 18, 2014. The proposal contains state-specific rate-based reduction goals and guidelines for the development, submission, and implementation of state plans to achieve the state goals. State-specific

goals were calculated from 2012 data by applying EPA's very broad interpretation and definition of the Best System of Emission Reduction resulting in very stringent targets to be met in two phases (2020-2029 and 2030 and beyond). The EPA believes it has offered some flexibility to the states as to how state compliance plans can be crafted, including the option to demonstrate compliance on a mass basis and through multi-state collaborations. The EPA is also proposing potential state plan extensions based on the plan filed (single or multi-state). On October 30, 2014, the EPA issued a Notice of Data Availability seeking comments on several issues including providing additional flexibility in meeting compliance deadlines, addressing disparities in state-specific targets, and incorporating a regionalized approach to demonstrating compliance. The Registrants are analyzing the proposal and its potential impacts. The regulation of GHG emissions from existing power plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

The EPA has also proposed a regulation under Section 111(b) of the Clean Air Act addressing GHG emissions from existing power plants that are modified or reconstructed; however, the Registrants do not expect a significant impact from this rulemaking as there are no plans to modify or reconstruct their existing plants in a manner that would trigger the standards under 111(b).

(PPL and PPL Energy Supply)

Based on the stringent reduction requirements in the EPA's proposed rule under Section 111(d), and based on information gained from public input, the PADEP is no longer expecting to achieve reductions required under the EPA's proposed rule by solely increasing efficiency at existing fossil-fuel plants and/or reducing their generation as set forth in the PADEP's April 10, 2014 white paper. On October 23, 2014, the Governor of Pennsylvania signed into law, Act 175 of 2014 requiring the PADEP to obtain General Assembly approval of any state plan addressing GHG emissions under the EPA's 111(d) rules for existing plants. The law includes provisions to minimize the exposure to a federal implementation plan due to legislative delay.

The MDEQ, at the request of the Governor of Montana, has issued a white paper outlining possible regulatory scenarios to implement the EPA's proposed Section 111(d) rule, including a combination of increasing energy efficiency at coal-fired plants, adding more low- and zero-carbon generation, and carbon sequestration at Colstrip. The white paper was made public in September 2014 and the MDEQ has held public meetings to present the white paper and gather comments.

(PPL, LKE, LG&E and KU)

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. In November 2011, the Council issued a final report to the Secretary of Kentucky's Energy and Environment Cabinet for consideration. The final report acknowledged that the recommendations would require additional review and analysis prior to implementation, and that many of the recommendations would likely require, in part, further legislative or regulatory actions. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant. In April 2014, the Kentucky General Assembly passed legislation which limits the measures which the Energy and Environment Cabinet may consider in setting performance standards to comply with the EPA's regulations governing GHG emissions from existing sources. The legislation provides that such state GHG performance standards shall be based on emission reductions, efficiency measures, and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions will make it more difficult for Kentucky to achieve the GHG reduction levels which the EPA has proposed for Kentucky.

(All Registrants except PPL Electric)

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained claims brought on the basis of these theories of liability, the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the Second Circuit and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in *Comer v. Murphy Oil* (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a

petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal district court granted defendants' motions to dismiss the state common law claims. Plaintiffs appealed to the U.S. Court of Appeals for the Fifth Circuit and in May 2013, the Fifth Circuit affirmed the district court's dismissal of the case. Additional litigation in federal and state courts over such issues is continuing. The Registrants cannot predict the outcome of these lawsuits or estimate a range of reasonably possible losses, if any.

Renewable Energy Legislation

(All Registrants)

There has been interest in renewable energy legislation at both the state and federal levels; however, no legislation is expected to become law in 2014 at either the federal level or in the states in which PPL operates.

(PPL, PPL Energy Supply and PPL Electric)

In Pennsylvania, bills were introduced calling for an increase in Alternative Energy Portfolio Standard (AEPS) Tier 1 obligations and to create a \$25 million permanent funding program for solar generation. Bills (SB 1171 and HB 100) were also introduced to add natural gas as a qualified AEPS resource, and another bill (HB 1912) would repeal the AEPS Act entirely. All these bills remain in committee and are unlikely to advance.

(PPL and PPL Energy Supply)

An interim legislative committee in Montana is reviewing the state's Renewable Portfolio Standard (RPS) and recommended that the law continue without change. In New Jersey, a bill (S-1475) has been introduced to increase the current RPS standard to 30% from Class I sources by 2020. The chairman of the Senate Environmental Committee convened a workgroup to look at further changes to New Jersey's RPS law to enable New Jersey to meet emissions goals established in the state's Global Warming Response Act. A bill (S-2444) was subsequently introduced to mandate that 80% of New Jersey's electricity be generated from renewable resources by 2050. PPL and PPL Energy Supply are unable to predict the outcome of this legislation at this time.

(All Registrants)

The Registrants believe there are financial, regulatory and operational uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply and downward pressure on energy prices that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their competitive plants' future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (All Registrants except PPL Electric)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the RCRA. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. Regulating CCRs as a hazardous waste under Subtitle C of the RCRA would materially increase costs and result in early retirements of many coal-fired plants, as it would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through generation, transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The EPA's proposed approach to regulate CCRs as non-hazardous waste under Subtitle D of the RCRA would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the EPA's proposed non-hazardous waste regulations, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented or is implementing certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) requesting comments on selected documents it received during the comment period for the proposed regulations.

A coalition of environmental groups and two CCR recycling companies filed lawsuits against the EPA seeking a deadline for final rulemaking. In settlement of that litigation, the EPA has agreed to issue its final rulemaking on the Subtitle D option described above by December 19, 2014.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from issuing final CCR regulations and would set non-hazardous CCR standards under RCRA and authorize state permit programs. It remains uncertain whether similar legislation will be passed by the U.S. Senate. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the financial and operational impact is expected to be material if CCRs are regulated as hazardous waste and significant if regulated as non-hazardous.

Trimble County Landfill (PPL, LKE, LG&E and KU)

In May 2011, LG&E submitted an application for a special waste landfill permit to handle coal combustion residuals generated at the Trimble County plant. After extensive review of the permit application in May 2013, the Kentucky Division of Waste Management denied the permit application on the grounds that the proposed facility would violate the Kentucky Cave Protection Act because it would eliminate an on-site karst feature considered to be a cave. After assessing additional options for managing coal combustion residuals, in January 2014, LG&E submitted to the Kentucky Division of Waste Management a landfill permit application for an alternate site adjacent to the plant. LG&E has also applied for other necessary regulatory approvals including a dredge and fill permit from the U.S. Army Corps of Engineers. PPL, LKE, LG&E and KU are unable to determine the potential impact of this matter until all permits are issued and any resulting legal challenges are concluded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(All Registrants except PPL Electric)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to respond to notices of violations and implement assessment or abatement measures, where required or applicable. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER) on behalf of the Sierra Club, the MEIC, and the National Wildlife Federation. In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County. This matter was stayed in December 2012. In April 2014, Earthjustice filed a motion for leave to amend the petition for review and to lift the stay which was granted by the court in May 2014. PPL Montana and the MDEQ responded to the amended petition and filed partial motions to dismiss in July 2014, which were both recently denied by the court.

(All Registrants except PPL Electric)

Clean Water Act/316(b)

The EPA's final 316(b) rule for existing facilities, became effective on October 14, 2014, and regulates cooling water intake structures and their impact on aquatic organisms. The rule allows states considerable authority to interpret the rule. The rule requires all existing facilities to choose between several options to reduce the impact to aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Plants already equipped with closed-cycle cooling, an acceptable option, would likely not incur additional costs. Once-through systems would likely require additional technology to comply with the rule. PPL, PPL Energy Supply, LKE, LG&E and KU are evaluating compliance strategies but do not presently expect the compliance costs to be material.

Effluent Limitations Guidelines (ELGs) and Standards

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations contain requirements that would affect the inspection and operation of CCR facilities, if finalized. The EPA has indicated that it will coordinate these regulations with the regulation of CCRs discussed above. The proposal contains alternative approaches, some of which could significantly impact PPL's coal-fired plants. The EPA has agreed to a new deadline for the final rule of September 30, 2015 which is contingent upon the EPA meeting its deadline of December 19, 2014 for issuing its final CCR regulations. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant. Pending finalization of the ELGs, certain states (including Pennsylvania and Kentucky) and environmental groups are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines.

(All Registrants)

Waters of the United States (WOTUS)

On April 21, 2014, the EPA and the U.S. Army Corps of Engineers (Army Corps) published the proposed rule defining Waters of the United States (WOTUS) that could significantly expand the federal government's interpretation of what constitutes WOTUS subject to regulation under the Clean Water Act. If the definition is expanded as proposed by the EPA and the Army Corps, permits and other regulatory requirements may be imposed for many matters presently not covered (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands), the implications of which could be significant. The U.S. House and Senate are considering legislation to block these regulations.

Other Issues

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all or some PCB-containing equipment. The EPA is planning to propose the revised regulations in 2015. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

(PPL and PPL Energy Supply)

A subsidiary of PPL Energy Supply has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant. In June 2012, a Consent Order and Agreement (COA) with the PADEP was signed, allowing the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. The COA required a retrofit of impingement control technology at the intakes to the cooling towers, at a cost that would have been significant. Based on the results of the first year of study, the PADEP has suggested closing the COA and writing a new COA to resolve the issue. PPL is in negotiations with the agency at this time. PPL and PPL Energy Supply cannot predict at this time the outcome of the proposed new COA and what impact, if any, it would have on their facilities, but the costs could be significant.

(PPL, LKE, LG&E and KU)

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. In September 2013, the court reversed the Cabinet order upholding the permit and remanded the permit to the agency for further proceedings. In October 2013, LG&E filed a notice of appeal with the Kentucky Court of Appeals. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

Superfund and Other Remediation *(All Registrants)*

PPL Electric is potentially responsible for costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase substantially more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL Energy Supply, PPL Electric, LG&E and KU undertake remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on these Registrants' operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for the Registrants.

Environmental Matters - WPD *(PPL)*

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

Other

Nuclear Insurance (PPL and PPL Energy Supply)

The Price-Anderson Act is a United States Federal law which governs liability-related issues and ensures the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities. It also seeks to limit the liability of nuclear reactor owners for such claims from any single incident. Effective September 10, 2013, the liability limit per incident is \$13.6 billion for such claims which is funded by insurance coverage from American Nuclear Insurers and an industry assessment program.

Under the industry assessment program, in the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act, as amended, PPL Susquehanna could be assessed up to \$255 million per incident, payable at \$38 million per year.

Additionally, PPL Susquehanna purchases property insurance programs from NEIL, an industry mutual insurance company of which PPL Susquehanna is a member. Effective April 1, 2014, facilities at the Susquehanna plant are insured against property damage losses up to \$2.0 billion. PPL Susquehanna also purchases an insurance program that provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the NEIL property and replacement power insurance programs, PPL Susquehanna could be assessed retrospective premiums in the event of the insurers' adverse loss experience. This maximum assessment is \$46 million.

Pennsylvania Coal Plants (PPL and PPL Energy Supply)

In the fourth quarter of 2013, management tested the Brunner Island and Montour plants for impairment and concluded neither was impaired as of December 31, 2013. There were no events or changes in circumstances that indicated a recoverability test was required to be performed in 2014. The carrying value of the Pennsylvania coal-fired generation assets was \$2.5 billion as of September 30, 2014 (\$1.3 billion for Brunner Island and \$1.2 billion for Montour).

Labor Union Agreements

(PPL, PPL Energy Supply and PPL Electric)

In May 2014, PPL's, PPL Energy Supply's and PPL Electric's bargaining agreement with its largest IBEW local expired. PPL, PPL Energy Supply and PPL Electric finalized a new three-year labor agreement with IBEW local 1600 in May 2014 and the agreement was ratified in early June 2014.

As part of efforts to reduce operations and maintenance expenses, the new agreement offered a one-time voluntary retirement window to certain bargaining unit employees. The benefits offered under this provision are consistent with the standard separation program benefits for bargaining unit employees. As a result, in the second quarter of 2014, estimated separation benefits of \$29 million were recorded (\$23 million for PPL Energy Supply and \$6 million for PPL Electric). During the three months ended September 30, 2014, based on final employee acceptances of the offer, PPL reduced the previously recorded estimated amounts by \$9 million (\$6 million for PPL Energy Supply and \$3 million for PPL Electric).

As a result, for the nine months ended September 30, 2014, the following total separation benefits have been recorded:

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>
Pension Benefits	\$ 13	\$ 11	\$ 2
Severance Compensation	7	6	1
Total Separation Benefits	<u>\$ 20</u>	<u>\$ 17</u>	<u>\$ 3</u>
Number of Employees	121	105	15

The separation benefits are included in "Other operation and maintenance" on the Statement of Income. The liability for pension benefits is included in "Accrued pension obligations" on the Balance Sheet at September 30, 2014. All of the severance compensation was paid in the third quarter of 2014. The remaining terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL, PPL Energy Supply or PPL Electric.

(LKE, LG&E and KU)

In August 2014, KU and the USWA ratified a three-year labor agreement through August 2017 containing 2.5% wage increases for each year. The agreement covers approximately 74 employees.

In November 2014, LG&E and the IBEW ratified a three-year labor agreement through November 2017 containing 2.5% wage increases for each year. The agreement covers approximately 700 employees.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of September 30, 2014. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at September 30, 2014 and December 31, 2013, was \$25 million and \$26 million for PPL and \$19 million for both periods for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<u>Exposure at September 30, 2014</u>	<u>Expiration Date</u>
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 12(b)	2017 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	125(c)	
<u>PPL Energy Supply</u>		
Letters of credit issued on behalf of affiliates	27(d)	2014 - 2015
Indemnifications for sales of assets	250(e)	2025
Guarantee of a portion of a divested unconsolidated entity's debt	22(f)	2018
<u>PPL Electric</u>		
Guarantee of inventory value	33(g)	2017
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301(h)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(i)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers

- make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.
- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At September 30, 2014, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
 - (d) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.
 - (e) Indemnifications are governed by the specific sales agreement and include breach of the representations, warranties and covenants, and liabilities for certain other matters. PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration date noted is based on those cases in which the agreements provide for specific limits.
 - (f) Relates to a guarantee of one-third of the divested entity's debt. The purchaser provided a cross-indemnity, secured by a lien on the purchaser's stock of the divested entity. The exposure noted reflects principal only.
 - (g) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
 - (h) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing the December 2012 order of the Henderson Circuit Court, confirming the arbitration award. On May 30, 2014, the Court of Appeals issued an opinion affirming the lower court decision, and subsequently denied a Petition for Rehearing. LKE's indemnitee filed a Motion for Discretionary Review with the Kentucky Supreme Court on October 2, 2014. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.
 - (i) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts currently included within a demand charge designed and currently expected to cover these costs over the term of the contract. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" and "Guarantees and Other Assurances" in Note 15 in PPL's, LKE's, LG&E's and KU's 2013 Form 10-K for additional information on the OVEC power purchase contract.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable (*PPL Energy Supply and PPL Electric*)

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. The sales and purchases between PPL EnergyPlus and PPL Electric are included in the Statements of Income as "Unregulated wholesale energy to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Default Service Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric when: (a) the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered; and (b) this market price exposure exceeds a contractual credit limit. During the second quarter of 2014, PPL Energy Supply experienced a downgrade in its corporate credit ratings to below investment grade. As a result of the downgrade of PPL Energy Supply, as guarantor, PPL EnergyPlus no longer has an

established credit limit. At September 30, 2014, PPL EnergyPlus was not required to post collateral. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At September 30, 2014, PPL Energy Supply had a net credit exposure of \$27 million from PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Support Costs (All Registrants except PPL)

Both PPL Services and LKS provide the respective PPL and LKE subsidiaries with administrative, management and support services. Where applicable, the costs of these services are charged to the respective subsidiaries as direct support costs. General costs that cannot be directly attributed to a specific subsidiary are allocated and charged to the respective subsidiaries as indirect support costs. PPL Services uses a three-factor methodology that includes the subsidiaries' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information.

PPL Services and LKS charged the following amounts for the periods ended September 30, and believe these amounts are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

	Three Months		Nine Months	
	2014	2013	2014	2013
PPL Energy Supply from PPL Services	\$ 49	\$ 52	\$ 161	\$ 161
PPL Electric from PPL Services	34	37	113	109
LKE from PPL Services	3	3	11	11
LG&E from LKS	49	53	154	159
KU from LKS	55	36	167	146

LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and LKE and KU are reimbursed through LKS.

Intercompany Borrowings (PPL Electric and LKE)

A PPL Electric subsidiary periodically holds revolving demand notes from certain affiliates. At September 30, 2014, there was no balance outstanding. At December 31, 2013, \$150 million was outstanding and was reflected in "Notes receivable from affiliate" on the Balance Sheet. The interest rates on borrowings are equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at December 31, 2013, was 1.92%. Interest earned on these revolving facilities was not significant for the three and nine months ended September 30, 2014 and 2013.

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rate on borrowings is equal to one-month LIBOR plus a spread. At September 30, 2014, \$22 million was outstanding and was reflected in "Notes payable with affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at September 30, 2014 was 1.66%. There was no balance outstanding at December 31, 2013. Interest on the revolving line of credit was not significant for the three and nine months ended September 30, 2014 and 2013.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. The interest on the loan is based on the PPL affiliate's credit rating and is currently equal to one-month LIBOR plus a spread. There was no balance outstanding at September 30, 2014. At December 31, 2013, \$70 million was outstanding and was reflected in "Notes receivable from affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at December 31, 2013 was 2.17%. Interest income on this note was not significant for the three and nine months ended September 30, 2014 and 2013.

Intercompany Derivatives (LKE, LG&E and KU)

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 14 for additional information on intercompany derivatives.

Other (All Registrants except PPL and LKE)

See Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

(All Registrants)

The components of "Other Income (Expense) - net" for the periods ended September 30 were:

	Three Months		Nine Months	
	2014	2013	2014	2013
PPL				
Other Income				
Earnings on securities in NDT funds	\$ 11	\$ 4	\$ 23	\$ 14
Interest income		1	4	2
AFUDC - equity component	3	3	8	8
Miscellaneous	4		8	10
Total Other Income	18	8	43	34
Other Expense				
Economic foreign currency exchange contracts (Note 14)	(134)	117	(38)	(6)
Charitable contributions	3	5	12	13
Transaction costs related to spinoff of PPL Energy Supply (Note 8)	2		18	
Miscellaneous	3	3	13	9
Total Other Expense	(126)	125	5	16
Other Income (Expense) - net	\$ 144	\$ (117)	\$ 38	\$ 18

"Other Income (Expense) - net" for the three and nine months ended September 30, 2014 and 2013 for PPL Energy Supply was primarily earnings on securities in NDT funds. The components of "Other Income (Expense) - net" for the three and nine months ended September 30, 2014 and 2013 for PPL Electric, LKE, LG&E and KU were not significant.

13. Fair Value Measurements and Credit Concentration

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and nine months ended September 30, 2014 and 2013, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2013 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	September 30, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 1,188	\$ 1,188			\$ 1,102	\$ 1,102		
Restricted cash and cash equivalents (a)	324	324			134	134		
Price risk management assets:								
Energy commodities	1,041	4	\$ 945	\$ 92	1,188	3	\$ 1,123	\$ 62
Interest rate swaps	6		6		91		91	
Foreign currency contracts	51		51					
Total price risk management assets	1,098	4	1,002	92	1,279	3	1,214	62

	September 30, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
NDT funds:								
Cash and cash equivalents	17	17			14	14		
Equity securities								
U.S. large-cap	582	432	150		547	409	138	
U.S. mid/small-cap	83	35	48		81	33	48	
Debt securities								
U.S. Treasury	98	98			95	95		
U.S. government sponsored agency	6		6		6		6	
Municipality	77		77		77		77	
Investment-grade corporate	40		40		38		38	
Other	6		6		5		5	
Receivables (payables), net	2		2		1	(1)	2	
Total NDT funds	911	582	329		864	550	314	
Auction rate securities (b)	13			13	19			19
Total assets	\$ 3,534	\$ 2,098	\$ 1,331	\$ 105	\$ 3,398	\$ 1,789	\$ 1,528	\$ 81
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,137	\$ 2	\$ 1,063	\$ 72	\$ 1,070	\$ 4	\$ 1,028	\$ 38
Interest rate swaps	64		64		36		36	
Foreign currency contracts	26		26		106		106	
Cross-currency swaps	47		47		32		32	
Total price risk management liabilities	\$ 1,274	\$ 2	\$ 1,200	\$ 72	\$ 1,244	\$ 4	\$ 1,202	\$ 38
PPL Energy Supply								
Assets								
Cash and cash equivalents	\$ 194	\$ 194			\$ 239	\$ 239		
Restricted cash and cash equivalents (a)	284	284			85	85		
Price risk management assets:								
Energy commodities	1,041	4	\$ 945	\$ 92	1,188	3	\$ 1,123	\$ 62
Total price risk management assets	1,041	4	945	92	1,188	3	1,123	62
NDT funds:								
Cash and cash equivalents	17	17			14	14		
Equity securities								
U.S. large-cap	582	432	150		547	409	138	
U.S. mid/small-cap	83	35	48		81	33	48	
Debt securities								
U.S. Treasury	98	98			95	95		
U.S. government sponsored agency	6		6		6		6	
Municipality	77		77		77		77	
Investment-grade corporate	40		40		38		38	
Other	6		6		5		5	
Receivables (payables), net	2		2		1	(1)	2	
Total NDT funds	911	582	329		864	550	314	
Auction rate securities (b)	10			10	16			16
Total assets	\$ 2,440	\$ 1,064	\$ 1,274	\$ 102	\$ 2,392	\$ 877	\$ 1,437	\$ 78
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,137	\$ 2	\$ 1,063	\$ 72	\$ 1,070	\$ 4	\$ 1,028	\$ 38
Total price risk management liabilities	\$ 1,137	\$ 2	\$ 1,063	\$ 72	\$ 1,070	\$ 4	\$ 1,028	\$ 38
PPL Electric								
Assets								
Cash and cash equivalents	\$ 111	\$ 111			\$ 25	\$ 25		
Restricted cash and cash equivalents (c)	3	3			12	12		
Total assets	\$ 114	\$ 114			\$ 37	\$ 37		
LKE								
Assets								
Cash and cash equivalents	\$ 47	\$ 47			\$ 35	\$ 35		
Price risk management assets:								
Interest rate swaps	6		\$ 6					
Cash collateral posted to counterparties (d)	20	20			22	22		
Total assets	\$ 73	\$ 67	\$ 6		\$ 57	\$ 57		
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 46		\$ 46		\$ 36		\$ 36	
Total price risk management liabilities	\$ 46		\$ 46		\$ 36		\$ 36	

	September 30, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
LG&E								
Assets								
Cash and cash equivalents	\$ 25	\$ 25			\$ 8	\$ 8		
Price risk management assets:								
Interest rate swaps	3		\$ 3					
Cash collateral posted to counterparties (d)	20	20			22	22		
Total assets	<u>\$ 48</u>	<u>\$ 45</u>	<u>\$ 3</u>		<u>\$ 30</u>	<u>\$ 30</u>		
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 44		\$ 44		\$ 36		\$ 36	
Total price risk management liabilities	<u>\$ 44</u>		<u>\$ 44</u>		<u>\$ 36</u>		<u>\$ 36</u>	
KU								
Assets								
Cash and cash equivalents	\$ 22	\$ 22			\$ 21	\$ 21		
Price risk management assets:								
Interest rate swaps	3		\$ 3					
Total assets	<u>\$ 25</u>	<u>\$ 22</u>	<u>\$ 3</u>		<u>\$ 21</u>	<u>\$ 21</u>		
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 2		\$ 2					
Total price risk management liabilities	<u>\$ 2</u>		<u>\$ 2</u>					

- (a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2014 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total
PPL								
Balance at beginning of period								
	\$ 74	\$ 16		\$ 90	\$ 24	\$ 19		\$ 43
Total realized/unrealized gains (losses)								
Included in earnings	(84)			(84)	(147)			(147)
Included in OCI (a)							\$ (1)	(1)
Purchases					(6)			(6)
Sales	67	(3)		64	67	(6)		61
Settlements	(37)			(37)	82			82
Transfers out of Level 3							1	1
Balance at end of period	<u>\$ 20</u>	<u>\$ 13</u>		<u>\$ 33</u>	<u>\$ 20</u>	<u>\$ 13</u>		<u>\$ 33</u>
PPL Energy Supply								
Balance at beginning of period								
	\$ 74	\$ 13		\$ 87	\$ 24	\$ 16		\$ 40
Total realized/unrealized gains (losses)								
Included in earnings	(84)			(84)	(147)			(147)
Purchases					(6)			(6)
Sales	67	(3)		64	67	(6)		61
Settlements	(37)			(37)	82			82
Balance at end of period	<u>\$ 20</u>	<u>\$ 10</u>		<u>\$ 30</u>	<u>\$ 20</u>	<u>\$ 10</u>		<u>\$ 30</u>

- (a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2013 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL								
Balance at beginning of period	\$ 40	\$ 19	\$ 3	\$ 62	\$ 22	\$ 16	\$ 1	\$ 39
Total realized/unrealized gains (losses)								
Included in earnings	18			18	23			23
Included in OCI (a)			(2)	(2)			1	1
Sales					(2)			(2)
Settlements	(2)			(2)	1			1
Transfers into Level 3	(7)			(7)	1	3	3	7
Transfers out of Level 3	(2)		(1)	(3)	2		(5)	(3)
Balance at end of period	\$ 47	\$ 19	\$	\$ 66	\$ 47	\$ 19	\$	\$ 66
PPL Energy Supply								
Balance at beginning of period	\$ 40	\$ 16	\$	\$ 56	\$ 22	\$ 13	\$	\$ 35
Total realized/unrealized gains (losses)								
Included in earnings	18			18	23			23
Sales					(2)			(2)
Settlements	(2)			(2)	1			1
Transfers into Level 3	(7)			(7)	1	3		4
Transfers out of Level 3	(2)			(2)	2			2
Balance at end of period	\$ 47	\$ 16	\$	\$ 63	\$ 47	\$ 16	\$	\$ 63

(a) "Energy Commodities, net" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in and quantitative information about the fair value measurement of assets and liabilities classified as Level 3 are as follows:

	September 30, 2014			
	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Natural gas contracts (b)	\$ 9	Discounted cash flow	Proprietary model used to calculate forward prices	17% - 100% (36%)
Power sales contracts (c)	(31)	Discounted cash flow	Proprietary model used to calculate forward prices	17% - 100% (68%)
FTR purchase contracts (d)	4	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Heat rate options (e)	38	Discounted cash flow	Proprietary model used to calculate forward prices	24% - 52% (45%)
Auction rate securities (f)	13	Discounted cash flow	Modeled from SIFMA Index	53% - 74% (64%)
PPL Energy Supply				
Energy commodities				
Natural gas contracts (b)	\$ 9	Discounted cash flow	Proprietary model used to calculate forward prices	17% - 100% (36%)
Power sales contracts (c)	(31)	Discounted cash flow	Proprietary model used to calculate forward prices	17% - 100% (68%)
FTR purchase contracts (d)	4	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Heat rate options (e)	38	Discounted cash flow	Proprietary model used to calculate forward prices	24% - 52% (45%)
Auction rate securities (f)	10	Discounted cash flow	Modeled from SIFMA Index	57% - 74% (66%)

December 31, 2013

	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Natural gas contracts (b)	\$ 36	Discounted cash flow	Proprietary model used to calculate forward prices	10% - 100% (86%)
Power sales contracts (c)	(12)	Discounted cash flow	Proprietary model used to calculate forward prices	100% - 100% (100%)
Auction rate securities (f)	19	Discounted cash flow	Modeled from SIFMA Index	10% - 80% (63%)
PPL Energy Supply				
Energy commodities				
Natural gas contracts (b)	\$ 36	Discounted cash flow	Proprietary model used to calculate forward prices	10% - 100% (86%)
Power sales contracts (c)	(12)	Discounted cash flow	Proprietary model used to calculate forward prices	100% - 100% (100%)
Auction rate securities (f)	16	Discounted cash flow	Modeled from SIFMA Index	10% - 80% (63%)

- (a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs.
- (b) As the forward price of natural gas increases/(decreases), the fair value of purchase contracts increases/(decreases). As the forward price of natural gas increases/(decreases), the fair value of sales contracts (decreases)/increases.
- (c) As forward market prices increase/(decrease), the fair value of contracts (decreases)/increases. As volumetric assumptions for contracts in a gain position increase/(decrease), the fair value of contracts increases/(decreases). As volumetric assumptions for contracts in a loss position increase/(decrease), the fair value of the contracts (decreases)/increases.
- (d) As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).
- (e) The proprietary model used to calculate fair value incorporates market heat rates, correlations and volatilities. As the market implied heat rate increases/(decreases), the fair value of the contracts increases/(decreases).
- (f) The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the periods ended September 30 are reported in the Statements of Income as follows:

	Three Months							
	Energy Commodities, net							
	Unregulated Wholesale Energy		Unregulated Retail Energy		Fuel		Energy Purchases	
	2014	2013	2014	2013	2014	2013	2014	2013
PPL and PPL Energy Supply								
Total gains (losses) included in earnings	\$ (102)	\$ 3	\$ 16	\$ 3	\$ 3	\$ 3	\$ 2	\$ 9
Change in unrealized gains (losses) relating to positions still held at the reporting date	6	17	13	3			1	
Energy Commodities, net								
Unregulated Wholesale Energy								
Unregulated Retail Energy								
Fuel								
Energy Purchases								
PPL and PPL Energy Supply								
Total gains (losses) included in earnings	\$ (133)	\$ (7)	\$ (35)	\$ 18	\$ 3	\$ 3	\$ 21	\$ 9
Change in unrealized gains (losses) relating to positions still held at the reporting date	5	7	(12)	18			(3)	5

Price Risk Management Assets/Liabilities - Energy Commodities (PPL and PPL Energy Supply)

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative contracts, which are valued using the market approach and are classified as Level 1. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. Energy commodity contracts include forwards, futures, swaps, options and structured transactions and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar

contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and other standard industry models. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Level 3 contracts are valued using PPL proprietary models which may include significant unobservable inputs such as delivery at a location where pricing is unobservable, delivery dates that are beyond the dates for which independent quotes are available, volumetric assumptions, implied volatilities, implied correlations, and market implied heat rates. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2013 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. For PPL, the primary reason for the transfers between Level 2 and Level 3 during 2014 and 2013 was the change in the significance of the credit valuation adjustment. Cross-currency swaps are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

(PPL and PPL Energy Supply)

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets.
- The fair value measurements of investments in commingled equity funds are classified as Level 2. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

The fair value of debt securities is generally measured using a market approach, including the use of pricing models which incorporate observable inputs. Common inputs include benchmark yields, reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as monthly payment data, future predicted cash flows, collateral performance and new issue data.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The probability of realizing losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3. The primary reason for the transfers during 2013 was the change in discount rates and SIFMA Index.

Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

Nonrecurring Fair Value Measurements (PPL and PPL Energy Supply)

The following nonrecurring fair value measurement occurred during the nine months ended September 30, 2014, resulting in an asset impairment:

	<u>Carrying Amount (a)</u>		<u>Fair Value Measurements Using Level 3</u>		<u>Loss (b)</u>
<u>PPL and PPL Energy Supply</u>					
Kerr Dam Project	\$ 47	\$	29	\$	18

(a) Represents carrying value before fair value measurement.

(b) The loss on the Kerr Dam Project was recorded in the Supply segment and included in "Income (Loss) from Discontinued Operations (net of income taxes)" on PPL's and PPL Energy Supply's Statement of Income.

The significant unobservable inputs used in and the quantitative information about the nonrecurring fair value measurement of assets and liabilities classified as Level 3 are as follows:

	<u>Fair Value, net Asset (Liability)</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input(s)</u>	<u>Range (Weighted Average)(a)</u>
<u>PPL and PPL Energy Supply</u>				
Kerr Dam Project				
March 31, 2014	\$ 29	Discounted cash flow	Proprietary model used to calculate plant value	38% (38%)

(a) The range and weighted average represent the percentage of fair value derived from the unobservable inputs.

Kerr Dam Project

As disclosed in Note 11 in PPL's and PPL Energy Supply's 2013 Form 10-K, PPL Montana holds a joint operating license issued for the Kerr Dam Project. The license extends until 2035 and, between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase, hold and operate the Kerr Dam Project. The parties submitted the issue of the appropriate amount of the conveyance price to arbitration in February 2013. In March 2014, the arbitration panel issued its final decision holding that the conveyance price payable by the Tribes to PPL Montana is \$18 million. As a result of the decision, PPL Energy Supply performed a recoverability test on the Kerr Dam Project and recorded an impairment charge. PPL Energy Supply performed an internal analysis using an income approach based on discounted cash flows (a proprietary PPL model) to assess the fair value of the Kerr Dam Project. Assumptions used in the PPL proprietary model were the conveyance price, forward energy price curves, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the business planning process and a market participant discount rate. Through this analysis, PPL Energy Supply determined the fair value of the Kerr Dam Project to be \$29 million at March 31, 2014.

The assets were valued by the PPL Energy Supply Financial Department, which reports to the President of PPL Energy Supply. Accounting personnel, who report to the CFO, interpreted the analysis to appropriately classify the assets in the fair value hierarchy.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of contract adjustment payments related to the 2011 Purchase Contract component of the 2011 Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Contract adjustment payments (a)				
PPL			\$ 21	\$ 22
Long-term debt				
PPL	\$ 20,757	\$ 22,854	20,907	22,177
PPL Energy Supply	2,218	2,267	2,525	2,658
PPL Electric	2,602	2,919	2,315	2,483
LKE	4,566	4,920	4,565	4,672
LG&E	1,353	1,443	1,353	1,372
KU	2,091	2,287	2,091	2,155

(a) Included in "Other current liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, approximates fair value due to the variable interest rates associated with the short-term debt and is classified as Level 2.

Credit Concentration Associated with Financial Instruments

(All Registrants)

Contracts are entered into with many entities for the purchase and sale of energy. When NPNS is elected, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

(PPL and PPL Energy Supply)

At September 30, 2014, PPL and PPL Energy Supply had credit exposure of \$649 million from energy trading partners, excluding exposure from related parties (PPL Energy Supply only) and the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, PPL and PPL Energy Supply's credit exposure was reduced to \$319 million. The top ten counterparties including their affiliates accounted for \$190 million, or 59%, of these exposures. Eight of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 87% of the top ten exposures. The remaining counterparties have not been rated by S&P or Moody's, but are current on their obligations. See Note 11 for information regarding PPL Energy Supply's related party credit exposure.

(PPL Electric)

PPL Electric is exposed to credit risk under energy supply contracts (including its supply contracts with PPL EnergyPlus); however, its PUC-approved recovery mechanism is anticipated to substantially mitigate this exposure.

(LKE, LG&E and KU)

At September 30, 2014, LKE's, LG&E's and KU's credit exposure was not significant.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including

non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value, and other risk management metrics.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The table below summarizes the market risks that affect PPL and its Subsidiary Registrants.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Commodity price risk (including basis and volumetric risk)	X	X	M	M	M	M
Interest rate risk:						
Debt issuances	X	X	M	M	M	M
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Equity securities price risk:						
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Future stock transactions	X					
Foreign currency risk - WPD investment and earnings	X					

X = PPL and PPL Energy Supply actively mitigate market risks through their risk management programs described above.

M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

Commodity price risk

- PPL is exposed to commodity price risk through its domestic subsidiaries as described below. WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K.
- PPL Energy Supply is exposed to commodity price risk for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities.
- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. WPD holds over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt, and LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances. This risk for PPL Electric, LG&E and KU is significantly mitigated due to recovery mechanisms in place.

- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with defined benefit plans. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place. Additionally, PPL and PPL Energy Supply are exposed to equity securities price risk in the NDT funds.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL Energy Supply is exposed to credit risk from "in-the-money" commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers, financial institutions, other wholesale customers and retail customers.

The majority of PPL and PPL Energy Supply's credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with energy trading partners.

Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was \$10 million and \$9 million at September 30, 2014 and December 31, 2013.

PPL Electric, LKE and LG&E had no obligation to return cash collateral under master netting arrangements at September 30, 2014 and December 31, 2013.

PPL, LKE and LG&E posted \$20 million and \$22 million of cash collateral under master netting arrangements at September 30, 2014 and December 31, 2013.

PPL Energy Supply, PPL Electric and KU did not post any cash collateral under master netting arrangements at September 30, 2014 and December 31, 2013.

See "Offsetting Derivative Investments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

Commodity price risk, including basis and volumetric risk, is among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its unregulated wholesale and unregulated retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 7,369 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,309 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts are non-derivatives or NPNS is elected and therefore they are not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their non-trading activities into two categories: cash flow hedges and economic activity as discussed below.

Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. There were no active cash flow hedges during the three and nine months ended September 30, 2014. At September 30, 2014, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$21 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring.

There were no such reclassifications for the three and nine months ended September 30, 2014 and 2013.

For the three and nine months ended September 30, 2014 and 2013, hedge ineffectiveness associated with energy derivatives was insignificant.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or because hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity also includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at September 30, 2014 range in maturity through 2019.

Examples of economic activity may include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally capped at the price at which the generating unit would be dispatched and therefore does not expose PPL Energy Supply to uncovered market price risk.

The unrealized gains (losses) for economic activity for the periods ended September 30 were as follows.

	Three Months		Nine Months	
	2014	2013	2014	2013
Operating Revenues				
Unregulated wholesale energy	\$ 299	\$ (49)	\$ (581)	\$ (281)
Unregulated retail energy	2	(2)	(20)	10
Operating Expenses				
Fuel	(9)	3	(3)	(2)
Energy purchases	(217)	37	402	192

Commodity Price Risk (Trading)

PPL Energy Supply has a proprietary trading strategy which is utilized to take advantage of market opportunities primarily in its geographic footprint. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in losses if prices do not move in the manner or direction anticipated. Net energy trading margins, which are included in "Unregulated wholesale energy" on the Statements of Income, were \$58 million for the nine months ended September 30, 2014 and were insignificant for the three months ended September 30, 2014 and the three and nine months ended September 30, 2013.

Commodity Volumes

At September 30, 2014, the net volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

Commodity	Unit of Measure	Volumes (a)			
		2014 (b)	2015	2016	Thereafter
Power	MWh	(12,324,114)	(32,192,825)	(1,488,139)	5,457,755
Capacity	MW-Month	(4,070)	(5,554)	501	9
Gas	MMBtu	46,661,053	59,985,428	34,896,181	6,831,035
FTRs	MW-Month	1,457	3,051		
Oil	Barrels	(141,236)	374,062	328,837	274,872

(a) Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

(b) Represents balance of the current year.

Interest Rate Risk

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates.

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At September 30, 2014, PPL held an

aggregate notional value in interest rate swap contracts of \$1.2 billion that range in maturity through 2045. The amount outstanding includes swaps entered into by PPL on behalf of LG&E and KU. Realized gains and losses on the LG&E and KU swaps are probable of recovery through regulated rates; as such, any gains and losses on these derivatives are included in regulatory assets or liabilities and will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt at the time the underlying hedged interest expense is recorded.

At September 30, 2014, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$1.3 billion that range in maturity through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three months ended September 30, 2014 and 2013, PPL had no hedge ineffectiveness associated with interest rate derivatives. There were insignificant amounts of hedge ineffectiveness associated with interest rate derivatives for the nine months ended September 30, 2014 and 2013.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring.

For the nine months ended September 30, 2014, PPL had an insignificant amount reclassified associated with discontinued cash flow hedges. There were no such reclassifications for the three months ended September 30, 2014 and the three and nine months ended September 30, 2013.

At September 30, 2014, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were \$(13) million. Amounts are reclassified as the hedged interest expense is recorded.

(LKE, LG&E and KU)

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL that have terms identical to forward-starting swaps entered into by PPL with third parties. Realized gains and losses on all of these swaps are probable of recovery through regulated rates; as such, any gains and losses on these derivatives are included in regulatory assets or liabilities and will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt at the time the underlying hedged interest expense is recorded. For the three and nine months ended September 30, 2014, there was no hedge ineffectiveness recorded for the interest rate derivatives. At September 30, 2014, the total notional amount of forward starting interest rate swaps outstanding was \$650 million (LG&E and KU each held contracts of \$325 million). The swaps range in maturity through 2045. In October 2014, additional forward-starting swaps with PPL were entered into with notional amounts totaling \$350 million (\$175 million each for LG&E and KU). These swaps also range in maturity through 2045.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At September 30, 2014, LG&E held contracts with a notional amount of \$179 million that range in maturity through 2033.

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at September 30, 2014 had a notional amount of £306 million (approximately \$494 million based on contracted rates). The settlement dates of these contracts range from November 2014 through June 2016.

Additionally, a PPL Global subsidiary that has a U.S. dollar functional currency entered into GBP intercompany loans payable with PPL WEM subsidiaries that have GBP functional currency. The loans qualify as a net investment hedge for the

PPL Global subsidiary. As such, the foreign currency gains and losses on the intercompany loans for the PPL Global subsidiary are recorded to the foreign currency translation adjustment component of OCI. At September 30, 2014, the outstanding balances of the intercompany loans were £34 million (approximately \$56 million based on spot rates). For the three and nine months ended September 30, 2014, PPL recognized an insignificant amount of net investment hedge gains (losses) on the intercompany loans in the foreign currency translation adjustment component of OCI. For the three and nine months ended September 30, 2013, PPL recognized \$(9) million and \$(3) million of net investment hedge gains (losses) on the intercompany loans in the foreign currency translation adjustment component of OCI.

At September 30, 2014, PPL had \$4 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI, compared to an insignificant amount at December 31, 2013.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At September 30, 2014, the total exposure hedged by PPL was approximately £1.6 billion (approximately \$2.6 billion based on contracted rates). These contracts had termination dates ranging from October 2014 through December 2016.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Energy Supply include certain full-requirement sales contracts, other physical purchase and sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized currently in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at September 30, 2014 and December 31, 2013. PPL and PPL Energy Supply have many physical and financial commodity purchases and sales contracts that economically hedge commodity price risk but do not receive hedge accounting treatment. As such, realized and unrealized gains (losses) on these contracts are recorded currently in earnings. Generally each contract is considered a unit of account and PPL and PPL Energy Supply present gains (losses) on physical and financial commodity sales contracts in "Unregulated wholesale energy" or "Unregulated retail energy" and (gains) losses on physical and financial commodity purchase contracts in "Fuel" or "Energy purchases" on the Statements of Income. Certain of the economic hedging strategies employed by PPL Energy Supply utilize a combination of financial purchases and sales contracts which are similarly reported gross as an expense and revenue, respectively, on the Statements of Income. PPL Energy Supply records realized hourly net sales or purchases of physical power with PJM in its Statements of Income as "Unregulated wholesale energy" if in a net sales position and "Energy purchases" if in a net purchase position.

See Notes 1 and 19 in each Registrant's 2013 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2014				December 31, 2013			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$	15	\$	4	\$	82	\$	4
Cross-currency swaps (b)		6				4		
Foreign currency contracts		7	\$	19		15		55
Commodity contracts				713		850	\$	860
Total current		28		732		82		809

	September 30, 2014				December 31, 2013			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	6	7		38	9			32
Cross-currency swaps (b)		41				28		
Foreign currency contracts	6		26	4		4		31
Commodity contracts			328	287			328	320
Total noncurrent	12	48	354	329	9	32	328	383
Total derivatives	\$ 12	\$ 76	\$ 1,086	\$ 1,198	\$ 91	\$ 52	\$ 1,188	\$ 1,192

(a) Represents the location on the Balance Sheets.

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended September 30, 2014.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
				Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		
Cash Flow Hedges:							
Interest rate swaps	\$ (5)	\$ (65)	Interest expense	\$ (5)		\$ (14)	\$ 2
Cross-currency swaps	(2)	(18)	Interest expense			1	
			Other income (expense) - net	12		(17)	
Commodity contracts			Unregulated wholesale energy	(2)		(1)	
			Energy purchases	8		23	
			Depreciation	1		2	
			Discontinued operations	1		6	
Total	\$ (7)	\$ (83)		\$ 15		\$ 6	\$ 2

Net Investment Hedges:

Foreign currency contracts	\$ 25	\$ 7
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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net	\$ 134	\$ 38
Interest rate swaps	Interest expense	(2)	(6)
Commodity contracts	Unregulated wholesale energy (a)	617	(2,520)
	Unregulated retail energy	18	(34)
	Fuel	(8)	(1)
	Energy purchases (b)	(505)	1,937
	Discontinued operations	2	4
	Total	\$ 256	\$ (582)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent		\$ (6)

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months		Nine Months	
Interest rate swaps	Regulatory assets - noncurrent	\$	(4)	\$	(4)
	Regulatory liabilities - noncurrent		6		6

- (a) The nine month period ended September 30, 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.
- (b) The nine month period ended September 30, 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI, or regulatory assets and regulatory liabilities for the periods ended September 30, 2013.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Recognized from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ 25	\$ 102	Interest expense	\$ (5)		\$ (14)	
Cross-currency swaps	(36)	16	Interest expense	(1)			
			Other income (expense) - net	(25)			45
Commodity contracts			Unregulated wholesale energy	54		178	\$ 1
			Energy purchases	(11)		(41)	
			Depreciation	1		2	
			Discontinued operations	4		20	
Total	\$ (11)	\$ 118		\$ 17		\$ 190	\$ 1

Net Investment Hedges:

Foreign currency contracts	\$ (22)	\$ (5)
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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
Foreign currency contracts	Other income (expense) - net	\$	(117)	\$	6
Interest rate swaps	Interest expense		(2)		(6)
Commodity contracts	Unregulated wholesale energy		114		139
	Unregulated retail energy		3		18
	Fuel		4		2
	Energy purchases		(86)		(99)
	Discontinued operations		4		13
	Total	\$	(80)	\$	73

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months		Nine Months	
Interest rate swaps	Regulatory assets - noncurrent	\$	2	\$	18

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months		Nine Months	
Interest rate swaps	Regulatory liabilities - noncurrent	\$	12	\$	70

(PPL Energy Supply)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2014		December 31, 2013	
	Derivatives not designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Commodity contracts	\$ 713	\$ 850	\$ 860	\$ 750
Total current	<u>713</u>	<u>850</u>	<u>860</u>	<u>750</u>
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Commodity contracts	328	287	328	320
Total noncurrent	<u>328</u>	<u>287</u>	<u>328</u>	<u>320</u>
Total derivatives	<u>\$ 1,041</u>	<u>\$ 1,137</u>	<u>\$ 1,188</u>	<u>\$ 1,070</u>

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended September 30, 2014.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts			Unregulated wholesale energy	\$ (2)		\$ (1)	
			Energy purchases	8		23	
			Depreciation			1	
			Discontinued operations	1		6	
Total				<u>\$ 7</u>		<u>\$ 29</u>	

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
		\$	\$	\$	\$
Commodity contracts	Unregulated wholesale energy (a)	\$ 617	\$ (2,520)		
	Unregulated retail energy	18	(34)		
	Fuel	(8)	(1)		
	Energy purchases (b)	(505)	1,937		
	Discontinued operations	2	4		
	Total	<u>\$ 124</u>	<u>\$ (614)</u>		

(a) The nine month period ended September 30, 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.

(b) The nine month period ended September 30, 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended September 30, 2013.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts			Unregulated wholesale energy	\$ 54		\$ 178	\$ 1
			Energy purchases	(11)		(41)	
			Depreciation	1		2	
			Discontinued operations		4	20	
Total				\$ 48		\$ 159	\$ 1

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Nine Months
Commodity contracts	Unregulated wholesale energy	\$ 114	\$ 139
	Unregulated retail energy	3	18
	Fuel	4	2
	Energy purchases	(86)	(99)
	Discontinued operations	4	13
Total		\$ 39	\$ 73

(LKE)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	September 30, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Noncurrent:				
Price Risk Management Assets/Liabilities (a):				
Interest rate swaps	\$ 6	\$ 4		

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets and liabilities for the periods ended September 30, 2014.

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (4)	\$ (4)

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 6	\$ 6

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended September 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 12	\$ 70

(LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	September 30, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	\$ 3	\$ 2		

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets and liabilities for the periods ended September 30, 2014.

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (2)	\$ (2)

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 3	\$ 3

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended September 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 6	\$ 35

(KU)

The following table presents the fair value and the location on the Balance Sheets of derivative instruments designated as cash flow hedges.

	September 30, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps	\$ 3	\$ 2		

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets and liabilities for the periods ended September 30, 2014.

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (2)	\$ (2)

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 3	\$ 3

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory liabilities for the periods ended September 30, 2013.

Derivative Instruments	Location of Gain (Loss)	Three Months	Nine Months
Interest rate swaps	Regulatory liabilities - noncurrent	\$ 6	\$ 35

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	September 30, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		\$ 4		\$ 4
Total current		4		4
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Interest rate swaps		38		32
Total noncurrent		38		32
Total derivatives		\$ 42		\$ 36

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivatives not designated as hedging instruments recognized in income or regulatory assets for the periods ended September 30, 2014.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months		Nine Months	
Interest rate swaps	Interest expense	\$ (2)	\$ (6)		

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months		Nine Months	
Interest rate swaps	Regulatory assets - noncurrent			\$ (6)	

The following tables present the pre-tax effect of derivatives not designated as hedging instruments recognized in income or regulatory assets for the periods ended September 30, 2013.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months		Nine Months	
Interest rate swaps	Interest expense	\$ (2)	\$ (6)		

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months		Nine Months	
Interest rate swaps	Regulatory assets - noncurrent	\$ 2	\$ 18		

(All Registrants except PPL Electric)

Offsetting Derivative Instruments

PPL, PPL Energy Supply, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements or similar agreements in place including derivative clearing agreements with futures commission merchants (FCMs) to permit the trading of cleared derivative products on one or more futures exchanges. The clearing arrangements permit an FCM to use and apply any property in its possession as a set off to pay amounts or discharge obligations owed by a customer upon default of the customer and typically do not place any restrictions on the FCM's use of collateral posted by the customer. PPL, PPL Energy Supply, LKE, LG&E and KU and their subsidiaries also enter into agreements pursuant to which they trade certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to setoff amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, PPL Energy Supply, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
September 30, 2014								
PPL								
Energy Commodities	\$ 1,041	\$ 915	\$ 9	\$ 117	\$ 1,137	\$ 915	\$ 102	\$ 120
Treasury Derivatives	57	46		11	137	46	21	70
Total	\$ 1,098	\$ 961	\$ 9	\$ 128	\$ 1,274	\$ 961	\$ 123	\$ 190
PPL Energy Supply								
Energy Commodities	\$ 1,041	\$ 915	\$ 9	\$ 117	\$ 1,137	\$ 915	\$ 102	\$ 120
LKE								
Treasury Derivatives	\$ 6	\$ 4		\$ 2	\$ 46	\$ 4	\$ 19	\$ 23
LG&E								
Treasury Derivatives	\$ 3	\$ 2		\$ 1	\$ 44	\$ 2	\$ 19	\$ 23
KU								
Treasury Derivatives	\$ 3	\$ 2		\$ 1	\$ 2	\$ 2		
December 31, 2013								
PPL								
Energy Commodities	\$ 1,188	\$ 912	\$ 7	\$ 269	\$ 1,070	\$ 912	\$ 1	\$ 157
Treasury Derivatives	91	61		30	174	61	23	90
Total	\$ 1,279	\$ 973	\$ 7	\$ 299	\$ 1,244	\$ 973	\$ 24	\$ 247
PPL Energy Supply								
Energy Commodities	\$ 1,188	\$ 912	\$ 7	\$ 269	\$ 1,070	\$ 912	\$ 1	\$ 157
LKE								
Treasury Derivatives					\$ 36		\$ 20	\$ 16
LG&E								
Treasury Derivatives					\$ 36		\$ 20	\$ 16

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's). Some of these features also would allow the counterparty to require additional collateral upon each downgrade in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(All Registrants except PPL Electric and KU)

At September 30, 2014, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	PPL Energy Supply	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 179	\$ 118	\$ 27	\$ 27
Aggregate fair value of collateral posted on these derivative instruments	119	99	20	20
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	91(b)	49(b)	8	8

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

(b) During the second quarter of 2014, PPL Energy Supply experienced a downgrade in its corporate credit ratings to below investment grade. Amounts related to PPL Energy Supply represent net liability positions subject to further adequate assurance features.

15. Goodwill

(PPL)

The changes in the carrying amounts of goodwill by segment were as follows.

	U.K. Regulated	Kentucky Regulated	Supply	Total
Balance at December 31, 2013 (a)	\$ 3,143	\$ 662	\$ 420	\$ 4,225
Allocation to discontinued operations (b)			(82)	(82)
Effect of foreign currency exchange rates	44			44
Balance at September 30, 2014 (a)	\$ 3,187	\$ 662	\$ 338	\$ 4,187

(a) There were no accumulated impairment losses related to goodwill.

(b) Represents goodwill allocated to the Montana hydroelectric generating facilities which met the held for sale criteria at September 30, 2014. See Note 8 for additional information.

(PPL Energy Supply)

For PPL Energy Supply, the change in carrying amount of goodwill for the nine months ended September 30, 2014 was due to goodwill allocated to the Montana hydroelectric generating facilities which met the held for sale criteria at September 30, 2014. See Note 8 for additional information.

16. Asset Retirement Obligations

(All Registrants except PPL Electric)

The changes in the carrying amounts of AROs were as follows.

	PPL	PPL Energy Supply	LKE	LG&E	KU
Balance at December 31, 2013	\$ 705	\$ 404	\$ 252	\$ 74	\$ 178
Accretion expense	34	23	10	3	7
Obligations incurred	14	13	1		1
Changes in estimated cash flow or settlement date	11	(12)	23	1	22
Effect of foreign currency exchange rates	1				
Obligations settled	(8)	(5)	(3)	(3)	
Balance at September 30, 2014	\$ 757	\$ 423	\$ 283	\$ 75	\$ 208

Substantially all of the ARO balances are classified as noncurrent at September 30, 2014 and December 31, 2013.

(PPL and PPL Energy Supply)

The most significant ARO recorded by PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. Assets in the NDT funds are legally restricted for purposes of settling this ARO. See Notes 13 and 17 for additional information on these assets.

(PPL, LKE, LG&E and KU)

LG&E's and KU's accretion and depreciation expense are recorded as a regulatory asset, such that there is no net earnings impact.

17. Available-for-Sale Securities

(PPL and PPL Energy Supply)

Securities held by the NDT funds and auction rate securities are classified as available-for-sale. Available-for-sale securities are carried on the Balance Sheets at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI and the fair value of available-for-sale securities.

	September 30, 2014				December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
NDT funds:								
PPL and PPL Energy Supply								
Cash and cash equivalents	\$ 17			\$ 17	\$ 14			\$ 14
Equity securities	281	\$ 384		665	265	\$ 363		628
Debt securities	217	11	\$ 1	227	217	7	\$ 3	221
Receivables/payables, net	2			2	1			1
Total NDT funds	\$ 517	\$ 395	\$ 1	\$ 911	\$ 497	\$ 370	\$ 3	\$ 864
Auction rate securities								
PPL	\$ 14		\$ 1	\$ 13	\$ 20		\$ 1	\$ 19
PPL Energy Supply	11		1	10	17		1	16

See Note 13 for details on the securities held by the NDT funds.

There were no securities with credit losses at September 30, 2014 and December 31, 2013.

The following table shows the scheduled maturity dates of debt securities held at September 30, 2014.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 6-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	\$ 13	\$ 85	\$ 58	\$ 75	\$ 231
Fair value	13	87	61	79	240
PPL Energy Supply					
Amortized cost	\$ 13	\$ 85	\$ 58	\$ 72	\$ 228
Fair value	13	87	61	76	237

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended September 30.

	Three Months		Nine Months	
	2014	2013	2014	2013
PPL and PPL Energy Supply				
Proceeds from sales of NDT securities (a)	\$ 47	\$ 33	\$ 112	\$ 92
Other proceeds from sales	3		6	
Gross realized gains (b)	9	3	17	10
Gross realized losses (b)	2	2	6	6

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.

(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

Accumulated Other Comprehensive Income (Loss)

(PPL and PPL Energy Supply)

The after-tax changes in AOCI by component for the periods ended September 30 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses)		Equity investees' AOCI	Defined benefit plans			Total
		Available- for-sale securities	Qualifying derivatives		Prior service costs	Actuarial gain (loss)	Transition asset (obligation)	
PPL								
June 30, 2014	\$ 117	\$ 190	\$ 61	\$ 1	\$ (4)	\$ (1,764)	\$ 1	\$ (1,398)
Amounts arising during the period	(48)	(1)	(5)			(1)		(55)
Reclassifications from AOCI		(3)	(12)		1	29		15
Net OCI during the period	(48)	(4)	(17)		1	28		(40)
September 30, 2014	\$ 69	\$ 186	\$ 44	\$ 1	\$ (3)	\$ (1,736)	\$ 1	\$ (1,438)
December 31, 2013	\$ (11)	\$ 173	\$ 94	\$ 1	\$ (6)	\$ (1,817)	\$ 1	\$ (1,565)
Amounts arising during the period	80	18	(52)			(3)		43
Reclassifications from AOCI		(5)	2		3	84		84
Net OCI during the period	80	13	(50)		3	81		127
September 30, 2014	\$ 69	\$ 186	\$ 44	\$ 1	\$ (3)	\$ (1,736)	\$ 1	\$ (1,438)
June 30, 2013	\$ (401)	\$ 135	\$ 102	\$ 1	\$ (11)	\$ (1,955)	\$ 1	\$ (2,128)
Amounts arising during the period	87	15	(9)					93
Reclassifications from AOCI			(6)	(1)	2	33		28
Net OCI during the period	87	15	(15)	(1)	2	33		121
September 30, 2013	\$ (314)	\$ 150	\$ 87	\$	\$ (9)	\$ (1,922)	\$ 1	\$ (2,007)
December 31, 2012	\$ (149)	\$ 112	\$ 132	\$ 1	\$ (14)	\$ (2,023)	\$ 1	\$ (1,940)
Amounts arising during the period	(165)	40	77					(48)
Reclassifications from AOCI		(2)	(122)	(1)	5	101		(19)
Net OCI during the period	(165)	38	(45)	(1)	5	101		(67)
September 30, 2013	\$ (314)	\$ 150	\$ 87	\$	\$ (9)	\$ (1,922)	\$ 1	\$ (2,007)
PPL Energy Supply								
June 30, 2014		\$ 190	\$ 75		\$ (3)	\$ (177)		\$ 85
Amounts arising during the period		(1)						(1)
Reclassifications from AOCI		(3)	(5)		1	1		(6)
Net OCI during the period		(4)	(5)		1	1		(7)
September 30, 2014		\$ 186	\$ 70		\$ (2)	\$ (176)		\$ 78
December 31, 2013		\$ 173	\$ 88		\$ (4)	\$ (180)		\$ 77
Amounts arising during the period		18						18
Reclassifications from AOCI		(5)	(18)		2	4		(17)
Net OCI during the period		13	(18)		2	4		1
September 30, 2014		\$ 186	\$ 70		\$ (2)	\$ (176)		\$ 78
June 30, 2013		\$ 135	\$ 144		\$ (8)	\$ (257)		\$ 14
Amounts arising during the period		15						15
Reclassifications from AOCI			(29)		1	3		(25)
Net OCI during the period		15	(29)		1	3		(10)
September 30, 2013		\$ 150	\$ 115		\$ (7)	\$ (254)		\$ 4
December 31, 2012		\$ 112	\$ 211		\$ (10)	\$ (265)		\$ 48
Amounts arising during the period		40						40
Reclassifications from AOCI		(2)	(96)		3	11		(84)
Net OCI during the period		38	(96)		3	11		(44)
September 30, 2013		\$ 150	\$ 115		\$ (7)	\$ (254)		\$ 4

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended September 30. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 9 for additional information.

Details about AOCI	Three Months				Affected Line Item on the Statements of Income
	PPL		PPL Energy Supply		
	2014	2013	2014	2013	
Available-for-sale securities	\$ 7	\$ 1	\$ 7	\$ 1	Other Income (Expense) - net
Total Pre-tax	7	1	7	1	
Income Taxes	(4)	(1)	(4)	(1)	
Total After-tax	3		3		
Qualifying derivatives					
Interest rate swaps	(5)	(5)			Interest Expense
Cross-currency swaps	12	(25)			Other Income (Expense) - net
		(1)			Interest Expense
Energy commodities	(2)	54	(2)	54	Unregulated wholesale energy
	8	(11)	8	(11)	Energy purchases
	1	4	1	4	Discontinued operations
	1	1		1	Other
Total Pre-tax	15	17	7	48	
Income Taxes	(3)	(11)	(2)	(19)	
Total After-tax	12	6	5	29	
Equity investees' AOCI		1			Other Income (Expense) - net
Total Pre-tax		1			
Income Taxes					
Total After-tax		1			
Defined benefit plans					
Prior service costs	(2)	(3)	(2)	(2)	
Net actuarial loss	(38)	(45)	(1)	(5)	
Total Pre-tax	(40)	(48)	(3)	(7)	
Income Taxes	10	13	1	3	
Total After-tax	(30)	(35)	(2)	(4)	
Total reclassifications during the period	\$ (15)	\$ (28)	\$ 6	\$ 25	

Details about AOCI	Nine Months				Affected Line Item on the Statements of Income
	PPL		PPL Energy Supply		
	2014	2013	2014	2013	
Available-for-sale securities	\$ 11	\$ 4	\$ 11	\$ 4	Other Income (Expense) - net
Total Pre-tax	11	4	11	4	
Income Taxes	(6)	(2)	(6)	(2)	
Total After-tax	5	2	5	2	
Qualifying derivatives					
Interest rate swaps	(12)	(14)			Interest Expense
Cross-currency swaps	(17)	45			Other Income (Expense) - net
	1				Interest Expense
Energy commodities	(1)	178	(1)	178	Unregulated wholesale energy
	23	(41)	23	(41)	Energy purchases
	6	20	6	20	Discontinued operations
	2	2	1	2	Other
Total Pre-tax	2	190	29	159	
Income Taxes	(4)	(68)	(11)	(63)	
Total After-tax	(2)	122	18	96	
Equity investees' AOCI		1			Other Income (Expense) - net
Total Pre-tax		1			
Income Taxes					
Total After-tax		1			
Defined benefit plans					
Prior service costs	(6)	(8)	(4)	(5)	
Net actuarial loss	(110)	(138)	(6)	(18)	
Total Pre-tax	(116)	(146)	(10)	(23)	
Income Taxes	29	40	4	9	
Total After-tax	(87)	(106)	(6)	(14)	
Total reclassifications during the period	\$ (84)	\$ 19	\$ 17	\$ 84	

19. New Accounting Guidance Pending Adoption

(All Registrants)

Reporting of Discontinued Operations

In April 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that changes the criteria for determining what should be classified as a discontinued operation and also changes the related presentation and disclosure requirements. A discontinued operation may include a component of an entity or a group of components of an entity, or a business activity.

A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results when any of the following occurs: (1) The components of an entity or group of components of an entity meets the criteria to be classified as held for sale, (2) The component of an entity or group of components of an entity is disposed of by sale, or (3) The component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff).

For public business entities, this guidance should be applied prospectively to all disposals (or classifications as held for sale) of components of an entity that occur within the annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted.

The Registrants are assessing in which period they will adopt this new guidance. The new guidance will impact the amounts presented as discontinued operations on the Statements of Income and will enhance the related disclosure requirements.

Accounting for Revenue from Contracts with Customers

In May 2014, the FASB issued accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods beginning after December 15, 2016 and interim periods within those years. Early adoption is not permitted. The Registrants will adopt this guidance effective January 1, 2017.

The Registrants are currently assessing the impact of adopting this guidance, as well as the transition method they will use.

Reporting Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued accounting guidance which will require management to assess, for each interim and annual period, whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the financial statements are issued.

When management identifies conditions or events that raise substantial doubt about an entity's ability to continue as a going concern, management is required to disclose information that enables users of the financial statements to understand the principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern and management's evaluation of the significance of those conditions or events. If substantial doubt about the entity's ability to continue as a going concern has been alleviated as a result of management's plan, the entity should disclose information that allows the users of the financial statements to understand those plans. If the substantial doubt about the entity's ability to continue as a going concern is not alleviated by management's plans, management's plans to mitigate the conditions or events that gave rise to the substantial doubt about the entity's ability to continue as a going concern should be disclosed, as well as a statement that there is substantial doubt the entity's ability to continue as a going concern within one year after the date the financial statements are issued.

For all entities, this guidance should be applied prospectively within the annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted.

The Registrants are assessing in which period they will adopt this new guidance. The adoption of this guidance is not expected to have a significant impact on the Registrants.

Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity

In November 2014, the FASB issued guidance that clarifies how current accounting guidance should be interpreted when evaluating the economic characteristics and risks of a host contract of a hybrid financial instrument issued in the form of a share. This guidance does not change the current criteria for determining whether separation of an embedded derivative feature from a hybrid financial instrument is required. Entities are still required to evaluate whether the economic risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria.

An entity should consider the substantive terms and features of the entire hybrid financial instrument, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract to determine whether the host contract is more akin to a debt instrument or more akin to an equity instrument. An entity should assess the relative strength of the debt-like and equity-like terms and features when determining how to weight those terms and features.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and should be applied using a modified retrospective method for existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year the guidance is adopted. Early adoption is permitted. Retrospective application is permitted but not required.

The Registrants will adopt this guidance on January 1, 2016. The Registrants are currently assessing this guidance, which is not expected to have a significant impact on the Registrants.

Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL Corporation and each of its Subsidiary Registrants. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2013 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy, a summary of PPL's earnings, a description of key factors expected to impact future earnings and a discussion of important financial and operational developments.
- "Results of Operations" for PPL provides a more detailed analysis of earnings by segment, and for the Subsidiary Registrants includes a summary of earnings. For all Registrants, "Margins" provides explanations of non-GAAP financial measures and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income, comparing the three and nine months ended September 30, 2014 with the same periods in 2013.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

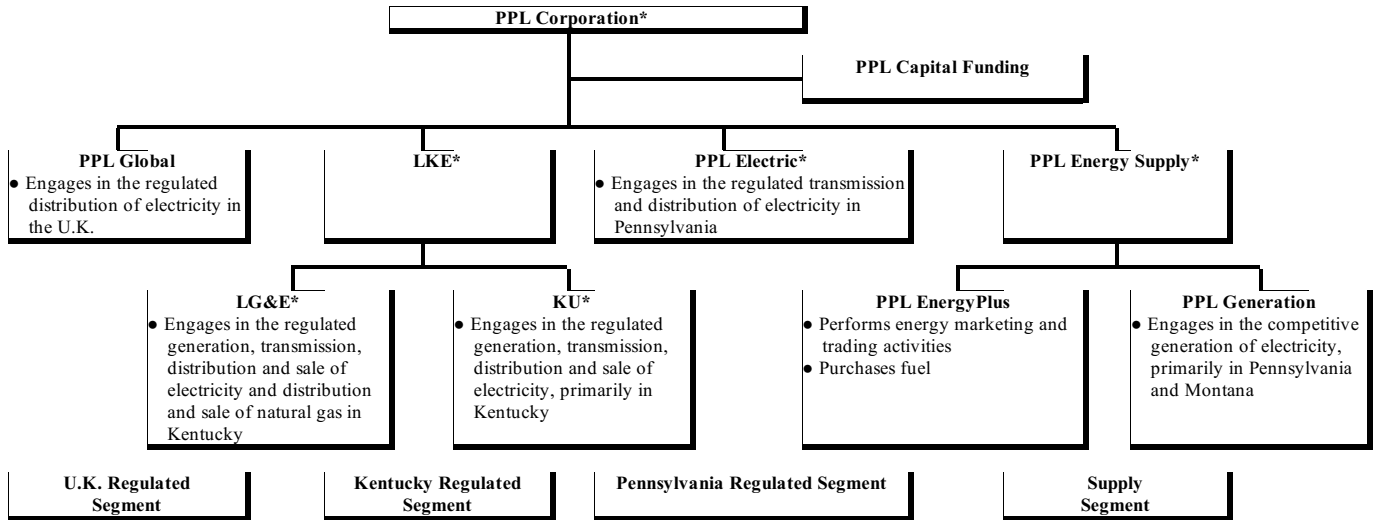
Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is an energy and utility holding company. Through subsidiaries, PPL delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; generates electricity from power plants in the northeastern, northwestern and southeastern U.S.; and markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S.

PPL's principal subsidiaries are shown below (* denotes an SEC registrant):



PPL's reportable segments' results primarily represent the results of its related Subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable Subsidiary Registrants. The U.K. Regulated segment does not have a related Subsidiary Registrant.

(PPL and PPL Energy Supply)

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. See "Business Strategy" and "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" below for additional information.

(PPL Energy Supply)

PPL Energy Supply, headquartered in Allentown, Pennsylvania is an indirect wholly owned subsidiary of PPL and is an energy company that through its principal subsidiaries is primarily engaged in the competitive generation and marketing of electricity in two key markets - the northeastern and northwestern U.S. PPL Energy Supply's principal subsidiaries are PPL EnergyPlus, its marketing and trading subsidiary, and PPL Generation, the owner of its generating facilities in Pennsylvania and Montana.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is a direct wholly owned subsidiary of PPL and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate corporate identities and serve customers in

Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act.

(KU)

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as a public utility by the KPSC, the VSCC and the TRA, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

Business Strategy

(PPL and PPL Energy Supply)

In recognition of the changes in recent years in the wholesale power markets, PPL performed an in-depth analysis of its business mix to determine the best available opportunities to maximize the value of its competitive generation business for shareowners. As a result, in June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. Under the terms of the agreements, at closing, PPL will spin off to PPL shareowners the parent of PPL Energy Supply, recently formed for purposes of this transaction, which by merging with a special purpose subsidiary of Talen Energy, will immediately thereafter become a subsidiary of Talen Energy. Substantially contemporaneous with the spinoff and merger, RJS Power will be contributed, directly or indirectly, by its owners to become a subsidiary of Talen Energy. Following completion of these transactions, PPL shareowners will own 65% of Talen Energy and affiliates of Riverstone will own 35%. PPL will have no continuing ownership interest in, control of, or affiliation with Talen Energy and PPL's shareowners will receive a number of Talen Energy shares at closing based on the number of PPL shares owned as of the spinoff record date. The spinoff will have no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes and is subject to customary closing conditions, including receipt of certain regulatory approvals by the NRC, FERC, DOJ and PUC. In addition, there must be available, subject to certain conditions, at least \$1 billion of undrawn capacity, after excluding any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding, under a Talen Energy (or its subsidiaries) revolving credit or similar facility. The transaction is expected to close in the first or second quarter of 2015. Talen Energy will own and operate a diverse mix of approximately 14,000 MW (after proposed divestitures to meet FERC market power standards) of generating capacity in certain U.S. competitive energy markets primarily in PJM and ERCOT.

Following the transaction, PPL will focus solely on its regulated utilities businesses in the U.K., Kentucky and Pennsylvania, serving more than 10 million customers. PPL intends to maintain a strong balance sheet and to manage its finances consistent with maintaining investment grade credit ratings and providing a competitive total shareowner return, including an attractive dividend. In connection with the transaction, and following any required transition services period, PPL is targeting to reduce its annual corporate support costs by an estimated \$185 million. This includes \$110 million of corporate support costs to be transferred to Talen Energy and \$75 million of corporate support costs to be eliminated as a result of workforce reductions and other corporate cost savings.

See "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" and "Part II. Other Information - Item 1A. Risk Factors" below for additional information.

The strategy for PPL Energy Supply is to optimize the value from its competitive generation asset and marketing portfolios while mitigating near-term volatility in both cash flows and earnings. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. PPL Energy Supply is focused on maintaining profitability and positive cash flow during this current period of low energy and capacity prices.

(All Registrants except PPL Energy Supply)

The strategy for the regulated businesses of WPD, PPL Electric, LKE, LG&E and KU is to provide efficient, reliable and safe operations and strong customer service, maintain constructive regulatory relationships and achieve timely recovery of costs. These regulated businesses also focus on providing competitively priced energy to customers and achieving stable, long-term growth in earnings and rate base, or RAV, as applicable. Both rate base and RAV are expected to grow for the foreseeable future as a result of significant capital expenditure programs to maintain existing assets and to improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities. Future RAV for WPD will also be affected by RIIO-ED1, effective April 1, 2015, as the recovery period for assets placed in service after that date will be extended from 20 to 45 years. In addition, incentive targets have been adjusted in RIIO-ED1, resulting in lower overall incentive revenues available to be earned. See "Financial and Operational Developments - Other Financial and Operational Developments - RIIO-ED1 - Fast Tracking" below for additional information.

Recovery of capital project costs is attained through various rate-making mechanisms, including periodic base rate case proceedings, FERC formula rate mechanisms, and other regulatory agency-approved recovery mechanisms. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs. See "Item 1. Business - Segment Information - U.K. Regulated Segment - Revenues and Regulation" in PPL's 2013 Form 10-K for changes to the regulatory framework in the U.K. applicable to WPD beginning in April 2015.

(PPL)

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent they have U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

(All Registrants)

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain targeted credit profiles and liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to, as applicable, changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of generating units. To manage these risks, PPL generally uses contracts such as forwards, options, swaps and insurance contracts.

Financial and Operational Developments

Earnings (PPL)

PPL's earnings by reportable segments for the periods ended September 30 were as follows:

	Three Months			Nine Months		
	2014	2013	% Change	2014	2013	% Change
U.K. Regulated	\$ 295	\$ 183	61	\$ 688	\$ 741	(7)
Kentucky Regulated	82	93	(12)	247	227	9
Pennsylvania Regulated	57	51	12	194	160	21
Supply	86	91	(5)	16	122	(87)
Corporate and Other (a)	(23)	(8)	188	(103)	(22)	368
Net Income Attributable to						
PPL Shareowners	\$ 497	\$ 410	21	\$ 1,042	\$ 1,228	(15)
EPS - basic	\$ 0.74	\$ 0.65	14	\$ 1.60	\$ 2.03	(21)
EPS - diluted (b)	\$ 0.74	\$ 0.62	19	\$ 1.57	\$ 1.90	(17)

- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. 2014 includes certain costs related to the anticipated spinoff of PPL Energy Supply. See the following table of special items for additional information.
- (b) See "2011 Equity Units" below and Note 4 to the Financial Statements for information on the Equity Units' impact on the calculation of diluted EPS.

The following after-tax gains (losses), in total, which management considers special items, impacted PPL's results for the periods ended September 30. See PPL's "Results of Operations – Segment Earnings" for details of each segment's special items.

	Three Months			Nine Months		
	2014	2013	Change	2014	2013	Change
U.K. Regulated	\$ 111	\$ (16)	\$ 127	\$ 20	\$ 78	\$ (58)
Kentucky Regulated	(1)		(1)		2	(2)
Pennsylvania Regulated	2		2	(2)		(2)
Supply	41	(6)	47	(144)	(49)	(95)
Corporate and Other (a)	(17)		(17)	(73)		(73)
Total PPL	\$ 136	\$ (22)	\$ 158	\$ (199)	\$ 31	\$ (230)

- (a) The three month period includes \$3 million of deferred income tax expense to adjust valuation allowances on deferred tax assets for state net operating loss carryforwards, \$3 million of external transaction costs and \$11 million of separation benefits related to the anticipated spinoff of PPL Energy Supply. The nine month period includes \$49 million of deferred income tax expense to adjust valuation allowances on deferred tax assets for state net operating loss carryforwards, \$13 million of external transaction costs and \$11 million of separation benefits related to the anticipated spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.

The changes in PPL's reportable segments results for the three and nine months ended September 30, 2014 compared with 2013, excluding the impact of special items, were due to the following factors (on an after-tax basis):

- The decrease at the U.K. Regulated segment for the three month period was primarily due to higher U.S. and U.K. income taxes resulting from a tax benefit recorded in the prior year and higher taxes in 2014 related to cash repatriation, and higher depreciation and higher financing costs, partially offset by higher utility revenues due to the April 2014 price increase and lower operation and maintenance expenses. The increase for the nine month period was primarily due to higher utility revenues due to April 2014 and April 2013 price increases, net of adverse weather impacts, and lower pension expense, partially offset by higher U.S. income taxes resulting from a tax benefit recorded in the prior year and higher taxes in 2014 related to cash repatriation, and higher depreciation and higher financing costs.
- The decrease at the Kentucky Regulated segment for the three month period was primarily due to lower sales volumes due to mild weather, higher operation and maintenance expenses and higher financing costs, partially offset by returns on additional environmental capital investments. The increase for the nine month period was primarily due to returns on additional environmental capital investments and higher sales volumes driven by unusually cold weather in the first quarter of 2014, partially offset by higher operation and maintenance expenses driven by storm-related expenses and timing of generation maintenance outages, and higher depreciation expense.
- The Pennsylvania Regulated segment earnings for the three month period were flat. The increase for the nine month period was primarily due to returns on additional transmission and distribution improvement capital investments, and higher sales volume driven by unusually cold weather in the first quarter of 2014, partially offset by higher financing costs.
- The decrease at the Supply segment for the three month period was primarily due to lower margins due to lower hedged energy prices and lower capacity prices, partially offset by favorable asset performance, lower income taxes resulting from an adjustment of deferred tax assets recorded in the prior year, lower operation and maintenance expenses and lower financing costs. The decrease for the nine month period was primarily due to lower energy prices, partially offset by favorable asset performance, net benefits due to unusually cold weather in the first quarter of 2014, higher capacity prices, gains on certain commodity positions, lower income taxes resulting from an adjustment of deferred tax assets recorded in the prior year and lower financing costs.

See "Results of Operations" below for further discussion of PPL's reportable segments and analysis of results of operations.

2014 Outlook

(PPL)

Excluding special items, lower earnings are expected in 2014 compared with 2013, primarily due to lower energy margins in the Supply segment. The factors underlying these projections by segment and Subsidiary Registrant are discussed below (on an after-tax basis).

(PPL's U.K. Regulated Segment)

Excluding special items, higher earnings are projected in 2014 compared with 2013, primarily driven by higher electricity delivery revenue and lower pension expense, partially offset by higher income taxes, higher depreciation and higher financing costs.

(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Excluding special items, lower earnings are projected in 2014 compared with 2013, primarily driven by higher operation and maintenance expense, higher depreciation and higher financing costs, partially offset by returns on additional environmental capital investments and increased sales volumes.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Excluding special items, higher earnings are projected in 2014 compared with 2013, primarily driven by higher transmission margins, returns on distribution improvement capital investments and a benefit from a change in estimate of a regulatory liability, partially offset by higher financing costs and higher income taxes.

(PPL's Supply Segment and PPL Energy Supply)

Excluding special items, lower earnings are projected in 2014 compared with 2013, primarily driven by lower energy and capacity prices, partially offset by the net benefits due to unusually cold weather in the first quarter of 2014, lower financing costs and lower income taxes.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2013 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Other Financial and Operational Developments

Economic and Market Conditions

(All Registrants except PPL Electric)

The businesses of PPL Energy Supply, LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to coal combustion residuals, GHG, effluent limitation guidelines and MATS. See "Financial Condition - Environmental Matters" below for additional information on these requirements. These and other stringent environmental requirements, combined with low energy margins for competitive generation, have led several energy companies, including PPL, PPL Energy Supply, LKE, LG&E and KU, to announce plans either to temporarily or permanently close, or place in long-term reserve status, and/or impair certain of their coal-fired generating plants.

(PPL and PPL Energy Supply)

In the fourth quarter of 2013, management tested the Brunner Island and Montour plants for impairment and concluded neither was impaired as of December 31, 2013. There were no events or changes in circumstances that indicated a recoverability test was required to be performed in 2014. The carrying value of the Pennsylvania coal-fired generation assets was \$2.5 billion as of September 30, 2014 (\$1.3 billion for Brunner Island and \$1.2 billion for Montour).

As a result of current economic and market conditions, the announced transaction with affiliates of Riverstone to form Talen Energy, PPL Energy Supply's current sub-investment grade credit rating and Talen Energy's expected sub-investment grade credit rating, PPL Energy Supply is reviewing its business and operational plans. This review includes capital and operation and maintenance expenditures, its hedging strategies and potential plant modifications to burn lower cost fuels. See "Margins - Changes in Non-GAAP Financial Measures - Unregulated Gross Energy Margins" below for additional information on energy margins. Full-year 2014 energy margins are projected to be lower compared to 2013 due to a higher average hedge price in 2013, partially offset by higher pricing on unhedged generation.

(All Registrants)

The Registrants cannot predict the impact that future economic and market conditions and regulatory requirements may have on their financial condition or results of operations.

Labor Union Agreements

(PPL, PPL Energy Supply and PPL Electric)

PPL, PPL Energy Supply and PPL Electric finalized a new three-year labor agreement with IBEW local 1600 in May 2014 and the agreement was ratified in early June 2014. As part of efforts to reduce operations and maintenance expenses, the new agreement offered a one-time voluntary retirement window to certain bargaining unit employees. As a result, in the second quarter of 2014, estimated separation benefits of \$29 million were recorded (\$23 million for PPL Energy Supply and \$6 million for PPL Electric). During the three months ended September 30, 2014, based on final employee acceptances of the offer, PPL reduced the previously recorded estimated amounts by \$9 million (\$6 million for PPL Energy Supply and \$3 million for PPL Electric). As a result, for the nine months ended September 30, 2014, the following total separation benefits have been recorded.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>
Pension Benefits	\$ 13	\$ 11	\$ 2
Severance Compensation	7	6	1
Total Separation Benefits	<u>\$ 20</u>	<u>\$ 17</u>	<u>\$ 3</u>
Number of Employees	121	105	15

The separation benefits are included in "Other operation and maintenance" on the Statement of Income. The liability for pension benefits is included in "Accrued pension obligations" on the Balance Sheet at September 30, 2014. All of the severance compensation was paid in the third quarter of 2014. The remaining terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL, PPL Energy Supply or PPL Electric.

(LKE, LG&E and KU)

In August 2014, KU and the USWA ratified a three-year labor agreement through August 2017 containing 2.5% wage increases for each year. The agreement covers approximately 74 employees.

In November 2014, LG&E and the IBEW ratified a three-year labor agreement through November 2017 containing 2.5% wage increases for each year. The agreement covers approximately 700 employees.

Anticipated Spinoff of PPL Energy Supply

(PPL, PPL Energy Supply and PPL Electric)

Following the announcement of the transaction to form Talen Energy as discussed in "Business Strategy" above, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in the third quarter of 2014 and staffing selections are in progress and expected to be completed by the end of 2014.

The new organizational plans identify the need to resize and restructure the organizations of both PPL and PPL Energy Supply. As a result, during the third quarter of 2014, estimated charges for employee separation benefits were recorded in "Other operation and maintenance" on the Statement of Income and in "Other current liabilities" on the Balance Sheet as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>
Separation benefits	\$ 30	\$ 12	\$ 1
Number of positions	265	100	10

The separation benefits incurred include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. As staffing selections are completed, revisions to the estimated costs will be recognized primarily in the fourth quarter of 2014.

Additional costs to be incurred include accelerated stock based compensation and pro-rated performance based cash incentive and stock based compensation awards primarily for PPL Energy Supply employees and for PPL employees who will become PPL Energy Supply employees in connection with the transaction. These costs will be recognized at the spinoff closing date. PPL and PPL Energy Supply estimate these additional costs will be in the range of \$30 million to \$40 million.

(PPL)

As a result of the spinoff announcement, PPL recorded \$3 million and \$49 million of deferred income tax expense during the three and nine months ended September 30, 2014 to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.

In addition, PPL recorded \$5 million and \$21 million of third-party costs during the three and nine months ended September 30, 2014 related to this transaction primarily in "Other Income (Expense) - net" on the Statement of Income, for investment bank advisory, legal, consulting and accounting fees. PPL currently estimates a range of total third-party costs that will ultimately be incurred of between \$60 million and \$70 million.

The assets and liabilities of PPL Energy Supply will continue to be classified as "held and used" on PPL's Balance Sheet until the closing of the transaction. The spinoff announcement was evaluated and determined not to be an event or a change in circumstance that required a recoverability test or a goodwill impairment assessment. However, an impairment loss could be recognized by PPL at the spinoff date if the aggregate carrying amount of PPL Energy Supply's assets and liabilities exceeds its aggregate fair value at that date. PPL cannot currently predict whether an impairment loss will be recorded at the spinoff date.

(PPL Energy Supply)

PPL Energy Supply will treat the combination with RJS Power as an acquisition, as PPL Energy Supply will be considered the accounting acquirer in accordance with business combination accounting guidance.

Montana Hydro Sale Agreement (PPL and PPL Energy Supply)

In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern 633 MW of hydroelectric generating facilities located in Montana for \$900 million in cash, subject to certain adjustments. Total net cash proceeds of the sale are currently estimated to be \$880 million. In September 2014, the MPSC approved the transaction. As a result, these hydroelectric generating facilities met the "held for sale" criteria in the third quarter of 2014. The sale is expected to close in the fourth quarter of 2014. See Note 8 to the Financial Statements for additional information including the components of Discontinued Operations in the Statements of Income and Balance Sheets.

(PPL)

Ofgem Review of Line Loss Calculation

In March 2014, Ofgem issued its final decision on the methodology to be used by all network operators to calculate the final line loss incentives and penalties for the DPCR4, which ended in March 2010. As a result, in the first quarter of 2014 WPD recorded an increase of \$65 million to its existing liability with a reduction to "Utility" revenues on the Statement of Income. In June 2014, WPD applied for judicial review of certain of Ofgem's decisions related to closing out the DPCR4 line loss mechanism. The court has set a hearing for November 20, 2014 to hear WPD's application for permission to seek judicial review. The primary relief sought is for Ofgem to reconsider the overall proportionality of penalties imposed on WPD. The entire process could last through the second quarter of 2015. WPD's total recorded liability at September 30, 2014 was \$105 million, all of which will be refunded to customers beginning April 1, 2015 through March 31, 2019. See Note 6 to the Financial Statements for additional information.

RIIO-ED1 - Fast Tracking

In February 2014, WPD elected to accept the decision of Ofgem to set the real cost of equity to be used during the RIIO-ED1 period at 6.4% compared to 6.7% proposed by WPD, and remain in the fast-track process. The change in the cost of equity is

not expected to have a significant impact on the results of operations for PPL. Also, in February 2014, Ofgem published formal confirmation that WPD's Business Plans submitted by its four DNOs have been accepted as submitted, or "fast-tracked," for the eight-year price control period starting April 1, 2015. Fast tracking affords several benefits to the WPD DNOs including the ability to collect additional revenue equivalent to 2.5% of total annual expenditure during the eight-year price control period, or approximately \$35 million annually, greater revenue certainty and a higher level of cost savings retention. The period to challenge the fast tracking expired in June 2014 and no third parties have filed objections. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2013 Form 10-K for additional information on RIIO-ED1.

Distribution Revenue Reduction

As discussed in PPL's 2013 Form 10-K, in December 2013, WPD and other U.K. DNOs announced agreements with the U.K. Department of Energy and Climate Change and Ofgem to a reduction of £5 per residential customer of electricity distribution revenues that otherwise would have been collected in the regulatory year beginning April 1, 2014. Full recovery of the revenue reduction, together with the associated carrying cost, was expected to occur during the regulatory year beginning April 1, 2015 for three of the WPD DNOs, and over the eight year RIIO-ED1 regulatory period for the fourth DNO. However, in July 2014, Ofgem decided that full recovery will occur for all WPD DNOs in the regulatory year beginning April 1, 2016. PPL projects that, as a result of this change and changes in foreign exchange rate assumptions, 2014 and 2015 earnings for its U.K. Regulated segment will now be adversely affected by \$31 million and \$16 million, respectively, and earnings for 2016 will be positively affected by \$33 million with the remainder to be recovered in later periods.

2011 Equity Units

In March 2014, PPL Capital Funding remarketed \$978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired \$228 million of the 4.32% Junior Subordinated Notes due 2019 and issued \$350 million of 2.189% Junior Subordinated Notes due 2017 and \$400 million 3.184% of Junior Subordinated Notes due 2019. Simultaneously the newly issued Junior Subordinated Notes were exchanged for \$350 million of 3.95% Senior Notes due 2024 and \$400 million of 5.00% Senior Notes due 2044. In May 2014, PPL issued 31.7 million shares of common stock at \$30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of \$978 million, which were used to repay short-term debt and for general corporate purposes.

Kerr Dam Project Arbitration Decision and Impairment (PPL Energy Supply)

PPL Montana holds a joint operating license issued for the Kerr Dam Project. The license extends until 2035 and, between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase, hold and operate the Kerr Dam Project. The parties submitted the issue of the appropriate amount of the conveyance price to arbitration in February 2013. In March 2014, the arbitration panel issued its final decision holding that the conveyance price payable by the Tribes to PPL Montana is \$18 million. As a result of the decision, in the first quarter of 2014 PPL Energy Supply performed a recoverability test on the Kerr Dam Project and recorded an impairment charge of \$18 million (\$10 million after-tax) to reduce the carrying amount to its fair value, at that time, of \$29 million. See Note 13 to the Financial Statements for additional information.

Susquehanna Turbine Blade Inspection (PPL and PPL Energy Supply)

PPL Susquehanna continues to make modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant that was first identified in 2011. In March 2014, Unit 2 completed its planned turbine inspection outage to replace blades. Unit 1 completed its planned refueling and turbine inspection outage in June 2014. Similar blade replacements were completed and modifications will also be implemented to reduce the likelihood of blade cracking, including the installation of shorter last stage blades on one of the low pressure turbines. In the second and third quarters of 2014, Unit 2 was shut down for blade inspection and replacement, as well as additional maintenance. The financial impact of the Unit 2 outages was not material. PPL Susquehanna will continue to monitor blade performance and work with the turbine manufacturer to identify and resolve the issues causing the blade cracking.

Regional Transmission Expansion Plan (PPL and PPL Electric)

In July 2014, PPL Electric announced that it had submitted a proposal to PJM to build a new regional transmission line. PPL Electric is pursuing approval of this project from Pennsylvania, New Jersey, New York and Maryland. The proposed line would run from western Pennsylvania into New York and New Jersey and also south into Maryland, covering approximately

725 miles. The proposed line would enhance the ability to move power inter-regionally and intra-regionally resulting in a more reliable, robust and cost effective system. As proposed, the project would begin in 2017 and the line would be in operation between 2023 and 2025. The project is estimated to cost \$4 billion to \$6 billion.

Storm Damage Expense Rider (SDER) (PPL Electric)

In its December 28, 2012 final rate case order, the PUC directed PPL Electric to file a proposed SDER. In March 2013, PPL Electric filed its proposed SDER with the PUC and, as part of that filing, requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy. In April 2014, the PUC issued a final order approving the SDER. The SDER will be effective January 1, 2015 and initially include actual storm costs compared to collections from December 2013 through November 2014. As a result of the order, PPL Electric reduced its regulatory liability by \$12 million related to collections in excess of costs incurred from January 1, 2013 to November 30, 2013 that are not required to be refunded to customers. Also, as part of the order, PPL Electric can recover Hurricane Sandy storm damage costs through the SDER over a three-year period beginning January 2015. On June 20, 2014, the Office of Consumer Advocate filed a petition for review of the April 2014 order with the Commonwealth Court of Pennsylvania. The case remains pending. See "Pennsylvania Activities - Storm Damage Expense Rider" in Note 6 to the Financial Statements for additional information.

FERC Wholesale Formula Rates (LKE and KU)

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Certain elements, including the new formula rate, became effective April 23, 2014, subject to refund. In April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts. Such terminations are to be effective in 2019, except in the case of one municipality with a 2017 effective date. In July 2014, KU agreed on settlement terms with the two municipal customers that did not provide termination notices and filed the settlement proposal with the FERC for its approval. In August 2014, the FERC issued an order on the interim settlement agreement allowing the proposed rates to become effective pending a final order. If approved, the settlement agreement will resolve the rate case with respect to these two municipalities, including an authorized return on equity of 10% or the return on equity awarded to other parties in this case, whichever is lower. Also in July 2014, KU made a contractually required filing with the FERC that addressed certain rate recovery matters affecting the nine terminating municipalities during the remaining term of their contracts. KU and the terminating municipalities continue settlement discussions in this proceeding. KU cannot currently predict the outcome of its FERC applications regarding its wholesale power agreements with the municipalities.

Rate Case Proceedings (LKE, LG&E and KU)

On November 4, 2014, LG&E and KU announced that on November 26, 2014, they anticipate filing requests with the KPSC for increases in annual base electricity rates of approximately \$30 million at LG&E and approximately \$153 million at KU and an increase in annual base gas rates of approximately \$14 million at LG&E. The proposed base rate increases would result in electricity rate increases of 2.7% at LG&E and 9.6% at KU and a gas rate increase of 4.2% at LG&E and would become effective in July 2015. LG&E's and KU's applications each include a request for authorized returns-on-equity of 10.50%. The applications are based on a forecasted test year of July 1, 2015 through June 30, 2016. LG&E and KU cannot predict the outcome of these proceedings.

Results of Operations

(PPL)

The discussion for PPL provides a review of results by reportable segment. The "Margins" discussion provides explanations of non-GAAP financial measures (Kentucky Gross Margins, Pennsylvania Gross Delivery Margins and Unregulated Gross Energy Margins) and a reconciliation of non-GAAP financial measures to "Operating Income." The "Statement of Income Analysis" discussion addresses significant changes in principal line items on PPL's Statements of Income, comparing the three and nine months ended September 30, 2014 with the same periods in 2013. "Segment Earnings, Margins and Statement of Income Analysis" is presented separately for PPL.

Tables analyzing changes in amounts between periods within "Segment Earnings" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange

rate basis are calculated by translating current year results at the prior year weighted-average U.K. foreign currency exchange rate.

(Subsidiary Registrants)

The discussion for each of PPL Energy Supply, PPL Electric, LKE, LG&E and KU provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income" and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income comparing the three and nine months ended September 30, 2014 with the same periods in 2013. "Earnings, Margins and Statement of Income Analysis" is presented separately for PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL: Segment Earnings, Margins and Statement of Income Analysis

Segment Earnings

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations and certain costs, such as U.S. income taxes, administrative costs and allocated financing costs. The U.K. Regulated segment represents 66% of Net Income Attributable to PPL Shareowners for the nine months ended September 30, 2014 and 34% of PPL's assets at September 30, 2014.

Net Income Attributable to PPL Shareowners for the periods ended September 30 includes the following results:

	Three Months			Nine Months		
	2014	2013	% Change	2014	2013	% Change
Utility revenues	\$ 632	\$ 534	18	\$ 1,928	\$ 1,731	11
Energy-related businesses	12	9	33	36	32	13
Total operating revenues	644	543	19	1,964	1,763	11
Other operation and maintenance	110	111	(1)	335	340	(1)
Depreciation	86	73	18	256	219	17
Taxes, other than income	41	36	14	119	109	9
Energy-related businesses	8	7	14	23	21	10
Total operating expenses	245	227	8	733	689	6
Other Income (Expense) - net	136	(117)	(216)	40	7	471
Interest Expense	115	102	13	352	313	12
Income Taxes	125	(86)	(245)	231	27	756
Net Income Attributable to PPL Shareowners	\$ 295	\$ 183	61	\$ 688	\$ 741	(7)

The changes in the results of the U.K. Regulated segment between these periods were due to the factors set forth below, which reflect certain items that management considers special and effects of foreign currency exchange on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of the special items.

	Three Months	Nine Months
U.K.		
Utility revenues	\$ 21	\$ 75
Other operation and maintenance	7	19
Depreciation	(4)	(18)
Interest expense	(6)	(15)
Other		(2)
Income taxes	(13)	(16)
U.S.		
Interest expense and other	2	1
Income taxes	(14)	(36)
Foreign currency exchange, after-tax	(8)	(3)
Special items, after-tax	127	(58)
Total	\$ 112	\$ (53)

U.K.

- Higher utility revenues for the three month period primarily due to a \$35 million impact from the April 1, 2014 price increase, partially offset by \$12 million of lower volume due primarily to weather.

Higher utility revenues for the nine month period primarily due to a \$154 million impact from the April 1, 2014 and 2013 price increases, partially offset by \$68 million of lower volume due primarily to weather and \$7 million of adverse customer mix.

- Lower other operation and maintenance for the three month period primarily due to \$11 million of lower pension expense, partially offset by \$8 million of higher engineering management expense.

Lower other operation and maintenance for the nine month period primarily due to \$29 million of lower pension expense, partially offset by \$14 million of higher network maintenance expense.

- Higher depreciation expense for the three and nine month periods primarily due to PP&E additions, net.
- Higher interest expense for the three and nine month periods primarily due to the October 2013 debt issuance.
- Higher income taxes for the three month period primarily due to \$5 million from U.K. tax rate changes that provided a net one-time benefit in 2013 and higher pre-tax income, which increased income taxes by \$4 million.

Higher income taxes for the nine month period primarily due to higher pre-tax income, which increased income taxes by \$14 million.

U.S.

- Higher income taxes for the three month period primarily due to an \$8 million increase attributable to the expected taxable amount of cash repatriation in 2014.

Higher income taxes for the nine month period primarily due to a \$19 million benefit in 2013 related to a ruling obtained from the IRS regarding 2010 U.K. earnings and profits calculations and an \$18 million increase attributable to the expected taxable amount of cash repatriation in 2014.

The following after-tax gains (losses), which management considers special items, also impacted the U.K. Regulated segment's results during the periods ended September 30.

Income Statement Line Item	Three Months		Nine Months	
	2014	2013	2014	2013
Other Income				
Foreign currency-related economic hedges, net of tax of (\$60), \$44, (\$39), \$5 (a)	\$ 111	\$ (82)	\$ 72	\$ (8)
WPD Midlands acquisition-related adjustments:				
Separation benefits, net of tax of \$0, \$1, \$0, \$1		(2)		(4)
Other acquisition-related adjustments, net of tax of \$0, \$0, \$0, \$0				(2)
Other:				
Windfall Profits Tax litigation (b)				43
Change in WPD line loss accrual, net of tax of \$0, \$5, \$13, \$10 (c)		(16)	(52)	(35)
Change in U.K. income tax rate (d)		84		84
Total	\$ 111	\$ (16)	\$ 20	\$ 78

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated earnings denominated in GBP.

(b) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling, by the U.S. Court of Appeals for the Third Circuit, concerning the creditability for income tax purposes of the U.K. Windfall Profits Tax. As a result of the U.S. Supreme Court ruling, PPL recorded an income tax benefit during the nine months ended September 30, 2013. See Note 5 to the Financial Statements for additional information.

(c) WPD Midlands recorded adjustments to its line loss accrual during the three and nine months ended September 30, 2013 based on information provided by Ofgem regarding the calculation of line loss incentive/penalty for all network operators related to DPCR4, a price control period that ended prior to PPL's acquisition of WPD Midlands. In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, WPD increased its existing liability by \$65 million for over-recovery of line losses during the nine months ended September 30, 2014. See Note 6 to the Financial Statements for additional information.

(d) The U.K. Finance Act of 2013, enacted in July 2013, reduced the U.K.'s statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20% effective April 1, 2015. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in the three and nine month periods of 2013.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 24% of Net Income Attributable to PPL Shareowners for the nine months ended September 30, 2014 and 26% of PPL's assets at September 30, 2014.

Net Income Attributable to PPL Shareowners for the periods ended September 30 includes the following results:

	Three Months			Nine Months		
	2014	2013	% Change	2014	2013	% Change
Utility revenues	\$ 753	\$ 744	1	\$ 2,409	\$ 2,226	8
Fuel	240	237	1	748	684	9
Energy purchases	24	23	4	184	146	26
Other operation and maintenance	197	188	5	609	582	5
Depreciation	89	84	6	262	249	5
Taxes, other than income	13	12	8	39	36	8
Total operating expenses	563	544	3	1,842	1,697	9
Other Income (Expense) - net	(2)	(4)	(50)	(6)	(6)	
Interest Expense	56	49	14	164	165	(1)
Income Taxes	50	54	(7)	150	132	14
Income (Loss) from Discontinued Operations			n/a		1	(100)
Net Income Attributable to PPL Shareowners	\$ 82	\$ 93	(12)	\$ 247	\$ 227	9

The changes in the results of the Kentucky Regulated segment between these periods were due to the factors set forth below, which reflect amounts classified as Kentucky Gross Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of the special items.

	Three Months	Nine Months
Kentucky Gross Margins	\$ 3	\$ 76
Other operation and maintenance	(8)	(26)
Depreciation	(4)	(10)
Interest expense	(7)	1
Other	2	(1)
Income taxes	4	(18)
Special items, after-tax	(1)	(2)
Total	\$ (11)	\$ 20

- See "Margins – Changes in Non-GAAP Financial Measures" for an explanation of Kentucky Gross Margins.
- Higher other operation and maintenance for the three month period primarily due to \$3 million of higher bad debt expense and \$2 million of higher gas maintenance.

Higher other operation and maintenance for the nine month period primarily due to \$8 million of higher costs due to the timing and scope of generation maintenance, \$8 million of higher storm expense and higher bad debt expense of \$7 million.
- Higher depreciation expense for the three and nine month periods primarily due to PP&E additions, net.
- Higher interest expense for the three month period primarily due to the issuance of \$500 million of First Mortgage Bonds in November 2013.
- Lower interest expense for the nine month period primarily due to a \$10 million loss on extinguishment of debt in 2013 related to the remarketing of the PPL Capital Funding Junior Subordinated Notes component of the 2010 Equity Units and simultaneous exchange into Senior Notes in the second quarter of 2013, and a \$5 million decrease due to lower rates on the related Senior Notes as compared with the Junior Subordinated Notes. This decrease was partially offset by increased 2014 expense of \$14 million due to the issuance of \$500 million of First Mortgage Bonds in November 2013.

- Higher income taxes for the nine month period primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted the Kentucky Regulated segment's results during the periods ended September 30.

	Income Statement Line Item	Three Months		Nine Months	
		2014	2013	2014	2013
EEI adjustments, net of tax of \$0, \$0, \$0, \$0 (a)	Other Income (Expense)-net	\$ (1)			\$ 1
LKE discontinued operations	Discontinued Operations				1
Total		\$ (1)			\$ 2

(a) Impact recorded at KU.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain financing costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 19% of Net Income Attributable to PPL Shareowners for the nine months ended September 30, 2014 and 15% of PPL's assets at September 30, 2014.

Net Income Attributable to PPL Shareowners for the periods ended September 30 includes the following results:

	Three Months			Nine Months		
	2014	2013	% Change	2014	2013	% Change
Utility revenues	\$ 477	\$ 464	3	\$ 1,518	\$ 1,391	9
Energy purchases						
External	128	144	(11)	431	436	(1)
Intersegment	20	11	82	68	37	84
Other operation and maintenance	133	134	(1)	402	391	3
Depreciation	47	45	4	137	132	4
Taxes, other than income	25	25		80	77	4
Total operating expenses	<u>353</u>	<u>359</u>	(2)	<u>1,118</u>	<u>1,073</u>	4
Other Income (Expense) - net	3	2	50	6	5	20
Interest Expense	33	30	10	91	80	14
Income Taxes	37	26	42	121	83	46
Net Income Attributable to PPL Shareowners	\$ 57	\$ 51	12	\$ 194	\$ 160	21

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as Pennsylvania Gross Delivery Margins and a certain item that management considers special on separate lines and not in their respective Statement of Income line items. See below for additional detail of the special item.

	Three Months	Nine Months
Pennsylvania Gross Delivery Margins	\$ 12	\$ 85
Other operation and maintenance	4	4
Depreciation	(1)	(5)
Interest expense	(3)	(11)
Other	1	1
Income taxes	(9)	(38)
Special item, after-tax	2	(2)
Total	\$ 6	\$ 34

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Lower other operation and maintenance for the nine month period primarily due to \$18 million of lower payroll related costs due to more project costs being capitalized in 2014, partially offset by \$9 million of higher storm costs and \$5 million of higher support group costs.
- Higher interest expense for the nine month period primarily due to the issuance of first mortgage bonds in July 2013 and June 2014.
- Higher income taxes for the three and nine month periods primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers a special item, also impacted the Pennsylvania Regulated segment's results during the periods ended September 30.

	Income Statement Line Item	Three Months		Nine Months	
		2014	2013	2014	2013
Separation benefits - bargaining unit voluntary program, net of tax of (\$1), \$0, \$1, \$0 (a)	Other Operation and Maintenance	\$ 2		\$ (2)	

(a) In June 2014, PPL Electric's largest IBEW local ratified a new three-year labor agreement. In connection with the new agreement, bargaining unit one-time voluntary retirement benefits were recorded in the second quarter and adjusted in the third quarter of 2014. See Note 10 to the Financial Statements for additional information.

Supply Segment

The Supply segment primarily consists of PPL Energy Supply's wholesale, retail, marketing and trading activities, as well as its competitive generation operations. In addition, certain financing and other costs are allocated to the Supply segment. The Supply segment represents 2% of Net Income Attributable to PPL Shareowners for the nine months ended September 30, 2014 and 24% of PPL's assets at September 30, 2014.

In June 2014, PPL and PPL Energy Supply, which primarily represents PPL's Supply segment, executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. Upon completion of this transaction, PPL will no longer have a Supply segment. See Note 8 to the Financial Statements for additional information.

Net Income Attributable to PPL Shareowners for the periods ended September 30 includes the following results:

	Three Months			Nine Months		
	2014	2013	% Change	2014	2013	% Change
Energy revenues						
External (a) (b)	\$ 1,392	\$ 1,178	18	\$ 1,116	\$ 3,138	(64)
Intersegment	20	11	82	68	37	84
Energy-related businesses	179	143	25	459	378	21
Total operating revenues	1,591	1,332	19	1,643	3,553	(54)
Fuel (a)	212	258	(18)	953	780	22
Energy purchases (a) (c)	708	389	82	(893)	1,088	(182)
Other operation and maintenance	232	232		746	714	4
Depreciation	74	75	(1)	225	223	1
Taxes, other than income	14	14		45	40	13
Energy-related businesses	172	138	25	451	366	23
Total operating expenses	1,412	1,106	28	1,527	3,211	(52)
Other Income (Expense) - net	10	1	900	23	17	35
Interest Expense	45	52	(13)	138	166	(17)
Income Taxes	65	89	(27)	(5)	98	(105)
Income (Loss) from Discontinued Operations	7	6	17	10	28	(64)
Net Income Attributable to Noncontrolling Interests		1	(100)		1	(100)
Net Income Attributable to PPL Shareowners	\$ 86	\$ 91	(5)	\$ 16	\$ 122	(87)

(a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.

(b) The nine month period ended September 30, 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.

(c) The nine month period ended September 30, 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

The changes in the results of the Supply segment between these periods were due to the factors set forth below, which reflect amounts classified as Unregulated Gross Energy Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of these special items.

	Three Months	Nine Months
Unregulated Gross Energy Margins	\$ (137)	\$ (83)
Other operation and maintenance	6	3
Other Income (Expense) - net	11	7
Interest expense	6	28
Other	5	(4)
Income taxes	58	39
Discontinued operations, after-tax	(1)	(1)
Special items, after-tax	47	(95)
Total	\$ (5)	\$ (106)

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Higher other income (expense) for the three and nine month periods, primarily due to earnings on the nuclear decommissioning trust fund.
- Lower interest expense for the nine month period primarily due to the repayment of debt in July and December 2013.
- Lower income taxes for the three and nine month periods due to lower pre-tax income, which decreased income taxes by \$39 million and \$22 million. Additionally, the three and nine months ended September 2013 included an increase of \$28 million in valuation allowances on Pennsylvania net operating losses.

The following after-tax gains (losses), which management considers special items, also impacted the Supply segment's results during the periods ended September 30.

	Income Statement Line Item	Three Months		Nine Months	
		2014	2013	2014	2013
Adjusted energy-related economic activity - net, net of tax of (\$31), \$4, \$80, \$32	(a)	\$ 46	\$ (6)	\$ (116)	\$ (47)
Kerr Dam Project impairment, net of tax of \$0, \$0, \$7, \$0 (b)	Discontinued Operations			(10)	
Other:					
Change in tax accounting method related to repairs	Income Taxes				(3)
Counterparty bankruptcy, net of tax of \$0, \$0, \$0, (\$1)	Other Operation and Maintenance				1
Separation benefits - bargaining unit voluntary program, net of tax of (\$2), \$0, \$7, \$0 (c)	Other Operation and Maintenance	2		(11)	
Separation benefits - spinoff, net of tax of \$5, \$0, \$5, \$0 (d)	Other Operation and Maintenance	(7)		(7)	
Total		\$ 41	\$ (6)	\$ (144)	\$ (49)

- (a) Represents unrealized gains (losses), after-tax, on economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information. Amounts have been adjusted for insignificant amounts for option premiums.
- (b) See Note 13 to the Financial Statements for additional information.
- (c) In June 2014, PPL Energy Supply's largest IBEW local ratified a new three-year labor agreement. In connection with the new agreement, bargaining unit one-time voluntary retirement benefits were recorded in the second quarter and adjusted in the third quarter of 2014. See Note 10 to the Financial Statements for additional information.
- (d) In September 2014, PPL Energy Supply recorded separation benefits related to the anticipated spinoff transaction. See Note 8 to the Financial Statements for additional information.

Margins

Non-GAAP Financial Measures

Management utilizes the following non-GAAP financial measures as indicators of performance for its businesses.

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's, LKE's, LG&E's and KU's electricity generation, transmission and distribution operations as well as LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded as "Other operation and maintenance" on the Statements of Income) are deducted from revenues. In addition, certain other expenses, recorded as "Other operation and maintenance" and "Depreciation" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from the electricity and gas operations.
- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Energy purchases from affiliate" in PPL Electric's reconciliation table). As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's and PPL Energy Supply's competitive energy activities, which are managed on a geographic basis. In calculating this measure, energy revenues, including operating revenues associated with certain businesses classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, recorded in "Taxes, other than income," and operating expenses associated with certain businesses classified as discontinued operations. This performance measure is relevant due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Unregulated wholesale energy," "Unregulated retail energy" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Unregulated wholesale energy to affiliate" in PPL Energy Supply's reconciliation table). "Unregulated Gross Energy Margins" excludes adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of the competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Adjusted energy-related economic activity includes the ineffective portion of qualifying cash flow hedges and premium amortization associated with options. Unrealized gains and losses related to this activity are deferred and included in "Unregulated Gross Energy Margins" over the delivery period of the item that was hedged or upon realization.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage the operations, analyze actual results compared with budget and, in certain cases, to measure certain corporate financial goals used to determine variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following table contains the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended September 30.

	2014 Three Months				2013 Three Months					
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 753	\$ 477		\$ 630(c)	\$ 1,860	\$ 744	\$ 464		\$ 531(c)	\$ 1,739
PLR intersegment utility revenue (expense) (d)		(20)	\$ 20				(11)	\$ 11		
Unregulated wholesale energy			813	296(e)	1,109			963	(50)(e)	913
Unregulated retail energy			280	2(e)	282			266	(3)(e)	263
Energy-related businesses				198	198				159	159
Total Operating Revenues	753	457	1,113	1,126	3,449	744	453	1,240	637	3,074
Operating Expenses										
Fuel	240		203	9(e)	452	237		256	1(e)	494
Energy purchases	24	128	495	212(e)	859	23	144	428	(40)(e)	555
Other operation and maintenance	27	25	4	628	684	26	19	5	608	658
Depreciation	2			305	307	1			283	284
Taxes, other than income		25	11	56	92		23	9	54	86
Energy-related businesses			2	184	186			5	146	151
Total Operating Expenses	293	178	715	1,394	2,580	287	186	703	1,052	2,228
Income (Loss) from Discontinued Operations			33	(33)(f)				31	(31)(f)	
Total	\$ 460	\$ 279	\$ 431	\$ (301)	\$ 869	\$ 457	\$ 267	\$ 568	\$ (446)	\$ 846

	2014 Nine Months				2013 Nine Months					
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 2,409	\$ 1,518		\$ 1,925(c)	\$ 5,852	\$ 2,226	\$ 1,391		\$ 1,727(c)	\$ 5,344
PLR intersegment utility revenue (expense) (d)		(68)	\$ 68				(37)	\$ 37		
Unregulated wholesale energy			792	(589)(e)	203			2,664	(284)(e)	2,380
Unregulated retail energy			933	(24)(e)	909			747	8(e)	755
Energy-related businesses				512	512				423	423
Total Operating Revenues	2,409	1,450	1,793	1,824	7,476	2,226	1,354	3,448	1,874	8,902
Operating Expenses										
Fuel	748		950	3(e)	1,701	684		778	2(e)	1,464
Energy purchases	184	431	(478)	(421)(e)	(284)	146	436	1,285	(204)(e)	1,663
Other operation and maintenance	75	74	17	1,916	2,082	74	62	13	1,860	2,009
Depreciation	6			907	913	3			842	845
Taxes, other than income	1	74	34	174	283		70	27	164	261
Energy-related businesses			6	486	492			5	398	403
Total Operating Expenses	1,014	579	529	3,065	5,187	907	568	2,108	3,062	6,645
Income (Loss) from Discontinued Operations			103	(103)(f)				110	(110)(f)	
Total	\$ 1,395	\$ 871	\$ 1,367	\$ (1,344)	\$ 2,289	\$ 1,319	\$ 786	\$ 1,450	\$ (1,298)	\$ 2,257

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) Primarily represents WPD's utility revenue.
(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
(e) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements.
(f) Represents the revenues associated with the hydroelectric generating facilities located in Montana that are classified as discontinued operations. These revenues are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

The following table shows the non-GAAP financial measures by PPL's reportable segment and by component, as applicable, for the periods ended September 30 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months			Nine Months		
	2014	2013	Change	2014	2013	Change
Kentucky Regulated						
Kentucky Gross Margins						
LG&E	\$ 212	\$ 210	\$ 2	\$ 633	\$ 595	\$ 38
KU	248	247	1	762	724	38
LKE	\$ 460	\$ 457	\$ 3	\$ 1,395	\$ 1,319	\$ 76
Pennsylvania Regulated						
Pennsylvania Gross Delivery Margins						
Distribution	\$ 194	\$ 201	\$ (7)	\$ 631	\$ 607	\$ 24
Transmission	85	66	19	240	179	61
Total	\$ 279	\$ 267	\$ 12	\$ 871	\$ 786	\$ 85
Supply						
Unregulated Gross Energy Margins						
Eastern U.S.	\$ 376	\$ 516	\$ (140)	\$ 1,211	\$ 1,285	\$ (74)
Western U.S.	55	52	3	156	165	(9)
Total	\$ 431	\$ 568	\$ (137)	\$ 1,367	\$ 1,450	\$ (83)

Kentucky Gross Margins

Kentucky Gross Margins increased for the three months ended September 30, 2014 compared with 2013 primarily due to returns on additional environmental capital investments of \$15 million (\$8 million at LG&E and \$7 million at KU) partially offset by lower volumes of \$8 million (\$4 million at LG&E and KU). The change in volumes was primarily attributable to mild weather conditions.

Kentucky Gross Margins increased for the nine months ended September 30, 2014 compared with 2013 primarily due to returns on additional environmental capital investments of \$42 million (\$19 million at LG&E and \$23 million at KU), higher volumes of \$16 million (\$5 million at LG&E and \$11 million at KU), higher demand revenue of \$7 million (\$5 million at LG&E and \$2 million at KU) and higher off-system sales at LG&E of \$7 million. The change in volumes, demand revenue and off-system sales were driven by unusually cold weather in the first quarter of 2014.

Pennsylvania Gross Delivery Margins

Distribution

Margins increased for the nine months ended September 30, 2014 compared with 2013 primarily due to a \$14 million favorable effect of distribution improvement capital investments and a \$6 million favorable effect of unusually cold weather in the first quarter of 2014. See "Pennsylvania Activities - Storm Damage Expense Rider" in Note 6 to the Financial Statements for additional information.

Transmission

Margins increased for the three and nine months ended September 30, 2014 compared with 2013 primarily due to increased capital investments.

Unregulated Gross Energy Margins

Eastern U.S.

Eastern margins decreased for the three months ended September 30, 2014 compared with 2013 primarily due to lower baseload energy prices of \$82 million, lower capacity prices of \$67 million and net losses on certain commodity positions of \$12 million, partially offset by favorable asset performance of \$15 million.

Eastern margins decreased for the nine months ended September 30, 2014 compared with 2013 primarily due to lower baseload energy prices of \$283 million, partially offset by favorable asset performance of \$66 million, net gains on certain commodity positions of \$48 million, higher capacity prices of \$34 million and gas optimization of \$19 million.

During the first quarter of 2014, the PJM region experienced unusually cold weather conditions, higher demand and congestion patterns, causing rising natural gas and electricity prices in spot and near-term forward markets. Due to these market dynamics, PPL Energy Supply captured opportunities on unhedged generation, which were primarily offset by under-hedged full-requirement sales contracts and retail electric. The net benefit, due to the aforementioned weather and related market dynamics, was \$38 million for the nine months ended September 30, 2014 compared with 2013.

Western U.S.

Western margins increased for the three months ended September 30, 2014 compared with 2013 due to increased availability of coal and hydro units of \$15 million, partially offset by lower energy prices of \$13 million.

Western margins decreased for the nine months ended September 30, 2014 compared with 2013 primarily due to lower energy prices.

Statement of Income Analysis –

Utility Revenues

The increase (decrease) in utility revenues for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Domestic:		
PPL Electric (a)	\$ 14	\$ 128
LKE (b)	9	183
Total Domestic	<u>23</u>	<u>311</u>
U.K.:		
Price (c)	35	154
Foreign currency exchange rates	57	142
Volume (d)	(12)	(68)
Line loss accrual adjustments (e)	21	(20)
Customer mix		(7)
Other	(3)	(4)
Total U.K.	<u>98</u>	<u>197</u>
Total	<u>\$ 121</u>	<u>\$ 508</u>

(a) See "Pennsylvania Gross Delivery Margins" for further information.

(b) See "Kentucky Gross Margins" for further information.

(c) The three month period was impacted by a price increase effective April 1, 2014 and the nine month period was impacted by price increases effective April 1, 2014 and April 1, 2013.

(d) The decrease for the three and nine month periods was primarily due to the adverse effect of weather.

(e) The three and nine month periods were impacted by unfavorable accrual adjustments in 2013 based on Ofgem's consultation documents on the DPCR4 line loss incentives and penalties. The nine month period was also impacted by unfavorable accrual adjustments in 2014 based on Ofgem's final decision on this matter in March 2014. See Note 6 to the Financial Statements for additional information.

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended September 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	<u>Three Months</u>	<u>Nine Months</u>
Unregulated wholesale energy (a)	\$ 196	\$ (2,177)
Unregulated retail energy	19	154
Fuel	(42)	237
Energy purchases (b)	304	(1,947)

(a) The nine month period ended September 30, 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.

(b) The nine month period ended September 30, 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Domestic:		
PPL Susquehanna (a)	\$ 4	\$ 23
PPL Energy Supply fossil and hydroelectric plants (b)	(14)	(20)
PPL Electric storm costs	7	21
PPL Electric payroll-related costs	(8)	(18)
LKE generation and gas maintenance	3	10
LKE storm expense		8
LKE bad debt expense	3	7
Bargaining unit one-time voluntary retirement benefits (Note 10)	(9)	20
Separation benefits related to spinoff of PPL Energy Supply (Note 8)	30	30
Other	10	(6)
U.K.:		
Network maintenance (c)	(2)	14
Foreign currency exchange rates	9	23
Pension	(11)	(29)
Engineering management	8	(1)
WPD Midlands acquisition-related separation benefits	(3)	(5)
Other	(1)	(4)
Total	<u>\$ 26</u>	<u>\$ 73</u>

(a) The increase for the nine month period was primarily due to project costs.

(b) The decrease for the three and nine month period was primarily due to outage costs of \$10 million and the elimination of \$5 million and \$16 million of rent expense associated with the Colstrip lease which was terminated in December 2013.

(c) The increase for the nine month period was primarily due to vegetation management and fault repair due to increased 2014 storm activity.

Depreciation

Depreciation increased by \$23 million and \$68 million for the three and nine months ended September 30, 2014 compared with 2013, primarily due to additions to PP&E, net.

Taxes, Other Than Income

The increase (decrease) in taxes, other than income for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Pennsylvania gross receipts tax (a)	\$ 1	\$ 10
Foreign currency exchange rates	4	9
Other	1	3
Total	<u>\$ 6</u>	<u>\$ 22</u>

(a) The increase for the nine month period was primarily due to higher retail electric revenues. This tax is included in "Unregulated Gross Energy Margins" and "Pennsylvania Gross Delivery Margins."

Other Income (Expense) - net

The increase (decrease) in other income (expense) - net for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Change in the fair value of economic foreign currency exchange contracts (Note 14)	\$ 251	\$ 32
Earnings on securities in NDT funds	7	9
Transaction costs related to spinoff of PPL Energy Supply (Note 8)	(2)	(18)
Other	5	(3)
Total	<u>\$ 261</u>	<u>\$ 20</u>

See Note 12 to the Financial Statements for additional information.

Interest Expense

The increase (decrease) in interest expense for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Long-term debt interest expense (a)	\$ 9	\$ 9
Hedging activity and ineffectiveness	(6)	(9)
Net amortization of debt discounts, premiums and issuance costs		(4)
Capitalized interest and debt component of AFUDC (b)	2	11
Foreign currency exchange rates	10	23
Other	(1)	(2)
Total	<u>\$ 14</u>	<u>\$ 28</u>

(a) The increase for both periods was primarily due to debt issuances at PPL Electric in June 2014, LKE in November 2013 and WPD (West Midlands) in October 2013, partially offset by repayment of debt at PPL Energy Supply in December and July 2013. The nine month period also increased due to a debt issuance at PPL Electric in July 2013.

(b) Primarily due to the Holtwood hydroelectric expansion project placed in service in November 2013.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Change in pre-tax income at current period tax rates	\$ 107	\$ (3)
State valuation allowance adjustments (a)	(35)	11
Federal income tax credits	3	5
Federal and state tax reserve adjustments (b)		41
Federal and state tax return adjustments	6	6
U.S. income tax on foreign earnings net of foreign tax credit (c)	16	42
U.K. Finance Act adjustments (d)	93	93
State deferred tax rate change		3
Impact of lower U.K. income tax rates	(6)	(15)
Other		8
Total	\$ 184	\$ 191

(a) As a result of the PPL Energy Supply spinoff announcement, PPL recorded \$3 million and \$49 million of deferred income tax expense during the three and nine months ended September 30, 2014 to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the earnings of PPL Energy Supply.

During the three and nine months ended September 30, 2013, PPL recorded a \$38 million increase in state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income over the remaining carryforward period of Pennsylvania net operating losses.

(b) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling by the U.S. Court of Appeals for the Third Circuit, concerning the creditability, for income tax purposes, of the U.K. Windfall Profits Tax. As a result of this decision, PPL recorded a tax benefit of \$44 million during the nine months ended September 30, 2013.

(c) For the three and nine months ended September 30, 2014, PPL recorded \$19 million and \$40 million increases to income tax expense primarily attributable to the expected taxable amount of cash repatriation in 2014.

During the three and nine months ended September 30, 2013, PPL recorded \$10 million and \$24 million increases to income tax expense primarily attributable to a revision in the expected taxable amount of cash repatriation in 2013.

During the nine months ended September 30, 2013, PPL recorded a tax benefit of \$19 million associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that was reflected on amended 2010 U.S. tax returns.

(d) The U.K.'s Finance Act of 2013, enacted in July 2013, reduced the U.K. statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20% effective April 1, 2015. As a result, PPL reduced its net deferred tax liabilities and recognized a \$93 million deferred tax benefit in the third quarter of 2013 related to both rate decreases.

See Note 5 to the Financial Statements for additional information.

Income (Loss) from Discontinued Operations (net of income taxes)

Income (Loss) from Discontinued Operations (net of income taxes) primarily includes the results of operations of the Montana hydroelectric generating facilities for all periods presented. See "Discontinued Operations - Montana Hydro Sale Agreement" in Note 8 to the Financial Statements for additional information. Income (Loss) from Discontinued Operations (net of income taxes) decreased by \$20 million for the nine months ended September 30, 2014 compared with the same period in 2013. The decrease was primarily due to the Kerr Dam Project impairment of \$10 million after-tax recorded in March 2014 and lower energy margins due to lower energy prices. See Note 13 to the Financial Statements for additional information on the Kerr Dam Project impairment.

PPL Energy Supply: Earnings, Margins and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net Income Attributable to PPL Energy Supply Member	\$ 101	\$ 124	\$ 48	\$ 172
Special items, gains (losses), after-tax	41	(6)	(144)	(49)

Excluding special items, earnings for the three month period in 2014 compared with 2013 decreased, primarily due to lower margins due to lower hedged energy prices and lower capacity prices, partially offset by favorable asset performance, lower operation and maintenance expense and lower financing costs. Earnings for the nine month period decreased, primarily due to lower energy prices, partially offset by favorable asset performance, net benefits from unusually cold weather in the first quarter of 2014, higher capacity prices, gains on certain commodity positions and lower financing costs.

The table below quantifies the changes in the components of Net Income Attributable to PPL Energy Supply Member between these periods, which reflect amounts classified as Unregulated Gross Energy Margins and certain items that

management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations – Segment Earnings – Supply Segment" for details of the special items.

	Three Months	Nine Months
Unregulated Gross Energy Margins	\$ (137)	\$ (83)
Other operation and maintenance	6	3
Other Income (Expense) - net	11	7
Interest expense	6	28
Energy-related businesses	13	7
Other	2	(1)
Income taxes	30	11
Discontinued operations, after-tax	(1)	(1)
Special items, after-tax	47	(95)
Total	<u>\$ (23)</u>	<u>\$ (124)</u>

Margins

"Unregulated Gross Energy Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2014 Three Months			2013 Three Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Unregulated wholesale energy	\$ 813	\$ 296 (c)	\$ 1,109	\$ 963	\$ (50) (c)	\$ 913
Unregulated wholesale energy to affiliate	20		20	11		11
Unregulated retail energy	280	3 (c)	283	266	(1) (c)	265
Energy-related businesses		189	189		143	143
Total Operating Revenues	<u>1,113</u>	<u>488</u>	<u>1,601</u>	<u>1,240</u>	<u>92</u>	<u>1,332</u>
Operating Expenses						
Fuel	203	9 (c)	212	256	2 (c)	258
Energy purchases	495	213 (c)	708	428	(39) (c)	389
Other operation and maintenance	4	228	232	5	227	232
Depreciation		74	74		75	75
Taxes, other than income	11	3	14	9	5	14
Energy-related businesses	2	170	172	5	133	138
Total Operating Expenses	<u>715</u>	<u>697</u>	<u>1,412</u>	<u>703</u>	<u>403</u>	<u>1,106</u>
Income (Loss) from Discontinued Operations	33	(33) (d)		31	(31) (d)	
Total	<u>\$ 431</u>	<u>\$ (242)</u>	<u>\$ 189</u>	<u>\$ 568</u>	<u>\$ (342)</u>	<u>\$ 226</u>

	2014 Nine Months			2013 Nine Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Unregulated wholesale energy	\$ 792	\$ (589) (c)	\$ 203	\$ 2,664	\$ (284) (c)	\$ 2,380
Unregulated wholesale energy to affiliate	68		68	37		37
Unregulated retail energy	933	(20) (c)	913	747	11 (c)	758
Energy-related businesses		469	469		378	378
Total Operating Revenues	<u>1,793</u>	<u>(140)</u>	<u>1,653</u>	<u>3,448</u>	<u>105</u>	<u>3,553</u>

	2014 Nine Months			2013 Nine Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Expenses						
Fuel	950	3 (c)	953	778	2 (c)	780
Energy purchases	(478)	(415) (c)	(893)	1,285	(197) (c)	1,088
Other operation and maintenance	17	729	746	13	701	714
Depreciation		225	225		223	223
Taxes, other than income	34	11	45	27	13	40
Energy-related businesses	6	445	451	5	361	366
Total Operating Expenses	529	998	1,527	2,108	1,103	3,211
Income (Loss) from						
Discontinued Operations	103	(103) (d)		110	(110) (d)	
Total	\$ 1,367	\$ (1,241)	\$ 126	\$ 1,450	\$ (1,108)	\$ 342

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.
(d) Represents the revenues associated with the hydroelectric generating facilities located in Montana that are classified as discontinued operations. These revenues are not reflected in "Operating Income" on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended September 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	Three Months	Nine Months
Unregulated wholesale energy (a)	\$ 196	\$ (2,177)
Unregulated wholesale energy to affiliate	9	31
Unregulated retail energy	18	155
Fuel	(46)	173
Energy purchases (b)	319	(1,981)

- (a) The nine month period ended September 30, 2014 includes significant realized and unrealized losses on physical and financial commodity sales contracts due to the unusually cold weather experienced in the first quarter of 2014.
(b) The nine month period ended September 30, 2014 includes significant realized and unrealized gains on physical and financial commodity purchase contracts due to the unusually cold weather experienced in the first quarter of 2014.

Energy-Related Businesses

Net contributions from energy-related businesses increased by \$12 million and \$6 million for the three and nine months ended September 30, 2014 compared with 2013. During the three and nine months ended September 30, 2014, PPL Energy Supply recorded \$14 million and \$17 million increases to "Energy-related businesses" revenues on the 2014 Statement of Income related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. See Note 1 to the Financial Statements for additional information. The increase for the nine month period was partially offset by losses of \$9 million recognized in 2014 related to overruns in costs to complete a project.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2014 compared with 2013 was due to:

	Three Months	Nine Months
PPL Susquehanna (a)	\$ 4	\$ 23
Fossil and hydroelectric plants (b)	(14)	(20)
PPL EnergyPlus	(2)	2
Bargaining unit one-time voluntary retirement benefits (Note 10)	(6)	17
Separation benefits related to spinoff of PPL Energy Supply (Note 8)	12	12
Other	6	(2)
Total	\$	\$ 32

- (a) The increase for the nine month period was primarily due to project costs.

- (b) The decrease for the three and nine month period was primarily due to outage costs of \$10 million and the elimination of \$5 million and \$16 million of rent expense associated with the Colstrip lease which was terminated in December 2013.

Other Income (Expense) - net

Other income (expense) – net increased by \$9 million and \$6 million for the three and nine months ended September 30, 2014 compared with 2013, primarily due to higher earnings on securities in NDT funds.

Interest Expense

The increase (decrease) in interest expense for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Long-term debt interest expense (a)	\$ (12)	\$ (38)
Capitalized interest (b)	4	12
Other	2	(2)
Total	<u>\$ (6)</u>	<u>\$ (28)</u>

(a) The decrease was primarily due to the repayment of debt in December and July 2013.

(b) The increase was primarily due to the Holtwood hydroelectric expansion project placed in service in November 2013.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Change in pre-tax income at current period tax rates	\$ 2	\$ (75)
State valuation allowance adjustments	(4)	(4)
Federal and state tax reserve adjustments	(1)	(6)
State deferred tax rate change		3
Other	6	7
Total	<u>\$ 3</u>	<u>\$ (75)</u>

See Note 5 to the Financial Statements for additional information.

Income (Loss) from Discontinued Operations (net of income taxes)

Income (Loss) from Discontinued Operations (net of income taxes) includes the results of operations of the Montana hydroelectric generating facilities for all periods presented. See "Discontinued Operations - Montana Hydro Sale Agreement" in Note 8 to the Financial Statements for additional information. Income (Loss) from Discontinued Operations (net of income taxes) decreased by \$18 million for the nine months ended September 30, 2014 compared with the same period in 2013. The decrease was primarily due to the Kerr Dam Project impairment of \$10 million after-tax recorded in March 2014 and lower energy margins due to lower energy prices. See Note 13 to the Financial Statements for additional information on the Kerr Dam Project impairment.

PPL Electric: Earnings, Margins and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net Income	\$ 57	\$ 51	\$ 194	\$ 160
Special item, gains (losses), after-tax	2		(2)	

Excluding a special item, earnings for the three month period in 2014 compared with 2013 were flat. Earnings for the nine month period in 2014 compared with 2013 increased, primarily due to returns on additional transmission and distribution improvement capital investments and higher sales volumes driven by unusually cold weather in the first quarter of 2014, partially offset by higher interest expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflects amounts classified as Pennsylvania Gross Delivery Margins and a certain item that management considers special on separate lines

within the table and not in their respective Statement of Income line items. See PPL's Results of Operations - Segment Earnings - Pennsylvania Regulated Segment" for details of the special item.

	Three Months	Nine Months
Pennsylvania Gross Delivery Margins	\$ 12	\$ 85
Other operation and maintenance	4	4
Depreciation	(1)	(5)
Interest expense	(3)	(11)
Other	1	1
Income taxes	(9)	(38)
Special item, after-tax	2	(2)
Total	<u>\$ 6</u>	<u>\$ 34</u>

Margins

"Pennsylvania Gross Delivery Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2014 Three Months			2013 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 477		\$ 477	\$ 464		\$ 464
Operating Expenses						
Energy purchases	128		128	144		144
Energy purchases from affiliate	20		20	11		11
Other operation and maintenance	25	\$ 108	133	19	\$ 115	134
Depreciation		47	47		45	45
Taxes, other than income	25		25	23		25
Total Operating Expenses	<u>198</u>	<u>155</u>	<u>353</u>	<u>197</u>	<u>162</u>	<u>359</u>
Total	<u>\$ 279</u>	<u>\$ (155)</u>	<u>\$ 124</u>	<u>\$ 267</u>	<u>\$ (162)</u>	<u>\$ 105</u>

	2014 Nine Months			2013 Nine Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,518		\$ 1,518	\$ 1,391		\$ 1,391
Operating Expenses						
Energy purchases	431		431	436		436
Energy purchases from affiliate	68		68	37		37
Other operation and maintenance	74	\$ 328	402	62	\$ 329	391
Depreciation		137	137		132	132
Taxes, other than income	74	6	80	70	7	77
Total Operating Expenses	<u>647</u>	<u>471</u>	<u>1,118</u>	<u>605</u>	<u>468</u>	<u>1,073</u>
Total	<u>\$ 871</u>	<u>\$ (471)</u>	<u>\$ 400</u>	<u>\$ 786</u>	<u>\$ (468)</u>	<u>\$ 318</u>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Statement of Income Analysis –

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended September 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	<u>Three Months</u>	<u>Nine Months</u>
Operating revenues	\$ 13	\$ 127
Energy purchases	(16)	(5)
Energy purchases from affiliate	9	31

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Payroll-related costs	\$ (8)	\$ (18)
Vegetation management	(2)	3
Storm costs	7	21
Corporate service	2	5
Bargaining unit one-time voluntary retirement benefits (Note 10)	(3)	3
Other	3	(3)
Total	<u>\$ (1)</u>	<u>\$ 11</u>

Interest Expense

Interest expense increased by \$11 million for the nine months ended September 30, 2014 compared with 2013, primarily due to a debt issuance in June 2014 and July 2013.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Change in pre-tax income at current period tax rates	\$ 7	\$ 30
Federal and state tax reserve adjustments	2	5
Other	2	3
Total	<u>\$ 11</u>	<u>\$ 38</u>

See Note 5 to the Financial Statements for additional information.

LKE: Earnings, Margins and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net Income	\$ 91	\$ 100	\$ 271	\$ 260

Earnings decreased for the three month period in 2014 compared with 2013 primarily due to lower sales volume due to mild weather, higher operation and maintenance expenses and higher financing costs, partially offset by returns on additional environmental capital investments. Earnings increased for the nine month period in 2014 compared with 2013 primarily due to returns on additional environmental capital investments, higher sales volumes, higher demand revenue and higher off-system sales, partially offset by higher operation and maintenance expense driven by storm-related expenses and timing and scope of generation maintenance. The changes in volumes, demand revenue and off-system sales were driven by unusually cold weather in the first quarter of 2014.

The table below quantifies the changes in components of Net Income between these periods, which reflect amounts classified as Margins on a separate line within the table and not in their respective Statement of Income line items.

	Three Months	Nine Months
Margins	\$ 3	\$ 76
Other operation and maintenance	(8)	(26)
Depreciation	(4)	(10)
Interest expense	(5)	(14)
Other	1	(3)
Income taxes	4	(12)
Total	<u>\$ (9)</u>	<u>\$ 11</u>

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, LKE's Margins are referred to as "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2014 Three Months			2013 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 753		\$ 753	\$ 744		\$ 744
Operating Expenses						
Fuel	240		240	237		237
Energy purchases	24		24	23		23
Other operation and maintenance	27	\$ 170	197	26	\$ 162	188
Depreciation	2	87	89	1	83	84
Taxes, other than income		13	13		12	12
Total Operating Expenses	<u>293</u>	<u>270</u>	<u>563</u>	<u>287</u>	<u>257</u>	<u>544</u>
Total	<u>\$ 460</u>	<u>\$ (270)</u>	<u>\$ 190</u>	<u>\$ 457</u>	<u>\$ (257)</u>	<u>\$ 200</u>

	2014 Nine Months			2013 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,409		\$ 2,409	\$ 2,226		\$ 2,226
Operating Expenses						
Fuel	748		748	684		684
Energy purchases	184		184	146		146
Other operation and maintenance	75	\$ 534	609	74	\$ 508	582
Depreciation	6	256	262	3	246	249
Taxes, other than income	1	38	39		36	36
Total Operating Expenses	<u>1,014</u>	<u>828</u>	<u>1,842</u>	<u>907</u>	<u>790</u>	<u>1,697</u>
Total	<u>\$ 1,395</u>	<u>\$ (828)</u>	<u>\$ 567</u>	<u>\$ 1,319</u>	<u>\$ (790)</u>	<u>\$ 529</u>

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Statement of Income Analysis –

Certain Operating Revenues and Expenses included in "Margins"

The following Statement of Income line items and their related increase during the periods ended September 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	Three Months	Nine Months
Operating revenues	\$ 9	\$ 183
Fuel	3	64
Energy purchases	1	38

Other Operation and Maintenance

The increase in other operation and maintenance expense for the periods ended September 30, 2014 compared with 2013 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Timing and scope of generation maintenance	\$ 1	\$ 8
Storm expenses		8
Bad debt expense	3	7
Gas maintenance	2	2
Other	3	2
Total	<u>\$ 9</u>	<u>\$ 27</u>

Depreciation

Depreciation increased by \$5 million and \$13 million for the three and nine months ended September 30, 2014 compared with 2013 primarily due to additions to PP&E, net.

Interest Expense

Interest expense increased by \$5 million and \$14 million for the three and nine months ended September 30, 2014 compared with 2013 primarily due to the issuance of \$500 million of First Mortgage Bonds in November 2013.

Income Taxes

Income taxes decreased by \$4 million for the three months ended September 30, 2014 compared with 2013 and increased by \$12 million for the nine months ended September 30, 2014 compared with 2013 primarily due to the change in pre-tax income at current period tax rates.

LG&E : Earnings, Margins and Statement of Income Analysis

Earnings

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net Income	\$ 46	\$ 49	\$ 133	\$ 122

Earnings decreased for the three month period in 2014 compared with 2013 primarily due to lower sales volumes due to mild weather, higher operation and maintenance expenses and higher financing costs partially offset by returns on additional environmental capital investments. Earnings increased for the nine month period in 2014 compared with 2013 primarily due to returns on additional environmental capital investments, higher sales volume, higher demand revenue and higher off-system sales partially offset by higher operation and maintenance expense driven by storm-related expenses. The changes in volumes, demand revenue and off-system sales were driven by unusually cold weather in the first quarter of 2014.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line within the table and not in their respective Statement of Income line items.

	<u>Three Months</u>	<u>Nine Months</u>
Margins	\$ 2	\$ 38
Other operation and maintenance	(2)	(5)
Depreciation	(1)	(5)
Interest expense	(3)	(7)
Other	1	(1)
Income taxes		(9)
Total	<u>\$ (3)</u>	<u>\$ 11</u>

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful

and the underlying drivers of the changes between periods. Within PPL's discussion, LG&E's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2014 Three Months			2013 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 347		\$ 347	\$ 343		\$ 343
Operating Expenses						
Fuel	99		99	100		100
Energy purchases, including affiliate	23		23	20		20
Other operation and maintenance	12	\$ 82	94	13	\$ 80	93
Depreciation	1	38	39		37	37
Taxes, other than income		6	6		6	6
Total Operating Expenses	135	126	261	133	123	256
Total	\$ 212	\$ (126)	\$ 86	\$ 210	\$ (123)	\$ 87

	2014 Nine Months			2013 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,170		\$ 1,170	\$ 1,049		\$ 1,049
Operating Expenses						
Fuel	320		320	284		284
Energy purchases, including affiliate	178		178	135		135
Other operation and maintenance	37	\$ 249	286	34	\$ 244	278
Depreciation	2	114	116	1	109	110
Taxes, other than income		19	19		18	18
Total Operating Expenses	537	382	919	454	371	825
Total	\$ 633	\$ (382)	\$ 251	\$ 595	\$ (371)	\$ 224

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Statement of Income Analysis –

Certain Operating Revenues and Expenses included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended September 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	Three Months	Nine Months
Retail and wholesale	\$ 2	\$ 93
Electric revenue from affiliate	2	28
Fuel	(1)	36
Energy purchases	2	38
Energy purchases from affiliate	1	5

Other Operation and Maintenance

Other operation and maintenance expense increased by \$8 million for the nine months ended September 30, 2014 compared with 2013 primarily due to storm expenses of \$4 million and bad debt expense of \$2 million.

Depreciation

Depreciation increased by \$2 million and \$6 million for the three and nine months ended September 30, 2014 compared with 2013 primarily due to additions to PP&E, net.

Interest Expense

Interest expense increased by \$3 million and \$7 million for the three and nine months ended September 30, 2014 compared with 2013 primarily due to the issuance of \$250 million of First Mortgage Bonds in November 2013.

Income Taxes

Income taxes increased by \$9 million for the nine months ended September 30, 2014 compared with 2013 primarily due to the change in pre-tax income at current period tax rates.

KU: Earnings, Margins and Statement of Income Analysis

Earnings

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Income	\$ 56	\$ 63	\$ 173	\$ 171

Earnings decreased for the three month period in 2014 compared with 2013 primarily due to lower sales volume due to mild weather, higher operation and maintenance expense and higher financing costs partially offset by returns on additional environmental capital investments. Earnings increased for the nine month period in 2014 compared with 2013 primarily due to returns on additional environmental capital investments, higher sales volumes, higher demand revenue and higher off-system sales partially offset by higher other operation and maintenance expense driven by the timing and scope of generation maintenance. The changes in volumes, demand revenue and off-system sales were driven by unusually cold weather in the first quarter of 2014.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line within the table and not in their respective Statement of Income line items.

	Three Months	Nine Months
Margins	\$ 1	\$ 38
Other operation and maintenance	(5)	(18)
Depreciation	(3)	(5)
Interest expense	(2)	(7)
Other		(1)
Income taxes	2	(5)
Total	\$ (7)	\$ 2

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the underlying drivers of the changes between periods. Within PPL's discussion, KU's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2014 Three Months			2013 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 422		\$ 422	\$ 414		\$ 414
Operating Expenses						
Fuel	141		141	137		137
Energy purchases, including affiliate	17		17	16		16
Other operation and maintenance	14	\$ 83	97	13	\$ 78	91
Depreciation	2	48	50	1	45	46
Taxes, other than income		7	7		6	6
Total Operating Expenses	174	138	312	167	129	296
Total	\$ 248	\$ (138)	\$ 110	\$ 247	\$ (129)	\$ 118

	2014 Nine Months			2013 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,324		\$ 1,324	\$ 1,229		\$ 1,229
Operating Expenses						
Fuel	428		428	400		400
Energy purchases, including affiliate	91		91	63		63
Other operation and maintenance	38	\$ 264	302	40	\$ 246	286
Depreciation	4	141	145	2	136	138
Taxes, other than income	1	19	20		18	18
Total Operating Expenses	562	424	986	505	400	905
Total	\$ 762	\$ (424)	\$ 338	\$ 724	\$ (400)	\$ 324

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.

Statement of Income Analysis –

Certain Operating Revenues and Expenses included in "Margins"

The following Statement of Income line items and their related increase (decrease) during the periods ended September 30, 2014 compared with 2013 are included above within "Margins" and are not discussed separately.

	Three Months	Nine Months
Retail and wholesale	\$ 7	\$ 90
Electric revenue from affiliate	1	5
Fuel	4	28
Energy purchases	(1)	
Energy purchases from affiliate	2	28

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended September 30, 2014 compared with 2013 was due to:

	Three Months	Nine Months
Timing and scope of generation maintenance	\$ 2	\$ 10
Storm expenses		4
Bad debt	2	4
Other	2	(2)
Total	\$ 6	\$ 16

Depreciation

Depreciation increased by \$4 million and \$7 million for the three and nine months ended September 30, 2014 compared with 2013 primarily due to additions to PP&E, net.

Interest Expense

Interest expense increased by \$2 million and \$7 million for the three and nine months ended September 30, 2014 compared with 2013 primarily due to the issuance of \$250 million of First Mortgage Bonds in November 2013.

Income Taxes

Income taxes decreased by \$2 million for the three months ended September 30, 2014 compared with 2013 and increased by \$5 million for the nine months ended September 30, 2014 compared with 2013 primarily due to the change in pre-tax income at current period tax rates.

Financial Condition

The remainder of this Item 2 in this Form 10-Q is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	<u>PPL (a)</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
September 30, 2014						
Cash and cash equivalents	\$ 1,188	\$ 194	\$ 111	\$ 47	\$ 25	\$ 22
Short-term debt	1,099	590		348	143	130
Notes payable with affiliates						22
December 31, 2013						
Cash and cash equivalents	\$ 1,102	\$ 239	\$ 25	\$ 35	\$ 8	\$ 21
Notes receivable from affiliates			150	70		
Short-term debt	701		20	245	20	150

(a) At September 30, 2014, \$409 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL may be subject to additional U.S. taxes, net of allowable foreign income tax credits. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2013 Form 10-K for additional information on undistributed earnings of WPD.

Net cash provided by (used in) operating, investing and financing activities for the nine month periods ended September 30, and the changes between periods were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2014						
Operating activities	\$ 2,628	\$ 465	\$ 412	\$ 851	\$ 327	\$ 486
Investing activities	(2,974)	(344)	(562)	(773)	(422)	(418)
Financing activities	419	(166)	236	(66)	112	(67)
2013						
Operating activities	\$ 2,223	\$ 583	\$ 327	\$ 723	\$ 362	\$ 419
Investing activities	(2,788)	(351)	(697)	(889)	(376)	(510)
Financing activities	966	(94)	455	144	4	79
Change - Cash Provided (Used)						
Operating activities	\$ 405	\$ (118)	\$ 85	\$ 128	\$ (35)	\$ 67
Investing activities	(186)	7	135	116	(46)	92
Financing activities	(547)	(72)	(219)	(210)	108	(146)

Operating Activities

The components of the change in cash provided by (used in) operating activities for the nine months ended September 30, 2014 compared with 2013 were as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)						
Net income	\$ (187)	\$ (125)	\$ 34	\$ 11	\$ 11	\$ 2
Non-cash components	30	(108)	(52)	149	(3)	64
Working capital	364	(34)	36	(32)	(13)	(11)
Defined benefit plan funding	183	75	68	116	33	58
Other operating activities	15	74	(1)	(116)	(63)	(46)
Total	<u>\$ 405</u>	<u>\$ (118)</u>	<u>\$ 85</u>	<u>\$ 128</u>	<u>\$ (35)</u>	<u>\$ 67</u>

(PPL)

The increase in cash from changes in components of working capital was partially due to an increase in taxes payable (primarily due to increased taxable income in 2014), and a decrease in uncertain tax positions in 2013 (primarily due to the

Windfall Profits Tax ruling in 2013 - see Note 5 to the Financial Statements), and a reduction in collateral returned to counterparties.

(PPL Energy Supply)

The decrease in non-cash components of net income primarily consisted of an increase in deferred income tax benefits partially offset by an increase in unrealized hedging losses.

(PPL Electric)

The decrease in non-cash components of net income primarily consisted of a decrease in deferred income tax expense.

(LKE)

LKE's non-cash components of net income included a \$152 million increase in deferred income taxes primarily due to utilization of net operating losses. The decrease in cash from changes in components of working capital was driven primarily by a decrease in taxes payable due to timing of tax payments and by the change in accounts payable due to timing of fuel purchase commitments and payments, partially offset by the change in accounts receivable and unbilled revenues due to weather and higher rates.

(LG&E)

LG&E's decrease in cash from changes in components of working capital was driven primarily by a decrease in taxes payable due to timing of tax payments and by the change in accounts payable due to timing of fuel purchase commitments and payments and intercompany tax settlements with LKE, partially offset by the change in accounts receivable and unbilled revenues due to weather and higher rates.

(KU)

KU's non-cash components of net income included a \$56 million increase in deferred income taxes primarily due to utilization of net operating losses. KU's decrease in cash from changes in components of working capital was driven primarily by a decrease in taxes payable due to timing of tax payments, partially offset by the change in accounts receivable and unbilled revenues due to weather and higher rates.

Investing Activities

Expenditures for Property, Plant and Equipment

The primary use of cash within investing activities is expenditures for PP&E. The change in these expenditures for the nine months ended September 30, 2014 compared with 2013 was as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
(Increase) Decrease	\$ (110)	\$ 65	\$ (12)	\$ 48	\$ (46)	\$ 94

The increase in expenditures for PP&E for PPL was primarily due to increases of \$190 million at WPD (primarily due to projects to enhance system reliability and the effect of foreign currency exchange rates) and the changes in project expenditures at PPL Energy Supply, LG&E and KU. The decrease in expenditures at PPL Energy Supply was partially due to expenditures made in 2013 for the Holtwood hydroelectric expansion project. The increase in expenditures for LG&E was primarily due to environmental air projects at LG&E's Mill Creek plant and GLT projects, partially offset by lower expenditures for the construction of Cane Run Unit 7. The decrease in expenditures for KU was related to lower expenditures for the construction of Cane Run Unit 7 and environmental CCR projects at KU's Ghent and E.W. Brown plants, partially offset by higher expenditures for environmental air projects at KU's Ghent and E.W. Brown plants.

Other Significant Changes in Components of Investing Activities

For PPL and PPL Energy Supply, the change in investing activities for the nine months ended September 30, 2014 compared with 2013 reflects increases of \$200 million and \$208 million in restricted cash and cash equivalents. These changes were primarily related to increased cash margin requirements in 2014 of \$199 million to support PPL Energy Supply's commodity

hedging program primarily due to higher forward prices. PPL Energy Supply initially borrowed under its short-term credit facilities to help fund these increased margin requirements.

PPL and PPL Energy Supply also had investing inflows of \$164 million for the nine months ended September 30, 2014 from U.S. Department of Treasury grants for the Rainbow and Holtwood hydroelectric expansion projects. See Note 8 to the Financial Statements for additional information.

PPL Electric received \$150 million during the nine months ended September 30, 2014 on notes receivable from affiliates.

Financing Activities

The components of the change in cash provided by (used in) financing activities for the nine months ended September 30, 2014 compared with 2013 was as follows.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)						
Long-term debt issuances/retirements, net	\$ (802)	\$ 1	\$ (62)			
Stock issuances/redemptions, net	(298)					
Dividends	(73)		(27)		\$ (16)	\$ (29)
Capital contributions/distributions, net		(1,020)	(110)	\$ (218)	19	(26)
Change in short-term debt, net	546	946	(20)	16	106	(90)
Other financing activities	80	1		(8)	(1)	(1)
Total	<u>\$ (547)</u>	<u>\$ (72)</u>	<u>\$ (219)</u>	<u>\$ (210)</u>	<u>\$ 108</u>	<u>\$ (146)</u>

For the nine months ended September 30, 2014, PPL required \$547 million less cash from financing activities primarily due to improvements in cash from operations of \$405 million which were able to support the significant capital expenditure programs of its subsidiaries.

For the nine months ended September 30, 2014, PPL Electric required \$219 million less cash from financing activities primarily due to the receipt of \$150 million on notes receivable from affiliates (as described in "Investing Activities" above) and improvements in cash from operations of \$85 million.

Under the terms of the definitive agreements related to the spinoff transaction, PPL Energy Supply will not receive additional equity contributions from its member for the remainder of 2014 and is expected to make a distribution to its member, and ultimately to PPL primarily to distribute the proceeds from the sale of the Montana hydroelectric business, currently estimated at \$880 million, expected to occur in the fourth quarter of 2014, and for an amount not to exceed \$191 million during the first quarter of 2015.

See Note 7 to the Financial Statements in this Form 10-Q for information on 2014 short and long-term debt activity, equity transactions and PPL dividends. See the Registrants' 2013 Form 10-K for information on 2013 activity.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At September 30, 2014, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows.

External (All Registrants)

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit and Commercial Paper Issued</u>	<u>Unused Capacity</u>
PPL Capital Funding Credit Facilities	\$ 750			\$ 750
PPL Energy Supply Credit Facilities	3,150	\$ 590	\$ 195	2,365
PPL Electric Credit Facility	300		1	299

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
LKE Credit Facility	75	75		
LG&E Credit Facility	500		143	357
KU Credit Facilities	598		328	270
Total LKE	1,173	75	471	627
Total U.S. Credit Facilities (a)	\$ 5,373	\$ 665	\$ 667	\$ 4,041
Total U.K. Credit Facilities (b)	£ 1,055	£ 97		£ 958

- (a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Energy Supply - 10%, PPL Electric - 7%, LKE - 11%, LG&E - 7% and KU - 21%.
- (b) The amount borrowed at September 30, 2014 was a USD-denominated borrowing of \$161 million. At September 30, 2014, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.6 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 13% of the total committed capacity.

As a result of the proposed spinoff transaction, PPL Energy Supply has syndicated a \$1.85 billion credit facility which is currently fully committed. This syndicated credit facility will replace the existing \$3 billion PPL Energy Supply syndicated credit facility and will be effective upon closing of the spinoff transaction. See "Overview – Business Strategy" and "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" above for additional information.

During the second quarter of 2014, PPL Energy Supply's corporate credit rating was lowered to below investment grade. At September 30, 2014, the additional collateral posted as a result of the downgrade was \$169 million. PPL Energy Supply primarily issued letters of credit under its credit facilities noted above to post the required collateral. PPL Energy Supply continues to have adequate access to the capital markets and adequate capacity under its credit facilities and does not expect a material change in its financing costs as a result of the downgrade.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Unused Capacity
LKE Credit Facility	\$ 225	\$ 22	\$ 203
LG&E Money Pool (a)	500		500
KU Money Pool (a)	500		500

- (a) LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues.

See Note 11 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund their short-term liquidity needs, as necessary. Commercial paper issuances are supported by the respective Registrant's Syndicated Credit Facility.

Outstanding commercial paper issuances are reflected in "Short-term debt" on the Balance Sheets. At September 30, 2014, the available capacity and the use of that capacity was as follows:

	<u>Capacity</u>	<u>Commercial Paper Issuances</u>	<u>Unused Capacity</u>
PPL Electric	\$ 300		\$ 300
LG&E	350	\$ 143	207
KU	350	130	220
Total LKE	700	273	427
Total PPL	\$ 1,000	\$ 273	\$ 727

In August 2014, PPL Energy Supply terminated its commercial paper program.

Long-term Debt and Equity Securities (PPL, PPL Energy Supply and PPL Electric)

The long-term debt and equity securities activity for the nine months ended September 30, 2014 was:

	<u>Debt</u>		<u>Net Stock Issuances</u>
	<u>Issuances (a)</u>	<u>Retirements</u>	
PPL	\$ 296	\$ 545	\$ 1,037
PPL Energy Supply		308	
PPL Electric	296	10	
Non-cash Transactions:			
PPL (b)	\$ 750	\$ 750	

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.

(b) Represents the remarketing of Junior Subordinated Notes that were issued as a component of PPL's 2011 Equity Units.

In October 2014, PPL implemented a legal entity restructuring within the U.K. regulated segment in order to rationalize the U.K. structure to enhance future financing of U.K. operations, improve internal cash management and simplify the U.K. companies' regulatory reporting. In October 2014, in connection with the restructuring, Western Power Distribution Ltd (WPD Ltd), the new holding company of the four DNOs, became the co-obligor of the debt securities of PPL WEM (\$460 million 3.9% Senior Notes due 2016 and \$500 million 5.375% Senior Notes due 2021) and PPL WW (\$100 million 7.25% Senior Notes due 2017 and \$202 million 7.375% Senior Notes due 2028), whereby WPD Ltd will service the debt securities post-restructuring. Also, in October 2014, PPL WW transferred its £210 million syndicated credit facility to WPD Ltd.

The restructuring is not expected to have a material impact on PPL's results of operations.

Common Stock Dividends (PPL)

In August 2014, PPL declared its quarterly common stock dividend, payable October 1, 2014, at 37.25 cents per share (equivalent to \$1.49 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

(All Registrants)

Moody's, S&P and Fitch periodically review the credit ratings on the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2014:

(PPL)

In January 2014, Moody's affirmed its ratings and revised its outlook to stable for PPL.

In March 2014, Moody's, S&P and Fitch assigned ratings of Baa3, BBB- and BBB, respectively, to PPL Capital Funding's \$350 million 3.95% Senior Notes due 2024 and \$400 million 5.00% Senior Notes due 2044. Fitch also assigned a stable outlook to these notes.

In April 2014, Moody's affirmed its ratings with a stable outlook for PPL WEM, WPD (East Midlands), WPD (West Midlands), PPL WW, WPD (South Wales) and WPD (South West).

In April 2014, Fitch affirmed its ratings with a stable outlook for PPL and PPL Capital Funding.

In June 2014, Moody's affirmed its ratings and revised its outlook to positive for PPL and PPL Capital Funding.

In June 2014, S&P affirmed its ratings for PPL, PPL Capital Funding, PPL WEM, WPD (East Midlands), WPD (West Midlands), PPL WW, WPD (South Wales) and WPD (South West) and placed the issuers on CreditWatch with positive implications.

In June 2014, Fitch affirmed its ratings with a stable outlook for PPL and PPL Capital Funding.

In August 2014, Fitch affirmed its ratings and revised its outlook to negative for WPD (South Wales). Fitch also affirmed its ratings with a stable outlook for PPL WW and WPD (South West).

In October 2014, Fitch affirmed and withdrew its long-term and short-term issuer default ratings for PPL Capital Funding.

In October 2014, Moody's and S&P affirmed their ratings and outlooks for WPD (East Midlands), WPD (West Midlands), WPD (South Wales) and WPD (South West). In addition, Moody's and S&P have assigned Baa3, P-3, Stable and BBB, A-2, CreditWatch Positive long and short-term issuer ratings to Western Power Distribution Ltd, the new holding company for the four DNOs, following a legal entity restructuring implemented in October 2014. See "Long-term Debt and Equity Securities" above for additional information on the restructuring. The issuer ratings of PPL WW and PPL WEM have also been withdrawn.

(PPL and PPL Energy Supply)

In April 2014, Fitch affirmed its ratings with a negative outlook for PPL Energy Supply.

In May 2014, S&P lowered its long-term issuer rating and senior unsecured rating from BBB to BB+ and its commercial paper rating and short-term issuer rating from A-2 to A-3 with a stable outlook for PPL Energy Supply.

In June 2014, Moody's lowered its senior unsecured rating from Baa2 to Ba1 and its commercial paper rating and short-term issuer rating from P-2 to Not Prime with a negative outlook for PPL Energy Supply. Moody's also assigned a Corporate Family Rating of Ba1, a Probability of Default Rating of Ba1-PD and a Speculative Grade Liquidity rating of SGL-1 to PPL Energy Supply.

In June 2014, S&P lowered its long-term issuer rating and senior unsecured rating from BB+ to BB and its commercial paper rating and short-term issuer rating from A-3 to B for PPL Energy Supply and placed the issuer on CreditWatch with negative implications.

In June 2014, Fitch lowered its long-term issuer default rating and senior unsecured debt rating from BBB- to BB and its commercial paper rating and short-term issuer default rating from F3 to B for PPL Energy Supply and placed the issuer on Rating Watch Negative.

(PPL and PPL Electric)

In January 2014, Moody's upgraded its long-term issuer rating and senior unsecured rating from Baa2 to Baa1 and senior secured rating from A3 to A2, affirmed its commercial paper rating and revised its outlook to stable for PPL Electric.

In April 2014, Fitch affirmed its ratings with a stable outlook for PPL Electric.

In June 2014, S&P affirmed its ratings for PPL Electric and placed the issuer on CreditWatch with positive implications.

In June 2014, Moody's, S&P, and Fitch assigned ratings of A2, A- and A-, respectively, to PPL Electric's \$300 million 4.125% First Mortgage Bonds due 2044. Fitch also assigned a stable outlook to these notes.

(PPL, LKE, LG&E and KU)

In January 2014, Moody's affirmed its ratings and revised its outlook to stable for LKE.

In January 2014, Moody's upgraded its long-term issuer ratings and senior unsecured ratings from Baa1 to A3 and senior secured ratings from A2 to A1, affirmed its commercial paper ratings and revised its outlook to stable for LG&E and KU.

In February 2014, Moody's affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds.

In April 2014, Fitch affirmed its ratings with a stable outlook for LKE, LG&E and KU.

In June 2014, S&P affirmed its ratings for LKE, LG&E and KU and placed the issuers on CreditWatch with positive implications.

In June 2014, Moody's affirmed its ratings and revised its outlook to positive for LKE.

In June 2014, S&P affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds and placed them on CreditWatch with positive implications.

In September 2014, Moody's affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds.

In October 2014, S&P affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds.

Ratings Triggers

(All Registrants except PPL Electric)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, PPL Energy Supply's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, PPL Energy Supply, LKE and LG&E for derivative contracts in a net liability position at September 30, 2014.

Capital Expenditures

(PPL)

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. In the second quarter of 2014, PPL increased its projected capital spending for the period 2014 through 2018 related to distribution facilities by approximately \$0.3 billion from the previously disclosed \$1.9 billion projection included in PPL's 2013 Form 10-K. The increased projected capital spending results from a change in the forecasted foreign currency exchange rate for WPD expenditures that increased each yearly estimate by approximately \$70 million.

(PPL, LKE, LG&E and KU)

LG&E and KU continue to evaluate their future capacity requirements with the possibility that reduced or delayed capacity needs may result in adjustments to the timing of previously estimated capacity construction. See Note 8 to the Financial Statements for additional information.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2013 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 13 and 14 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

(PPL, LKE, LG&E and KU)

LG&E's and KU's retail electric and natural gas rates and municipal wholesale electric rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LG&E and KU sell excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional information.

(PPL and PPL Electric)

PPL Electric is exposed to market price and volumetric risks from its obligation as a PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market price risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement energy supply contracts for the majority of its PLR obligations. These supply contracts transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

(PPL and PPL Energy Supply)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following tables set forth the changes in the net fair value of non-trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2014	2013	2014	2013
Fair value of contracts outstanding at the beginning of the period	\$ (178)	\$ 285	\$ 107	\$ 473
Contracts realized or otherwise settled during the period	(64)	(95)	421	(332)
Fair value of new contracts entered into during the period (a)	(17)	2	(14)	48
Other changes in fair value	140	25	(633)	28
Fair value of contracts outstanding at the end of the period	\$ (119)	\$ 217	\$ (119)	\$ 217

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at September 30, 2014, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ (126)	\$ 1	\$ 9		\$ (116)
Prices based on significant unobservable inputs (Level 3)	(11)	7	1		(3)
Fair value of contracts outstanding at the end of the period	\$ (137)	\$ 8	\$ 10		\$ (119)

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2020. The following table sets forth changes in the net fair value of trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2014	2013	2014	2013
Fair value of contracts outstanding at the beginning of the period	\$ 72	\$ 18	\$ 11	\$ 29
Contracts realized or otherwise settled during the period	(54)	(3)	(57)	(5)
Fair value of new contracts entered into during the period (a)	24	12	6	(4)
Other changes in fair value	(19)	1	63	8
Fair value of contracts outstanding at the end of the period	\$ 23	\$ 28	\$ 23	\$ 28

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at September 30, 2014, based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices quoted in active markets for identical instruments (Level 1)	\$ 2				\$ 2
Prices based on significant observable inputs (Level 2)	(3)	(2)	3		(2)
Prices based on significant unobservable inputs (Level 3)	1	5	7	10	23
Fair value of contracts outstanding at the end of the period	\$ 2	\$ 3	\$ 10	\$ 10	\$ 23

VaR Models

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the nine months ended September 30, 2014 was as follows.

95% Confidence Level, Five-Day Holding Period	Trading VaR		Non-Trading VaR	
Period End	\$	5	\$	10
Average for the Period		8		10
High		10		15
Low		5		5

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at September 30, 2014.

Interest Rate Risk (All Registrants)

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates.

The following interest rate hedges were outstanding at September 30, 2014.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Interest rate swaps (c)	\$ 1,200	\$ (16)	\$ (51)	2045
Cross-currency swaps (d)	1,262	(49)	(176)	2028
Economic hedges				
Interest rate swaps (e)	179	(43)	(3)	2033
LKE				
Cash flow hedges				
Interest rate swaps (c)	650	2	(34)	2045
Economic hedges				
Interest rate swaps (e)	179	(43)	(3)	2033
LG&E				
Cash flow hedges				
Interest rate swaps (c)	325	1	(17)	2045
Economic hedges				
Interest rate swaps (e)	179	(43)	(3)	2033
KU				
Cash flow hedges				
Interest rate swaps (c)	325	1	(17)	2045

- (a) Includes accrued interest, if applicable.
- (b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes foreign currency exchange rates.
- (c) Changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or regulatory liabilities, if recoverable through regulated rates and reclassified into earnings in the same period during which the item being hedged affects earnings.
- (d) Cross-currency swaps are utilized to hedge the principal and interest payments of WPD's U.S. dollar-denominated senior notes. Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

- (e) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates at September 30, 2014 is shown below.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Increase in interest expense	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
Increase in fair value of debt	\$ 745	\$ 46	\$ 134	\$ 140	\$ 44	\$ 83

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

The following foreign currency hedges were outstanding at September 30, 2014.

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability)</u>	<u>Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)</u>	<u>Maturities Ranging Through</u>
Net investment hedges (b)	£ 306	\$ (1)	\$ (49)	2016
Economic hedges (c)	1,600	26	(245)	2016

- (a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
 (b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP. The positions outstanding exclude the amount of intercompany loans classified as net investment hedges. See Note 14 to the Financial Statements for additional information.
 (c) To economically hedge the translation of expected earnings denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP.

NDT Funds - Securities Price Risk (PPL and PPL Energy Supply)

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At September 30, 2014, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At September 30, 2014, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$70 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk (All Registrants)

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Credit Risk" in the Registrants' 2013 Form 10-K for additional information.

Foreign Currency Translation (PPL)

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation gain of \$75 million for the nine months ended September 30, 2014, which primarily reflected a \$193 million increase to PP&E and goodwill offset by an increase of \$118 million to net liabilities. Changes in this exchange

rate resulted in a foreign currency translation loss of \$159 million for the nine months ended September 30, 2013, which primarily reflected a \$454 million reduction to PP&E and goodwill offset by a reduction of \$295 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 11 to the Financial Statements for additional information on related party transactions for PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities.

(PPL and PPL Energy Supply)

See Note 8 to the Financial Statements for information on the anticipated spinoff of PPL Energy Supply and the Montana hydro sale agreement.

Environmental Matters

(All Registrants)

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services.

The following is a discussion of the more significant environmental matters. See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in the Registrants' 2013 Form 10-K for additional information on environmental matters.

Climate Change

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage, as applicable, to the Registrants' generation assets, electricity transmission and delivery systems, as well as impacts on the Registrants' customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL, PPL Energy Supply, LKE, LG&E and KU have hydroelectric generating facilities or where river water is used to cool their fossil and nuclear (as applicable) powered generators. The Registrants cannot currently predict whether their businesses will experience these potential risks or estimate the cost of their related consequences.

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing GHG emissions in the U.S. through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum, the EPA was directed to issue a revised proposal for new power plants (a prior proposal was issued in 2012) by September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 30, 2016.

The EPA's revised proposal to regulate new sources under Section 111(b) of the Clean Air Act was published in the Federal Register on January 8, 2014. The proposed limits for coal plants can only be achieved through carbon capture and sequestration, a technology that is not presently commercially viable and, therefore, effectively preclude the construction of new coal plants. The proposed standards for new gas plants may also not be continuously achievable.

The EPA's proposed regulation addressing GHG emissions from existing power plants under Section 111(d) of the Clean Air Act was published in the Federal Register on June 18, 2014. The proposal contains very stringent, state-specific rate-based reduction goals to be achieved in two phases (2020-2029 and 2030 and beyond). The EPA believes it has offered some flexibility to the states as to how state plans can be crafted, including the option to demonstrate compliance on a mass basis or through a multi-state collaboration, however, the EPA's proposed broad definition of the "best system of emission reduction" (BSER) substantially limits this flexibility. On October 30, 2014, the EPA issued a Notice of Data Availability seeking comments on several issues including providing additional flexibility in meeting compliance deadlines, addressing disparities in state-specific targets, and incorporating a regionalized approach to demonstrating compliance. The Registrants are analyzing the proposal and potential impacts. The regulation of GHG emissions from existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

The Administration's increase in its estimate of the "social cost of carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may lead to more costly regulatory requirements.

Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect the Registrants and others in the industry as modifications to electricity delivery systems to improve the ability to withstand major storms may be needed in order to meet those requirements.

Waters of the United States

On April 21, 2014, the EPA and the U.S. Army Corps of Engineers published a proposed rule which greatly expands the Clean Water Act definition of Waters of the United States. If the definition is expanded as proposed, permits and other regulatory requirements may be imposed for many matters presently not covered (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands), the implications of which could be significant. Both the U.S. House and Senate are considering legislation to block this regulation.

(All Registrants except PPL Electric)

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous waste) under RCRA. Under a litigation settlement agreement involving certain environmental groups, the EPA has agreed to issue its final rulemaking by December 2014. Regulations could impact handling, disposal and/or beneficial use of CCRs. Recent ash spills that have occurred within the utility industry may precipitate more stringent regulation of both active and legacy CCR sites. The financial and operational impact is expected to be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from issuing final CCR regulations and set rules governing state programs. It remains uncertain whether similar legislation would be passed by the U.S. Senate.

Effluent Limitation Guidelines (ELGs)

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized as proposed. The proposal contains several alternative approaches, some of which could significantly impact PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's coal-fired plants. The final regulation is expected to be issued by September 2015, which is contingent upon the EPA meeting its deadline for issuing the final CCR regulation. At the present time, PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant. Pending finalization of the ELGs, certain states (including Pennsylvania and Kentucky) and environmental groups are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines.

Clean Water Act/316(b)

The EPA's final 316(b) rule for existing facilities, became effective on October 14, 2014, and regulates cooling water intake structures and their impact on aquatic organisms. The rule allows states considerable authority to interpret the rule. The rule requires all existing facilities to choose between several options to reduce the impact to aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Plants already equipped with closed-cycle cooling, an acceptable option, would likely not incur costs. Once-through systems would likely require additional technology to comply with rule. PPL, PPL Energy Supply, LKE, LG&E and KU are evaluating compliance strategies but do not presently expect the compliance costs to be material.

MATS

In February 2012, the EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule, which was challenged by industry groups and states, was upheld by the D.C. Circuit Court in April 2014. On July 14, 2014, a coalition of 23 states filed a petition seeking Supreme Court review of this decision. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. PPL, PPL Energy Supply, LKE, LG&E and KU are generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls at PPL Energy Supply and approved ECR plants to install additional controls at some of LG&E's and KU's Kentucky plants. With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that installation of chemical additive systems and other controls may be necessary at certain coal-fired plants, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact of MATS on operating costs. In September 2012, PPL Energy Supply announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS. The Corette plant asset group was determined to be impaired in December 2013. See "Application of Critical Accounting Policies - Asset Impairment (Excluding Investments)" in PPL's and PPL Energy Supply's 2013 Form 10-K for additional information. LG&E, KU and PPL Energy Supply have received compliance extensions for certain plants and PPL Energy Supply has a pending request, which was submitted on September 15, 2014, for its Colstrip plant.

LG&E's and KU's anticipated retirements of generating units at the Cane Run and Green River plants are in response to MATS and other environmental regulations.

CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrogen oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, the CSAPR targeted sources in the eastern U.S. In December 2011, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) stayed implementation of the CSAPR, leaving the CAIR in place. Subsequently, in August 2012, the D.C. Circuit Court vacated and remanded the CSAPR back to the EPA for further rulemaking, again leaving the CAIR in place in the interim. In April 2014, the U.S. Supreme Court reversed and remanded the D.C. Circuit Court's August 2012 decision and on October 23, 2014, the D.C. Circuit Court lifted the stay of CSAPR, granting EPA's request.

PPL, PPL Energy Supply, LKE, LG&E and KU are preparing for Phase 1 annual trading programs for nitrogen oxide and sulfur dioxide to commence on January 1, 2015. Phase 1 ozone season trading will begin on May 1, 2015. Phase 2 reductions impacting the annual and ozone season trading programs would take effect in 2017 and continue into the future. Based on analyses conducted in 2011 to prepare for CSAPR compliance, PPL, PPL Energy Supply, LKE, LG&E and KU do not anticipate significant compliance costs, however these analyses will be reviewed under current market and operating conditions to make further assessments on compliance impacts.

Regional Haze

Under the EPA's regional haze programs (developed to eliminate man-made visibility degradation by 2064), states are required to make reasonable progress every decade through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977. For the eastern U.S., the EPA had determined that region-wide reductions under the CSAPR trading program could be utilized by state programs to satisfy BART requirements for sulfur dioxide and nitrogen oxides. Although the D.C. Circuit Court recently lifted the CSAPR stay in response to a U.S. Supreme Court action in April 2014, decisions by the EPA and the courts will determine whether power plants located in the eastern U.S., including PPL's plants in Pennsylvania and Kentucky, will be subject to additional reductions in sulfur dioxide and nitrogen oxides as required by BART.

The EPA signed its final Federal Implementation Plan (FIP) of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for PPL Energy Supply's Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for the Corette plant (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL Energy Supply expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above). Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit and litigation is ongoing.

National Ambient Air Quality Standards

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies. The PADEP has issued a draft rule requiring reasonable reductions; however, the proposal is being questioned as too lenient by the EPA, other OTR states and environmental groups. The PADEP may impose more stringent emission limits than those set forth in the proposed rule which could have a significant impact on PPL Energy Supply's Pennsylvania coal plants. The EPA is expected to further tighten the ozone standard in the near term, which may require further nitrogen oxide reductions, particularly within the OTR.

During 2010 and 2012, the EPA issued new ambient air standards for sulfur dioxide and particulates, respectively. In 2013, the EPA preliminarily designated Jefferson County, Kentucky, as a partial non-attainment area for sulfur dioxide. Final designations of non-attainment areas may occur in 2014. Existing environmental plans for LG&E's and KU's Kentucky plants, including announced retirements of certain plants and ECR-approved new or upgraded scrubbers or baghouses at other plants, may aid in achievement of eventual ambient air requirements. EPA also designated part of Yellowstone County, Montana as a non-attainment area. Depending upon the specifics of final non-attainment designations and consequent compliance plans, additional controls may be required, the financial impact of which could be significant. States are working on designations for other areas according to the timeline outlined in the EPA's proposed Data Requirements Rule issued in April 2014.

New Accounting Guidance (All Registrants)

See Notes 2 and 19 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies (All Registrants)

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2013 Form 10-K for a discussion of each critical accounting policy.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Defined Benefits	X	X	X	X	X	X
Loss Accruals	X	X	X	X	X	X
Income Taxes	X	X	X	X	X	X
Asset Impairments (Excluding Investments)	X	X		X	X	X
AROs	X	X		X	X	X
Price Risk Management	X	X		X	X	X
Regulatory Assets and Liabilities	X		X	X	X	X
Revenue Recognition - unbilled revenue			X	X	X	X

**PPL Corporation
PPL Energy Supply, LLC
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of September 30, 2014, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' third fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2013 Form 10-K; and
- Notes 6 and 10 to the Financial Statements.

Item 1A. Risk Factors

PPL Corporation and PPL Energy Supply, LLC

The proposed spinoff of PPL Energy Supply and combination with RJS Power are contingent upon the satisfaction of a number of conditions and may present difficulties that could have an adverse effect on us.

The proposed spinoff of the business of PPL Energy Supply and the subsequent combination with RJS Power to form Talen Energy are complex transactions, subject to various conditions, and may be affected by unanticipated developments or changes in market conditions. On November 5, 2014, Talen Energy filed a registration statement with the SEC containing detailed information regarding Talen Energy. Completion of the proposed spinoff of PPL Energy Supply and subsequent combination with RJS Power will be contingent upon a number of factors, including that (i) PPL receives a favorable opinion of tax counsel as described below; (ii) the SEC declares effective Talen Energy's registration statement relating to the registration of Talen Energy common stock and no SEC stop order suspending effectiveness of the registration

statement be in effect prior to the PPL Energy Supply spinoff; (iii) the Talen Energy common stock be authorized for listing on the New York Stock Exchange; (iv) certain regulatory approvals, including approval by the NRC and the FERC, a Hart-Scott-Rodino review and certain approvals by the PUC be obtained and (v) there be available, subject to certain conditions, at least \$1 billion of undrawn capacity after excluding any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding, under a Talen Energy (or its subsidiaries) revolving credit or similar facility. The spinoff and subsequent combination with RJS Power may be terminated by mutual written consent of the parties or subject to certain other circumstances, including the failure to complete these transactions by June 30, 2015 or, if the required regulatory approvals have not been obtained at such time but the other conditions to the consummation of these transactions have been or are capable of being satisfied, December 31, 2015. For these and other reasons, the spinoff and the subsequent combination may not be completed on the terms or within the expected timeframe that we announced, if at all. Further, if the spinoff and the subsequent combination are completed, such transactions may not achieve the intended results.

If the proposed spinoff of the business of PPL Energy Supply does not qualify as a tax-free spinoff under Sections 355 and 368 of the Internal Revenue Code of 1986, as amended (the "Code"), including as a result of subsequent acquisitions of stock of PPL or Talen Energy, then PPL and/or its shareowners may be required to pay substantial U.S. federal income taxes.

The proposed spinoff of the business of PPL Energy Supply and the subsequent combination with RJS Power are conditioned upon PPL's receipt of an opinion of tax counsel to the effect that, among other matters, the spinoff will qualify as tax-free under Sections 355 and 368 of the Code to PPL and its shareowners for U.S. federal income tax purposes. Receipt of the opinion of tax counsel will satisfy a condition to completion of the spinoff and subsequent combination. An opinion of tax counsel is not binding on the IRS. Accordingly, the IRS may reach conclusions with respect to the spinoff that are different from the conclusions reached in the opinion. PPL is not aware of any facts or circumstances that would cause the factual statements or representations on which the opinion will be based to be materially different from the facts at the time of the spinoff. If, notwithstanding the receipt of the opinion of tax counsel, the IRS were to determine the spinoff to be taxable, PPL would, and its shareowners may, depending on their individual circumstances, recognize a tax liability that could be substantial.

In addition, the spinoff will be taxable to PPL pursuant to Section 355(e) of the Code if there is a 50% or more change in ownership of either PPL or Talen Energy, directly or indirectly, as part of a plan or series of related transactions that include the spinoff. Because PPL's shareowners will collectively own more than 50% of Talen Energy's common stock following the spinoff and subsequent combination, the combination alone will not cause the spinoff to be taxable to PPL under Section 355(e) of the Code. However, Section 355(e) of the Code might apply if acquisitions of stock of PPL before or after the spinoff, or of Talen Energy after the combination, are considered to be part of a plan or series of related transactions that include the spinoff. PPL is not aware of any such plan or series of transactions that include the spinoff.

PPL may not be successful in realizing the full amount of annual savings anticipated to be available as a result of the proposed spinoff of PPL Energy Supply.

In connection with the spinoff of PPL Energy Supply, and following any required transition services period, PPL is targeting to reduce its annual corporate support costs by an estimated \$185 million. This includes \$110 million of corporate support costs to be transferred to Talen Energy and \$75 million of corporate support costs to be eliminated as a result of workforce reductions and other corporate cost savings. If for any reason PPL cannot realize all or a significant portion of the \$75 million corporate cost savings it could have an adverse effect on PPL's results of operations, including PPL's ability to maintain or increase its dividend to shareowners.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

There have been no material changes in risk factors from those disclosed in "Item 1A. Risk Factors" of the 2013 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b) (10)(iii) of Regulation S-K.

- [*4\(a\)](#) - Second Supplemental Indenture, dated as of October 30, 2014, between PPL WEM Holdings plc, The Bank of New York Mellon, as Trustee, and Western Power Distribution Limited
- [*4\(b\)](#) - Third Supplemental Indenture, dated as of October 31, 2014, among PPL WW Holdings Limited (formerly known as Western Power Distribution Holdings Limited), Western Power Distribution Limited and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), as Trustee under the Indenture
- [*4\(c\)](#) - Transfer Deed, dated as of October 31, 2014, between PPL WW Holdings Limited, Western Power Distribution Limited and Mizuho Bank, Ltd., as Facility Agent
- [*10\(a\)](#) - \$65,000,000 Revolving Credit Agreement, dated as of August 20, 2014, among PPL Capital Funding, Inc., as the Borrower, PPL Corporation, as the Guarantor, the Lenders from time to time party thereto and Canadian Imperial Bank of Commerce, New York Branch, as Administrative Agent and Issuing Lender
- [*10\(b\)](#) - Notice of Automatic Extension, dated as of September 29, 2014, pursuant to Section 4.03 of the \$300,000,000 Amended and Restated Credit Agreement dated as of July 28, 2014 among PPL Electric Utilities Corporation, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent
- 10(c) - \$198,309,583.05 Letter of Credit Agreement dated as of October 1, 2014 among Kentucky Utilities Company, as the Borrower, the Lenders from time to time party hereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent (Exhibit 10.1 to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated October 2, 2014)
- [*12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(b\)](#) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(c\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(d\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(f\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2014, filed by the following officers for the following companies:

- [*31\(a\)](#) - PPL Corporation's principal executive officer
- [*31\(b\)](#) - PPL Corporation's principal financial officer
- [*31\(c\)](#) - PPL Energy Supply, LLC's principal executive officer
- [*31\(d\)](#) - PPL Energy Supply, LLC's principal financial officer
- [*31\(e\)](#) - PPL Electric Utilities Corporation's principal executive officer
- [*31\(f\)](#) - PPL Electric Utilities Corporation's principal financial officer
- [*31\(g\)](#) - LG&E and KU Energy LLC's principal executive officer
- [*31\(h\)](#) - LG&E and KU Energy LLC's principal financial officer
- [*31\(i\)](#) - Louisville Gas and Electric Company's principal executive officer
- [*31\(j\)](#) - Louisville Gas and Electric Company's principal financial officer
- [*31\(k\)](#) - Kentucky Utilities Company's principal executive officer
- [*31\(l\)](#) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2014, furnished by the following officers for the following companies:

- [*32\(a\)](#) - PPL Corporation's principal executive officer and principal financial officer
- [*32\(b\)](#) - PPL Energy Supply, LLC's principal executive officer and principal financial officer
- [*32\(c\)](#) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- [*32\(d\)](#) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
- [*32\(e\)](#) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
- [*32\(f\)](#) - Kentucky Utilities Company's principal executive officer and principal financial officer

- 101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

PPL Energy Supply, LLC

(Registrant)

Date: November 7, 2014

/s/ Stephen K. Breininger

Stephen K. Breininger
Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: November 7, 2014

/s/ Dennis A. Urban, Jr.

Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal
Accounting Officer)

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: November 7, 2014

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

EXECUTION VERSION

SECOND SUPPLEMENTAL INDENTURE
Dated as of October 30, 2014

SECOND SUPPLEMENTAL INDENTURE, dated as of October 30, 2014, between PPL WEM Holdings plc, a public limited company duly organized and existing under the laws of England and Wales (the "Company"), The Bank of New York Mellon, a New York corporation (the "Trustee") and Western Power Distribution Limited, a company incorporated under the laws of England and Wales (the "New Obligor").

WITNESSETH:

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture dated as of April 21, 2011 (as supplemented and amended, the "Indenture"), to provide for the issuance by it of its indebtedness;

WHEREAS, the Company has heretofore executed and delivered to the Trustee supplemental indenture No. 1 dated as of April 21, 2011, to create multiple series of securities to be issuable under the Indenture, comprising one series of the Company's 3.900% Senior Notes due 2016 and one series of the Company's 5.375% Senior Notes due 2021 (together, the "Securities");

WHEREAS, the Company and certain of its subsidiaries and affiliates are simultaneously with the execution and delivery hereof entering into a reorganization transaction with other subsidiaries of PMDC International Holdings, Inc. to simplify the group structure, reduce administration costs and simplify internal cash management procedures, which such transaction includes the transfer of the Company's properties and assets substantially as an entirety to the New Obligor;

WHEREAS, pursuant to Article One of this Second Supplemental Indenture, the New Obligor will assume, as full and equal co-obligor of the Company, all of the Company's obligations under the Indenture and the Securities and the performance or observance of every covenant of the Indenture to be performed or observed by the Company;

WHEREAS, pursuant to Articles Eleven and Twelve of the Indenture, the Company, the New Obligor and the Trustee may enter into this Second Supplemental Indenture; and

WHEREAS, all other acts necessary to make this Second Supplemental Indenture a valid, binding and enforceable instrument, and all of the conditions and requirements set forth in the Indenture, have been performed and fulfilled and the execution and delivery of this Second Supplemental Indenture have been in all respects duly authorized.

NOW, THEREFORE, the parties have executed and delivered this Second Supplemental Indenture, and each of the Company, the New Obligor and the Trustee hereby agrees for the other parties' benefit, and for the equal ratable benefit of the Holders, as follows:

ARTICLE ONE

Assumption of Obligations by New Obligor

Section 1.01 ASSUMPTION OF OBLIGATIONS BY NEW OBLIGOR. The New Obligor hereby agrees that as of the date hereof it expressly, and without any further action being necessary, assumes the due and punctual payment of the principal of, premium, if any and interest on all outstanding Securities, and any Additional Amounts (as defined in the Indenture) imposed by the jurisdiction of its incorporation or residence for tax purposes on such payments, subject to exceptions equivalent to those set forth in Section 604(b) of the Indenture, and the due and punctual performance and observance of all the covenants and conditions to be performed or observed by the Company pursuant to the Indenture and the Securities, as if originally named as the Company under the Indenture.

Section 1.02 WAIVER OF RELEASE AND DISCHARGE OF OBLIGATIONS BY THE COMPANY. The Company hereby agrees to waive any release and discharge of its obligations under the Indenture and the Securities; and without any further action being necessary, hereby reaffirms and agrees to comply with its obligations as the Company under the Indenture and the Securities and to duly and punctually perform and observe all the covenants and conditions to be performed or observed by the Company pursuant to the Indenture and the Securities in accordance with the Indenture.

Section 1.03 CO-OBLIGORS. Each of the Company and the New Obligor hereby agree to act as co-obligors, jointly and severally, and to be fully and unconditionally liable on the Securities; each shall be considered for purposes of the Indenture to be the issuer of the Securities and the Company under the Indenture and the Securities; and the Indenture and the Securities shall be construed and/or deemed amended in light of, and in order to give full effect to, the foregoing.

Section 1.04 NOTICES, ETC. Notwithstanding anything herein to the contrary, any request, demand, authorization, direction, notice, consent, election, waiver or Act of Holders or other documents provided or permitted by the Indenture to be made upon, given or furnished to, or filed with, the Company or the New Obligor by the Trustee or any Holder shall be sufficient for every purpose of the Indenture if delivered or transmitted to the Company in accordance with Section 105 of the Indenture.

ARTICLE TWO

Miscellaneous

Section 2.01 CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

Section 2.02 EXECUTION AS SUPPLEMENTAL INDENTURE. This Second Supplemental Indenture is executed as and shall constitute an Indenture supplemental to the Indenture, and the Indenture and this Second Supplemental Indenture shall form a part of the Indenture.

Section 2.03 CONFIRMATION. The Indenture as amended and supplemented by this Second Supplemental Indenture is in all respects confirmed and preserved.

Section 2.04 COUNTERPARTS. This Second Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original,

but all of which together shall constitute one instrument.

Section 2.05 EFFECT OF HEADINGS. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 2.06 SEPARABILITY CLAUSE. In case any provision in this Second Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 2.07 GOVERNING LAW. This Second Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 2.08 RECITALS, ETC. The recitals in this Second Supplemental Indenture are made by the Company and the New Obligor only and not by the Trustee, and all of the provisions contained in the Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect of this Second Supplemental Indenture as fully and with like effect as if set forth herein in full and the Trustee shall not be responsible for and makes no representation as to the validity or sufficiency of this Second Supplemental Indenture.

[THE REMAINDER OF THIS PAGE IS LEFT BLANK INTENTIONALLY]

IN WITNESS WHEREOF, the parties hereof have caused this Second Supplemental Indenture to be duly executed by their respective officers or directors duly authorized thereto, all as of the day and year first above written.

PPL WEM Holdings Ltd

By: _____
Name:
Title:

Western Power Distribution Limited

By: _____
Name:
Title:

**The Bank of New York Mellon,
as Trustee**

By: _____
Name:
Title:

EXECUTION VERSION

THIRD SUPPLEMENTAL INDENTURE
Dated as of October 31, 2014

THIRD SUPPLEMENTAL INDENTURE, dated as of October 31, 2014, among PPL WW Holdings Limited (formerly known as Western Power Distribution Holdings Limited), a company incorporated under the laws of England and Wales with registered number 04267536 (the "Company"), Western Power Distribution Limited, a company incorporated under the laws of England and Wales (the "New Obligor") and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), a New York banking corporation, as Trustee under the Indenture, as defined below (the "Trustee").

WITNESSETH:

WHEREAS, WPD Holdings UK (the "Original Issuer") has heretofore executed and delivered to the Trustee an indenture dated as of March 16, 2001 (as supplemented and amended, the "Indenture"), to provide for the issuance by it of its indebtedness;

WHEREAS, the Original Issuer has heretofore executed and delivered to the Trustee a first supplemental indenture dated as of March 16, 2001, to create multiple series of securities to be issuable under the Indenture, including one series of the Issuer's 7.25% Notes Due 2017 and one series of the Issuer's 7.375% Notes Due 2028 (together, the "Securities");

WHEREAS, the Original Issuer and the Company have heretofore executed and delivered to the Trustee a second supplemental indenture dated as of January 31, 2003, to convey and transfer the Original Issuer's properties and assets substantially as an entirety under the Indenture, the Securities and all other documents, agreements and instruments related thereto to the Company, as the successor entity, which thereby expressly assumed the Original Issuer's applicable obligations on the Securities;

WHEREAS, the Company and certain of its subsidiaries and affiliates plan to enter into a reorganization transaction with other subsidiaries of PMDC International Holdings, Inc. to simplify the group structure, reduce administration costs and simplify internal cash management procedures;

WHEREAS, pursuant to Article One of this Third Supplemental Indenture, the New Obligor will assume, as full and equal co-obligor of the Company, all of the Company's obligations under the Indenture and the Securities and the performance or observance of every covenant of the Indenture and the Securities to be performed or observed;

WHEREAS, pursuant to Article VIII and Article IX of the Indenture, the Company, the New Obligor and the Trustee may enter into this Third Supplemental Indenture; and

WHEREAS, all other acts necessary to make this Third Supplemental Indenture a valid, binding and enforceable instrument, and all of the conditions and requirements set forth in the Indenture, have been performed and fulfilled and the execution and delivery of this Third Supplemental Indenture have been in all respects duly authorized.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each of the Company, New Obligor and Trustee hereby agrees for the other parties' benefit, and for the equal ratable benefit of the Holders, as follows:

ARTICLE ONE

Assumption of Obligations by New Obligor

Section 1.01 ASSUMPTION OF OBLIGATIONS BY NEW OBLIGOR. The New Obligor hereby agrees that as of the date hereof it expressly, and without any further action being necessary, assumes all of the Company's obligations under the Indenture and the Securities and the due and punctual performance and observance of all the covenants and conditions to be performed or observed by the Company pursuant to the Indenture and the Securities in accordance with Section 801 of the Indenture, as if originally named the Issuer under the Indenture.

Section 1.02 WAIVER OF DISCHARGE OF OBLIGATIONS BY THE COMPANY. The Company hereby agrees to waive the discharge under Section 802 of the Indenture of its obligations under the Indenture and the Securities; and without any further action being necessary, hereby reaffirms and agrees to comply with its obligations as the Issuer under the Indenture and the Securities and the due and punctual performance and observance of all the covenants and conditions to be performed or observed pursuant to the Indenture and the Securities in accordance with the Indenture.

Section 1.03 CO-OBLIGORS. Each of the Company and New Obligor hereby agree to act as co-obligors, jointly and severally, and fully and unconditionally liable on the Securities; each shall be considered for purposes of the Indenture to be the Issuer of the Securities; and the Indenture and the Securities shall be construed and/or deemed amended in light of, and in order to give full effect to, the foregoing.

ARTICLE TWO

Miscellaneous

Section 2.01 CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

Section 2.02 EXECUTION AS SUPPLEMENTAL INDENTURE. This Third Supplemental Indenture is executed as and shall constitute an Indenture supplemental to the Indenture, and the Indenture and this Third Supplemental Indenture shall form a part of the Indenture.

Section 2.03 CONFIRMATION. The Indenture as amended and supplemented by this Third Supplemental Indenture is in all respects confirmed and preserved.

Section 2.04 COUNTERPARTS. This Third Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

Section 2.05 EFFECT OF HEADINGS. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 2.06 SEPARABILITY CLAUSE. In case any provision in this Third Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 2.07 GOVERNING LAW. This Third Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 2.08 TRUSTEE MAKES NO REPRESENTATION. The Trustee makes no representation as to the validity or sufficiency of this Third Supplemental Indenture or the statements made in the recitals of this Third Supplemental Indenture.

[THE REMAINDER OF THIS PAGE IS LEFT BLANK INTENTIONALLY]

IN WITNESS WHEREOF, the parties hereof have caused this Third Supplemental Indenture to be duly executed by their respective officers or directors duly authorized thereto, all as of the day and year first above written.

PPL WW Holdings Limited

By: _____
Name:
Title:

Western Power Distribution Limited

By: _____
Name:
Title:

**Deutsche Bank Trust Company Americas,
as Trustee**

By: Deutsche Bank National Trust Company

By: _____
Name:
Title:

By: _____
Name:
Title:

TRANSFER DEED

31 OCTOBER 2014

Between

PPL WW HOLDINGS LIMITED
the Company

and

WESTERN POWER DISTRIBUTION LIMITED
the New Borrower

and

MIZUHO BANK, LTD.
the Facility Agent

A L L E N & O V E R Y

Allen & Overy LLP

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THIS TRANSFER DEED is entered into as a deed on 31 October 2014 and is made

BETWEEN:

- (1) **PPL WW HOLDINGS LIMITED** (registered number 04267536) (the **Company**);
- (2) **WESTERN POWER DISTRIBUTION LIMITED** (registered number 09223384) (the **New Borrower**); and
- (3) **MIZUHO BANK, LTD.** as Facility Agent (the **Facility Agent**).

1. INTERPRETATION

1.1 Definitions

In this Deed:

Agreement means the £210,000,000 Multicurrency Revolving Facility Agreement dated 21 December 2012 between, amongst others, the Company and the Facility Agent.

Party means a party to this Deed.

1.2 Construction

- (a) Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.
- (b) The provisions of clause 1.2 (Construction) and clause 1.3 (Currency symbols and definitions) of the Agreement apply to this Deed as though they were set out in full in this Deed except that references to the Agreement are to be construed as references to this Deed.

1.3 Third Party rights

Unless otherwise indicated a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. TRANSFER

2.1 Pursuant to clause 28.1 (Assignments and transfer by the Borrower) of the Agreement as the transfer to the New Borrower is to effect a Permitted Reorganisation, the Lenders (as such terms are defined in the Agreement) are not required to give their consent to the Company being replaced by the New Borrower and to the amendments to the Agreement contemplated by this Deed.

2.2 On the date of this Deed:

- (a) the Company (in its capacity as Borrower) and each Finance Party will be released from their respective obligations to each other under the Agreement (the **discharged obligations**);
- (b) the New Borrower and each Finance Party will assume obligations towards each other which differ from the discharged obligations only to the extent that they are owed to or assumed by the New Borrower instead of the Company;
- (c) the rights under the Agreement of:
 - (i) the Company against each Finance Party; and
 - (ii) each Finance Party against the Company,(together, the **discharged rights**) will be cancelled; and
- (d) the New Borrower and each Finance Party will acquire rights against each other which differ from the discharged rights only to the extent they are exercisable by or against the New Borrower instead of the Company.

2.3 With effect from the date of this Deed all references to the Company in the Finance Documents will be construed as references to the New Borrower. All other provisions of the Agreement shall continue in full force and effect and this Deed shall be construed and read as one with the Agreement.

3. REPRESENTATIONS

On the date of this Deed, the New Borrower makes those representations referenced in clause 17.21.2 of the Agreement by reference to the facts and circumstances in existence on the date of this Deed.

4. MISCELLANEOUS

- (a) Any communication in respect of this Deed must be in writing. Contact details for each Party are set out under each Party's signature block below.

- (b) This Deed is a Finance Document.
- (c) This Deed may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of the agreement
- (d) The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.

5. GOVERNING LAW

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

6. JURISDICTION

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligation arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **PPL WW HOLDINGS LIMITED**)
acting by)
Director

In the presence of:

Witness's Signature:

Name:

Address:

Company contact details:

Address: Avonbank,
Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354

New Borrower

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION LIMITED**)
acting by)
Director

In the presence of:

Witness's Signature:

Name:

Address:

New Borrower contact details:

Address: Avonbank,
Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354

Facility Agent

EXECUTED as a DEED
by **MIZUHO BANK, LTD.**
acting by

)
)
)
Director

In the presence of:

Witness's Signature:

Name:

Address:

Facility Agent contact details:

Address: Bracken House
One Friday Street
London EC4M 9JA

\$65,000,000

REVOLVING CREDIT AGREEMENT

dated as of August 20, 2014

among

**PPL CAPITAL FUNDING, INC.,
as the Borrower,**

**PPL CORPORATION,
as the Guarantor,**

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

**CANADIAN IMPERIAL BANK OF COMMERCE, NEW YORK BRANCH,
as Administrative Agent and Issuing Lender**

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REVOLVING CREDIT AGREEMENT (this “Agreement”) dated as of August 20, 2014 is entered into among PPL CAPITAL FUNDING, INC., a Delaware corporation (the “Borrower”), PPL CORPORATION, a Pennsylvania corporation (the “Guarantor”), the LENDERS party hereto from time to time and CANADIAN IMPERIAL BANK OF COMMERCE, NEW YORK BRANCH, as the Administrative Agent. The parties hereto agree as follows:

RECITALS

The Loan Parties (as hereinafter defined) have requested that the Lenders provide a revolving credit facility in an aggregate principal amount not to exceed \$65,000,000. In consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto covenant and agree as follows:

**ARTICLE I
DEFINITIONS**

Section 1.01 Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means CIBC, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise. In no event shall the Administrative Agent or any Lender be deemed to be an Affiliate of the Borrower, the Guarantor or any of their Subsidiaries.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“Applicable Percentage” means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, or (ii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower’s Ratings (S&P /Moody’s)	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥A- from S&P / A3 from Moody’s	0.125%	0.700%
Category B	BBB+ from S&P / Baa1 from Moody’s	0.250%	0.800%
Category C	BBB from S&P / Baa2 from Moody’s	0.500%	0.875%
Category D	≤BBB- from S&P / Baa3 from Moody’s	0.625%	0.950%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Asset Sale” means any sale of any assets, including by way of the sale by the Guarantor or any of its Subsidiaries of equity interests in such Subsidiaries; it being understood that the Energy Supply Spin-Off shall not be deemed to constitute an Asset Sale.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Authorized Officer” means the president, the chief operating officer, the chief financial officer, the chief accounting officer, any vice president, the treasurer, the assistant treasurer or the controller of the applicable Loan Party or such other individuals reasonably acceptable to the Administrative Agent as may be designated in writing by the Borrower from time to time.

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day, a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall

remain in effect, the London Interbank Offered Rate plus 1%.

“Base Rate Borrowing” means a Borrowing comprised of Base Rate Loans.

“Base Rate Lending Office” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“Base Rate Loan” means a Loan in respect of which interest is computed on the basis of the Base Rate.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrower’s Rating” means the senior unsecured long-term debt rating of the Borrower from S&P or Moody’s without giving effect to any third party credit enhancement except for a guaranty of the Guarantor (it being understood that all of the Borrower’s long term debt is Guaranteed by the Guarantor).

“Borrowing” means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London Business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee’s balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of Voting Stock of the Guarantor or its successors or (ii) the failure at any time of the Guarantor or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“CIBC” means Canadian Imperial Bank of Commerce, New York Branch, and its successors.

“Consolidated Capitalization” means the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Guarantor and minority interests recorded on the Guarantor’s consolidated financial statements (excluding from shareowners’ equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Guarantor on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Guarantor, Consolidated Debt of the Guarantor shall exclude Non-Recourse Debt and Consolidated Capitalization of the Guarantor shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Guarantor and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Guarantor and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Guarantor and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Credit Event” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$150,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Debtor Relief Laws” means the Bankruptcy Code, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) or (v) an Approved Fund; provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than a Loan Party or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include any Loan Party or any of its Subsidiaries or Affiliates.

“Energy Supply Spin-Off” means the proposed transfer, separation and spin-off of PPL Energy Supply, LLC and certain of its assets by the Guarantor as described in the Guarantor’s Current Report on Form 8-K dated June 9, 2014 and filed with the SEC.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Guarantor or any of its Subsidiaries which arise under Environmental Laws or relate to Hazardous Substances.

“Equity-Linked Securities” means any securities of the Guarantor or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Guarantor or such Subsidiary, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Guarantor or any of its Subsidiaries.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means each of the Loan Parties and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with each of the Loan Parties, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fund” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course of its activities.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Guarantor” has the meaning set forth in the introductory paragraph hereto.

“Guaranty” means the guaranty of the Guarantor set forth in Article X.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by any of the Loan Parties, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Guarantor or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Guarantor or a Subsidiary of the Guarantor, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Interest Period” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clause (iii) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Issuing Lender” means CIBC, in its capacity as an issuer of Letters of Credit under Section 3.02, and its successors in such capacity.

“Lender” means each bank or other lending institution listed in Appendix A, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender in such capacity.

“Lending Ratio” means, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Revolving Outstandings bears to the aggregate amount of all Revolving Outstandings.

“Letter of Credit” means any letter of credit issued pursuant to Section 3.02 under this Agreement by an Issuing Lender on or after the Effective Date.

“Letter of Credit Fee” has the meaning set forth in Section 2.07(b).

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan or a Euro-Dollar Loan, and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in

London.

“Loan Parties” means the Borrower and the Guarantor.

“London Interbank Offered Rate” means:

(i) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of CIBC to which such Interest Period is to apply and for a period of time comparable to such Interest Period. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (i), such comparable or successor rate shall be applied in a manner consistent with market practice; provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

(ii) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of CIBC. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (ii), such comparable or successor rate shall be applied in a manner consistent with market practice; provided, however, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Guarantor or the Guarantor and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Loan Parties taken as a whole to perform their obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of any Loan Party in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Material Subsidiary” means each Subsidiary of the Guarantor listed on Schedule 5.14 and each other Subsidiary of the Guarantor designated by the Guarantor as a “Material Subsidiary” in writing to the Administrative Agent, in either case, for so long as such Material Subsidiary shall be a Wholly Owned Subsidiary of the Guarantor.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“Non-Recourse Debt” means Debt that is nonrecourse to any Loan Party or any asset of any Loan Party.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” means a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the

bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Administrative Agent as to which it has a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document;

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document; and

(v) in the case of each of clauses (i) through (iv) above, together with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“Patriot Act” has the meaning set forth in Section 9.13.

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Guarantor or any Subsidiary of the Guarantor as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by CIBC from time to time as its Prime Rate for U.S. Dollar credits.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit.

“Required Lenders” means at any time Lenders having at least 51% of the aggregate amount of the Revolving Outstandings at such time, or, if there are no Revolving Outstandings at such time, all the Lenders.

“Revolving” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto and (ii) a Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“Revolving Outstandings” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) if such Lender is also an Issuing Lender, the face amount of all outstanding Letters of Credit plus any due and unpaid Reimbursement Obligations.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill Financial Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Sanctions” means sanctions administered or enforced by OFAC, the U.S. State Department, the European Union or Her Majesty’s Treasury.

“Sanctioned Country” means a country or territory that is, or whose government is, the subject of comprehensive territorial Sanctions (currently, Cuba, Iran, North Korea, Sudan, and Syria).

“Sanctioned Person” means a Person that is, or is owned or controlled by Persons that are, (i) the subject of any Sanctions, or (ii) located, organized or resident in a Sanctioned Country.

“SEC” means the Securities and Exchange Commission.

“Subsidiary” of a Person means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by such Person or one or more Subsidiaries of such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Borrower.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earliest to occur of (i) August 20, 2015 as such date may be extended from time to time pursuant to Section 9.05, (ii) the date declared to be, or that becomes, the Termination Date, pursuant to Article VII and (iii) solely in the case of Euro-Dollar Loans, the last day of the initial Interest Period applicable thereto (or, in the event such Euro-Dollar Loan has been continued pursuant to Section 2.06(d), any subsequent Interest Period applicable thereto).

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01 Availability. Each Lender severally hereby makes available, on the terms and conditions set forth in this Agreement, on an uncommitted basis, a facility for making Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts not exceeding the amount set forth next to such Lender’s name on Appendix A. Each Revolving Borrowing shall be in an aggregate principal amount of \$1,000,000 or any larger integral multiple of \$1,000,000 (or such other amount as the Lenders shall agree with the Borrower). Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

Section 2.02 [Reserved].

Section 2.03 Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a “Notice of Borrowing”) not later than (a) 11:30 A.M. (New York, New York time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (New York, New York time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) [reserved];
- (iv) the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04 Notice to Lenders; Funding of Revolving Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing, the Administrative Agent shall promptly notify each Lender of such Lender’s ratable share (based on the then-applicable Lending Ratio, or the amounts set forth on Appendix A, as applicable) of the Borrowing referred to in the Notice of Borrowing. A Notice of Borrowing shall not be revocable by the Borrower after a Lender has indicated an intention to fund the amount requested in a Borrowing. Any Lender that intends to fund a Borrowing shall promptly respond by telephone or email to the Administrative Agent, indicating its intention and the amount of such Borrowing it is prepared to fund. The Administrative Agent shall promptly advise the Borrower of any such indications.

(b) Funding of Loans. If a Lender agrees to fund a Borrower, not later than (a) 1:00 P.M. (New York, New York time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (New York, New York time) on the date of each Euro-Dollar Borrowing, each Lender shall make available the funds it is lending in respect of such Borrowing, in Federal or other funds immediately available in New York, New York, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent’s address not later

than (a) 3:00 P.M. (New York, New York time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (New York, New York time) on the date of each Euro-Dollar Borrowing.

(c) [reserved].

(d) Obligations of Lenders Several. No Lender shall be responsible for the obligations of any other Lender.

Section 2.05 Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to subsections (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in subsections (a) and (b) above.

Section 2.06 Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date and, with respect to the principal amount of any Base Rate Loan converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$1,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to request a continuation of all or any portion of such Loans, equal to \$1,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause (A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above and Sections 2.06(d)(ii) and 2.06(d)(iii) shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a "Notice of Conversion/Continuation") to the Administrative Agent no later than (A) 12:00 Noon (New York, New York time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (New York, New York time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, then such Euro-Dollar Loan shall be repaid in full by the Borrower on the last day of the applicable Interest Period.

(iii) Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender's pro rata share of all conversions and continuations requested therein. In the case of a Notice of Conversion/Continuation delivered in connection with a request to continue any Euro-Dollar Loans, such Notice of Conversion/Continuation shall not be revocable by the Borrower after a Lender has indicated its agreement to continue funding its share of such Euro-Dollar Loans. Any Lender that intends to fund its

share of such Euro-Dollar Loans shall promptly notify the Administrative Agent by telephone or email, and the Administrative Agent shall promptly advise the Borrower of any such indications. If some but not all of the Lenders have agreed to continue funding its share of such Euro-Dollar Loan, then such Euro-Dollar Loan shall be continued in an amount equal to the aggregate sum of the shares of such Euro-Dollar Loan by the Lenders agreeing to such requested continuation and the Borrower shall repay such Euro-Dollar Loan on the last day of the applicable Interest Period in an amount equal to the aggregate sum of the shares of such Euro-Dollar Loan by the Lenders rejecting such requested continuation. If none of the Lenders agree to continue funding its share of such Euro-Dollar Loan, then such Euro-Dollar Loan shall be repaid in full by the Borrower on the last day of the applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07 Fees.

(a) [reserved].

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the “Letter of Credit Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letters of Credit shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Revolving Outstandings shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.08 [Reserved].

Section 2.09 Maturity of Loans. The Revolving Loans shall mature on the Termination Date, and any Revolving Loans and Reimbursement Obligations then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable, and all Letters of Credit shall be cash collateralized by the Borrower on such date.

Section 2.10 Optional Prepayments and Repayments.

(a) Prepayments of Loans. Subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day’s notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days’ notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$1,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders regardless of the date of Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender’s ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower if it shall be a prepayment of a Euro-Dollar Borrowing.

Section 2.11 General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Reimbursement Obligations and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (New York, New York time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in New York, New York, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Reimbursement Obligations or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12 Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been

given in accordance with the provisions of this Agreement, the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13 Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14 Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Revolving Outstandings advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to continue Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. (New York, New York time) on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15 Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16 Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall (i) impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office), (ii) subject any Lender or any Issuing Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any Euro-Dollar Loan made by it, or change the basis of taxation of payments to such Lender or any Issuing Lender in respect thereof (other than (A) Taxes, (B) Other Taxes, (C) the imposition of, or any change in the rate of, any taxes described in clauses (i) through (iv) of the definition of Taxes in Section 2.17(a) and (D) Taxes attributable to a Lender's or an Issuing Lender's failure to comply with Section 2.17(e)) or (iii) impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to continue Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “change in law” under this [Article II](#) regardless of the date enacted, adopted or issued.

Section 2.17 [Taxes](#).

(a) [Payments Net of Certain Taxes](#). Any and all payments made by or on account of any Loan Party to or for the account of any Lender or the Administrative Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, the Administrative Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or the Administrative Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax pursuant to a law in effect on the date on which such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as “[Taxes](#)”). If any Loan Party shall be required by law to deduct any taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or the Administrative Agent, (i) to the extent such taxes are included in the definition of “[Taxes](#),” the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this [Section 2.17\(a\)](#)) such Lender or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Loan Party shall make such deductions, (iii) such Loan Party shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) such Loan Party shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) [Other Taxes](#). In addition, each Loan Party agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, “[Other Taxes](#)”).

(c) [Indemnification](#). Each Loan Party agrees to jointly and severally indemnify each Lender and the Administrative Agent for the full amount of [Taxes](#) and [Other Taxes](#) (including, without limitation, any [Taxes](#) or [Other Taxes](#) imposed or asserted by any jurisdiction on amounts payable under this [Section 2.17\(c\)](#)), whether or not correctly or legally asserted, paid by such Lender or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or the Administrative Agent seeking indemnification pursuant to this [Section 2.17\(c\)](#). This indemnification shall be paid within 15 days after such Lender or the Administrative Agent (as the case may be) makes demand therefor.

(d) [Refunds or Credits](#). If a Lender or the Administrative Agent receives a refund, credit or other reduction from a taxation authority for any [Taxes](#) or [Other Taxes](#) for which it has been indemnified by any Loan Party or with respect to which any Loan Party has paid additional amounts pursuant to this [Section 2.17](#), it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Loan Parties under this [Section 2.17](#) with respect to the [Taxes](#) or [Other Taxes](#) giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or the Administrative Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that each Loan Party agrees to repay, upon the request of such Lender or the Administrative Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or the Administrative Agent in the event such Lender or the Administrative Agent is required to repay such refund or credit to such taxation authority.

(e) [Tax Forms and Certificates](#). On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a “[Non-U.S. Lender](#)”) shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, (x) certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender and (y) with respect to any other applicable payments under or entered into in connection with any Loan Document establishing an exemption from, or reduction of, United States withholding tax pursuant to the “business profits” or “other income” article of such tax treaty; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; (C) in the case of a Non-U.S. Lender claiming the benefits of the exemption for portfolio interest under Section 871(h) or Section 881(c) of the Internal Revenue Code, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a “bank” within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a “10-percent shareholder” of any Loan Party within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a “controlled foreign corporation” that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to any Loan Party within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8ECI, W-8BEN, W-8BEN-E, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed

by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Loan Parties and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8BEN, W-8BEN-E, W-8ECI or W-8IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such form or certificate.

(f) Exclusions. No Loan Party shall be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If any Loan Party is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or the Administrative Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18 Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to continue or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19 [Reserved].

Section 2.20 [Reserved].

ARTICLE III LETTERS OF CREDIT

Section 3.01 [Reserved].

Section 3.02 Letters of Credit.

(a) Letters of Credit. Each Issuing Lender makes available, on an uncommitted basis, on the terms and conditions set forth in this Agreement, a facility for the issuance of Letters of Credit denominated in Dollars from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any Affiliate of the Borrower that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued the aggregate face amount of all outstanding Letters of Credit Liabilities shall not exceed the total facility limit amount set forth on Appendix A.

Section 3.03 Method of Issuance of Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of a Letter of Credit not later than 1:00 P.M. (New York, New York time) at least one Business Day prior to the proposed date of the issuance or extension of Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

Section 3.04 Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (a) such Issuing Lender is prepared to issue such Letter of Credit (which determination it may give or withhold in its absolute discretion), (b) such Letter of Credit shall be satisfactory in form and substance to such Issuing

Lender, (c) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (d) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that the aggregate face amount of all outstanding Letters of Credit Liabilities shall not exceed the total facility limit amount set forth on Appendix A. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05 [Reserved].

Section 3.06 Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07 Reimbursement Obligations. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (a) at or before 1:00 P.M. (New York, New York time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (New York, New York time) on such date or (b) at or before 10:00 A.M. (New York, New York time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (New York, New York time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (New York, New York time) on such day and such payment is actually made at or before 3:00 P.M. (New York, New York time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08 [Reserved].

Section 3.09 [Reserved].

Section 3.10 Funds Received from the Borrower in Respect of Drawn Letters of Credit. All payments in respect of a Reimbursement Obligation shall be solely for the account of the related Issuing Lender.

Section 3.11 Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;
- (e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the applicable Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or
- (g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit, unless payment was prohibited by law, regulation or court order.

Section 3.12 Limitation of Liability in Respect of Letters of Credit. Neither the Issuing Lenders nor the Administrative Agent, their respective

affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in [Section 3.11](#), as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such person, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit.

Section 3.13 [ISP98](#). The rules of the “International Standby Practices 1998” as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

ARTICLE IV CONDITIONS

Section 4.01 [Conditions to Closing](#). The availability of the credit facilities described herein is subject to the satisfaction of the following conditions:

(a) [This Agreement](#). The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this [Section 4.01](#).

(b) [Notes](#). On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to [Section 2.05](#).

(c) [Officers' Certificate](#). The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of each Loan Party by any Authorized Officer of such Loan Party stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing, and (B) the representations and warranties of such Loan Party contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) [Secretary's Certificates](#). On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State (or equivalent body) of the jurisdiction of incorporation dated as of a recent date, as to the good standing of each Loan Party and (ii) a certificate of the Secretary or an Assistant Secretary of each Loan Party dated the Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the articles of incorporation of such Loan Party certified by the Secretary of State (or equivalent body) of the jurisdiction of incorporation of such Loan Party and (y) the bylaws of such Loan Party, (B) as to the absence of dissolution or liquidation proceedings by or against such Loan Party, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of such Loan Party authorizing the execution, delivery and performance of the Loan Documents to which such Loan Party is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of such Loan Party executing the Loan Documents to which such Loan Party is a party or any other document delivered in connection herewith or therewith.

(e) [Opinions of Counsel](#). On the Effective Date, the Administrative Agent shall have received from counsel to the Loan Parties, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of [Exhibit D](#) hereto.

(f) [Consents](#). All necessary governmental (domestic or foreign), regulatory and third party approvals, if any, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions.

(g) [Payment of Fees](#). All costs, fees and expenses due to the Administrative Agent and the Lenders accrued through the Effective Date (including Letter of Credit Fees) shall have been paid in full.

(h) [Counsel Fees](#). The full payment by the Borrower of the fees and expenses of Mayer Brown LLP described in [Section 9.03](#) which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(i) [Know Your Customer](#). The Administrative Agent and each Lender shall have received all documentation and other information required by regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations, including, without limitation, the Patriot Act, as has been reasonably requested in writing.

Section 4.02 [Conditions to All Credit Events](#). The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, after acceptance of the related request from the Borrower, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by [Section 2.03](#), or receipt by an Issuing Lender of a Letter of Credit Request as required by [Section 3.03](#);

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Loan Parties contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in [Section 5.04\(c\)](#), [Section 5.05](#), [Section 5.13](#) and [Section 5.14\(a\)](#) which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Loan Parties on the date of such Credit Event as to the facts specified in [clauses \(b\) and \(c\)](#) of this Section.

ARTICLE V
REPRESENTATIONS AND WARRANTIES

The Guarantor represents and warrants that, and as to the Borrower, the Borrower represents and warrants that:

Section 5.01 Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the corporate authority to execute and deliver this Agreement and each other Loan Document to which it is a party and perform its obligations hereunder and thereunder. The Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has the corporate authority to execute and deliver this Agreement and each other Loan Document to which it is a party and perform its obligations hereunder and thereunder.

Section 5.02 Authority; No Conflict. The execution, delivery and performance by each Loan Party of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which such Loan Party is a party.

Section 5.03 Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which such Loan Party is a party constitute the legal, valid and binding obligations of such Loan Party, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04 Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Guarantor and its Consolidated Subsidiaries as of December 31, 2013 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst & Young, LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Guarantor and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Guarantor and its Consolidated Subsidiaries as of June 30, 2014 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Guarantor and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2013 there has been no change in the business, assets, financial condition or operations of the Guarantor and its Consolidated Subsidiaries, considered as a whole that would materially and adversely affect the Guarantor's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents; it being understood that the Energy Supply Spin-Off shall not be deemed, as of the time of the consummation thereof or at any time prior to or thereafter, to constitute such a change. Since December 31, 2013 there has been no change in the business, assets, financial condition or operations of the Borrower that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05 Litigation. Except as disclosed in or contemplated by the Guarantor's Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2013, or any subsequent report of the Guarantor filed with the SEC on a Form 10-K, 10-Q or 8-K Report or otherwise furnished in writing to the Administrative Agent and each Lender, no litigation, arbitration or administrative proceeding against the Guarantor or any of its Subsidiaries is pending or, to the Guarantor's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of any Loan Party to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of any Loan Party, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06 No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07 ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08 Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by any Loan Party of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals as shall have been obtained prior to the Effective Date and shall be in full force and effect.

Section 5.09 Investment Company Act. Neither the Borrower nor the Guarantor is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.10 Tax Returns and Payments. Each Loan Party has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which such Loan Party shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11 Compliance with Laws.

(a) To the knowledge of the Guarantor, the Guarantor and its Material Subsidiaries are in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of their respective businesses and the ownership of their respective property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (i) such compliance is being contested in good faith by appropriate proceedings or (ii) non-compliance would not reasonably be expected to materially and adversely affect the ability of the Loan Parties to perform any of their respective obligations under this Agreement, the Notes or any other Loan Document to which they are a party.

(b) To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business, except to the extent (i) such compliance is being contested in good faith by appropriate proceedings or (ii) non-compliance would not reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12 No Default. No Default has occurred and is continuing.

Section 5.13 Environmental Matters.

(a) Except (x) as disclosed in or contemplated by the Guarantor's Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2013, or in any subsequent report of the Guarantor filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, or (y) to the extent that the liabilities of the Guarantor and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) below of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Guarantor or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Guarantor's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Guarantor or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Guarantor or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Guarantor's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, in, from, on or under any property now or previously owned, leased or operated by the Guarantor or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Guarantor or any of its Subsidiaries or, to the Guarantor's or any of its Subsidiaries' knowledge, any property to which the Guarantor or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Guarantor's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Guarantor's Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2013, or in any subsequent report of the Guarantor filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Guarantor's knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Guarantor" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Guarantor or any of its Subsidiaries from the time such business or business entity became a Subsidiary of the Guarantor.

Section 5.14 Material Subsidiaries and Ownership.

(a) As of the Effective Date, (i) Schedule 5.14 states the name of each of the Guarantor's Material Subsidiaries and its jurisdiction or jurisdictions of organization or incorporation, as applicable, (ii) except as disclosed in Schedule 5.14, each such Subsidiary is a Wholly Owned Subsidiary of the Guarantor, and (iii) each of the Guarantor's Material Subsidiaries is in good standing in the jurisdiction or jurisdictions of its organization or incorporation, as applicable, and has all corporate or other organizational powers to carry on its businesses except where failure to do so would not reasonably be expected to have a Material Adverse Effect.

(b) Each of the Guarantor's Material Subsidiaries is duly organized or incorporated and validly existing under the laws of the jurisdiction or jurisdictions of its organization or incorporation, as applicable.

Section 5.15 OFAC. None of the Borrower, the Guarantor any Subsidiary of the Guarantor, nor, to the knowledge of the Guarantor or the Borrower, any director, officer, or Affiliate of the Borrower, the Guarantor or any of its Subsidiaries: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Persons or in Sanctioned Countries, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Countries. The proceeds of any Loan will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country.

Section 5.16 Anti-Corruption. None of the Borrower, the Guarantor or any of its Subsidiaries nor, to the knowledge of the Borrower or the Guarantor, any director, officer, agent, employee or other person acting on behalf of the Borrower or the Guarantor or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "FCPA") or any other applicable anti-corruption law; and the Loan Parties have instituted and maintain policies and procedures designed to ensure continued compliance therewith. No part of the proceeds of the Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity in violation of the FCPA or any other applicable anti-corruption law.

ARTICLE VI COVENANTS

Each Loan Party agrees that so long as the Termination Date shall not have occurred, or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01 Information. The Loan Parties will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website or the Guarantor's website (<http://www.pplweb.com>) or making such information available on IntraLinks, SyndTrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Guarantor is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Guarantor), a consolidated balance sheet of the Guarantor and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Guarantor and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Guarantor is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Guarantor (other than the last quarterly fiscal period of the Guarantor)), a consolidated balance sheet of the Guarantor and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any Authorized Officer of the Guarantor.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of any Authorized Officer of the Guarantor, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the applicable Loan Party is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of an Authorized Officer of the applicable Loan Party setting forth the details thereof and the action which the applicable Loan Party is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon any Authorized Officer obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Guarantor or the Borrower is a Public Reporting Company, promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, and in each case a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Guarantor or any of its Subsidiaries as any Lender may reasonably request.

Section 6.02 Maintenance of Insurance. Each Loan Party will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which such Loan Party operates.

Section 6.03 Conduct of Business and Maintenance of Existence. Each Loan Party will (a) continue to engage in businesses of the same general type as now conducted by such Loan Party and, in the case of the Guarantor, its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (b) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04 Compliance with Laws, Etc. Each Loan Party will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) noncompliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05 Books and Records. Each Loan Party (a) will keep, and, in the case of the Guarantor, will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (b) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to any matters which such Loan Party deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06 Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower for general corporate purposes of the Borrower and its Affiliates, including for working capital purposes and for making investments in or loans to the Guarantor and Affiliates of the Loan Parties. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Affiliates. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07 Merger or Consolidation. No Loan Party will merge with or into or consolidate with or into any other corporation or entity, unless (a) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (b) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of such Loan Party under this Agreement, (c) in the case of the Guarantor, substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (d) in the case of the Borrower, the senior unsecured long-term debt ratings (without giving effect to any third party credit enhancement except for a guaranty of the Guarantor or a permitted successor) from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the Borrower's Ratings from both Rating Agencies immediately preceding the announcement of such consolidation or merger.

Section 6.08 Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Guarantor and its Material Subsidiaries shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Guarantor and its Consolidated Subsidiaries as of the beginning of the Guarantor's most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Guarantor and its Subsidiaries; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Guarantor or its Subsidiaries; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Guarantor; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Guarantor or any Subsidiary in a Permitted Business, (ii) are used by the Guarantor or any Subsidiary to repay Debt of the Guarantor or such Subsidiary, or (iii) are retained by the Guarantor or any Subsidiary; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower's Ratings after giving effect to any such Asset Sale.

Section 6.09 Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Guarantor to Consolidated Capitalization of the Guarantor shall not exceed 70%, measured as of the end of each fiscal quarter.

ARTICLE VII DEFAULTS

Section 7.01 Events of Default. If one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (a) neither Loan Party shall pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) neither Loan Party shall pay when due any interest on the Loans and Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or
- (c) any Loan Party shall fail to observe or perform any of its covenants or agreements contained in Sections 6.05(b), 6.06, 6.07, 6.08 or 6.09; or
- (d) any Loan Party shall fail to observe or perform any of its covenants or agreements contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) any of the Loan Parties shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or
- (f) any representation, warranty or certification made by any Loan Party in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or
- (g) any Loan Party shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or
- (h) any Loan Party shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or
- (i) an involuntary case or other proceeding shall be commenced against any Loan Party seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver,

liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against any Loan Party under the Bankruptcy Code; or

(j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(k) any Loan Party shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against it that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred; or

(m) the Guaranty shall cease to be in full force or effect or shall be found by any judicial proceeding to be unenforceable or invalid; or the Guarantor shall deny or disaffirm in writing the Guarantor's obligations under the Guaranty;

then, and in every such event, while such event is continuing, the Administrative Agent shall (A) if requested by the Required Lenders, by notice to the Borrower declare the Termination Date to have occurred, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate Revolving Outstandings at such time, by notice to the Borrower declare the Loans (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans shall thereupon become, immediately due and payable (and all Letters of Credit shall be immediately required to be cash collateralized by the Borrower) without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower; provided, that, in the case of any Default or any Event of Default specified in Section 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Termination Date shall be deemed to have occurred and the Loans shall thereupon become, immediately due and payable (and all Letters of Credit shall be immediately required to be cash collateralized by the Borrower) without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

ARTICLE VIII THE ADMINISTRATIVE AGENT

Section 8.01 Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof.

Section 8.02 Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower, Guarantor and its Affiliates as though the Administrative Agent were not the Administrative Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not the Administrative Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03 Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04 Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, teletype or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Loan Parties), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or a Loan Party referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06 Non-Reliance on the Administrative Agent and Other Lenders. Each Lender expressly acknowledges that none of the Administrative Agent and its officers, directors, employees, agents, attorneys-in-fact or affiliates has made any representations or warranties to it and that no act by the Administrative Agent hereafter taken, including any review of the affairs of the Loan Parties, shall be deemed to constitute any representation or warranty by

the Administrative Agent to any Lender. Each Lender acknowledges to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Loan Parties and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Loan Parties. The Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Loan Parties which may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07 Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by each Loan Party or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of any Loan Party or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Loan Parties. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of any Loan Party to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08 Indemnification. To the extent that the Loan Parties, as applicable, for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Lending Ratio from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Loan Parties; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Reimbursement Obligations, fees and other obligations of the Borrower arising hereunder, and the cash collateralization of Letters of Credit.

Section 8.09 Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days' notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and Loan Parties of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document

ARTICLE IX MISCELLANEOUS

Section 9.01 Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, or any Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, telecopy, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or telecopy (provided, however, that if any notice or other communication sent by electronic mail, posting on an internet webpage or telecopy is received by a recipient after such recipient's normal business hours, such notice or other communication shall be deemed received upon the opening of such recipient's next Business Day), (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or telecopy numbers, in the case of any of the Loan Parties and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Loan Parties:

PPL Capital Funding, Inc.
PPL Corporation
Two North Ninth Street
Allentown, Pennsylvania 18101-1179
Attention: Treasurer or Assistant Treasurer
Telephone: 610-774-5151
Facsimile: 610-774-5235

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

if to CIBC:

Canadian Imperial Bank of Commerce, New York Branch
425 Lexington Avenue, 5th Floor
New York, New York 10017
Attn: Fred Page/Alexandria Jewell
Telephone: (416) 542-4344 and (416) 861-5483
Facsimile: (905) 948-1934

Section 9.02 No Waivers; Non-Exclusive Remedies. No failure by the Administrative Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03 Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Administrative Agent, including legal fees and disbursements of Mayer Brown LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Administrative Agent with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Administrative Agent and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Administrative Agent and the Lenders other than Mayer Brown LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. Each of the Loan Parties agrees to jointly and severally indemnify the Administrative Agent and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees and advisors of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Guarantor, the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or thereby or referred to herein or therein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. Each of the Loan Parties agrees to jointly and severally indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with (i) any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Guarantor or any of its Subsidiaries or any predecessor of the Guarantor or any of its Subsidiaries or (ii) any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, no Loan Party shall assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04 Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it which is greater than the

proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan or Note made or held by such other Lender, except as otherwise expressly contemplated by this Agreement, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder. For the avoidance of doubt, no Issuing Lender shall be required to share any payments or recoveries it receives in respect of cash collateral for Letters of Credit it has issued, or any Reimbursement Obligations owed to such Issuing Lender.

Section 9.05 Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Loan Parties and the Required Lenders (and, if the rights or duties of the Administrative Agent or any Issuing Lenders are affected thereby, by the Administrative Agent or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) create any commitment of any Lender to extend credit to the Borrower, or subject any Lender to any additional obligation, (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata sharing of payments required by Sections 2.11(a) or 9.04 or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, (i) change the definition of Required Lender or this Section 9.05 or Section 9.06(a) or (ii) release the Guarantor from its Obligations under the Guaranty.

Section 9.06 Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that no Loan Party may assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Loans and Letters of Credit. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Loan Parties hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect or (ii) allow the assignment or transfer by any Loan Party of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person except to the extent that such disclosure is necessary to establish that such interest in the Loan or other obligation under the Loan Documents is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent and the Issuing Lenders, which consents shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Approved Fund or Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Administrative Agent; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under

this Agreement and its Note to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the facility amounts made available from time to time by each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the rights and obligations of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this Section 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such rights and obligations, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any such rights and obligations, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register.

Section 9.07 Governing Law; Submission to Jurisdiction. This Agreement, each Note and each Letter of Credit shall be governed by and construed in accordance with the internal laws of the State of New York. Each Loan Party hereby submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each Loan Party irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08 Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement and the other Loan Documents constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09 Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Guarantor's independent public accountants) with the audited consolidated financial statements of the Guarantor and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Guarantor notifies the Administrative Agent that the Guarantor wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Guarantor that the Required Lenders wish to amend Article VI for such purpose), then the Guarantor's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Guarantor and the Required Lenders.

Section 9.10 Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

(g) Unless otherwise specified, all references herein to times of day shall constitute references to New York, New York time.

Section 9.11 WAIVER OF JURY TRIAL. EACH OF THE LOAN PARTIES HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12 Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to the Administrative Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letters of Credit, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by the Administrative Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which the Administrative Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender's or the Administrative Agent's Affiliates and their respective directors, officers, employees, service providers and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Loan Parties' Obligations hereunder. Notwithstanding the foregoing, the Administrative Agent, any Lender or Mayer Brown LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Loan Parties or their Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13 USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Loan Parties that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Borrower and the Guarantor, which information includes the name and address of each Loan Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify each Loan Party in accordance with the Patriot Act.

Section 9.14 No Fiduciary Duty. The Administrative Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the "Lender Parties"), may have economic interests that conflict with those of the Loan Parties, their respective Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Borrower Parties"). Each Loan Party agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lender Parties, on the one hand, and the Loan Parties, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. Each Loan Party acknowledges and agrees that it has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. Each Loan Party agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15 Survival. Sections 2.12, 2.16, 2.17 and 9.03 shall survive the Termination Date for the benefit of the Administrative Agent and each Lender, as applicable.

ARTICLE X GUARANTY

Section 10.01 Guaranty. The Guarantor unconditionally, absolutely and irrevocably guarantees to the Administrative Agent, each Lender and each Issuing Lender, as though it was a primary obligor for, the full and punctual payment of the Obligations when due (whether at stated maturity, upon acceleration or otherwise). If the Borrower fails to pay any Obligation punctually when due, the Guarantor agrees that it will forthwith on demand pay the amount not so paid at the place and in the manner specified in the relevant Loan Document. Notwithstanding the foregoing, the liability of the Guarantor individually with respect to its obligations, including any payment made pursuant to, this Guaranty shall be limited to an aggregate amount equal to the maximum amount that would not render the Guarantor's obligations hereunder subject to avoidance under the Bankruptcy Code or any comparable provisions of any applicable state law. This Guaranty is a Guarantee of payment and not merely of collection.

Section 10.02 Guaranty Unconditional. The obligations of the Guarantor hereunder shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(a) any change in the amount or purpose of or the time, manner, method, or place of payment or performance of any of the Obligations or any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of the Borrower or any other Person under any Loan Document, by operation of law or otherwise;

(b) any modification, extension, renewal or amendment of or supplement to any Loan Document or any of the Obligations or any execution or delivery of any additional Loan Documents;

(c) any release, impairment, non-perfection or invalidity of any direct or indirect security for any obligation of the Borrower or any other Person under any Loan Document;

(d) any change in the corporate existence, structure or ownership of the Borrower or any other Person or any of their respective Subsidiaries, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Borrower or any other Person or any of their assets or any resulting release or discharge of any obligation (including any of the Obligations) of the Borrower or any other Person under any Loan Document;

(e) the existence of any claim, set-off, defense, counterclaim, withholding or other right that the Guarantor or the Borrower may have at any time against any Person (including the Administrative Agent, the Lenders and the Issuing Lenders), whether in connection with the Loan Documents or any unrelated transactions; provided that nothing herein shall prevent the assertion of any such claim or defense by separate suit or compulsory counterclaim;

(f) any avoidance, subordination, invalidity or unenforceability relating to or against the Borrower or any other Person for any reason of any Obligation or any Loan Document, any provision of applicable law or regulation purporting to prohibit the payment of any Obligation by the Borrower or any other Person, or the Borrower denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any Obligation or provision of any Loan Document;

(g) any failure of the Administrative Agent, any Lender or any Issuing Lender to assert any claim or demand or to exercise or enforce any right or remedy under the provisions of any Loan Document or to assert any breach of or default under any Loan Document or any breach of the Obligations; or

(h) any other act or omission to act or delay of any kind by the Borrower, any other party to any Loan Document or any other Person, or any other circumstance whatsoever that might, but for the provisions of this clause (h), constitute a legal or equitable discharge of or defense to any obligation of the Guarantor hereunder.

Section 10.03 Discharge Only Upon Payment in Full; Reinstatement in Certain Circumstances. The Guarantor's obligations hereunder shall remain in full force and effect until all Obligations shall have been paid in full, all facility availability has been terminated and all Letters of Credit have either expired, been repaid in full or been cash collateralized. If at any time any payment of any Obligation is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, the Guarantor's obligations hereunder shall be reinstated as though such payment had been due but not made at such time.

Section 10.04 Waiver by Guarantor. The Guarantor irrevocably waives (a) acceptance hereof, presentment, demand for performance, promptness, diligence, notice of non-performance, default, acceleration, protest or dishonor and any notice not provided for herein, (b) any requirement that at any time any action be taken by any Person against the Borrower or any other Person, (c) any right to revoke this Guaranty, and (d) any defense based on any right of set-off, recoupment, counterclaim, withholding or other deduction of any nature against or in respect of the Obligations.

Section 10.05 Subrogation. Upon making payment with respect to any Obligation, the Guarantor shall be subrogated to the rights of the payee against the Borrower with respect to such payment; provided that the Guarantor agrees it will not exercise any rights against the Borrower arising in connection with the Obligations by way of subrogation against the Borrower, or by reason of contribution against any other guarantor of such Obligations until all Obligations shall have been paid in full, all facility availability has been terminated and all Letters of Credit have either expired, been repaid in full or been cash collateralized.

Section 10.06 Stay of Acceleration. If acceleration of the time for payment of any Obligation by the Borrower is stayed, enjoined or prevented for any reason (including but not limited to by reason of the insolvency or receivership of the Borrower or otherwise), all Obligations otherwise subject to acceleration under the terms of any Loan Document shall nonetheless be payable by the Guarantor forthwith on demand by the Administrative Agent.

Section 10.07 Continuing Guaranty. The Guaranty set forth in this Article X is a continuing guaranty, shall be binding on the Guarantor and its successors and assigns, and shall be enforceable by each holder from time to time of the Obligations (including, without limitation, the Administrative Agent, the Lenders and the Issuing Lenders, each, a "Guaranteed Party"). If all or part of any Guaranteed Party's interest in any Obligation is assigned or otherwise transferred, the transferor's rights hereunder, to the extent applicable to the obligation so transferred, shall automatically be transferred with such obligation; and without limitation of the foregoing, any of the Obligations shall be and remain Obligations entitled to the benefit of this Guaranty if any Guaranteed Party assigns or otherwise transfers all or part of its interest in any Obligation or any of its rights or obligations under any Loan Document.

Section 10.08 Default Payments by Borrower. Upon the occurrence and during the continuation of any default under any Obligation, if any amount shall be paid to the Guarantor by or for the account of the Borrower with respect to such Obligation, such amount shall be held in trust for the benefit of each Lender, each Issuing Lender and the Administrative Agent and shall forthwith be paid to the Administrative Agent to be credited and applied to the Obligations when due and payable.

Section 10.09 Duty to Stay Advised. The Guarantor agrees that the Lenders shall have no duty to advise the Guarantor of information known to them regarding the financial condition of the Borrower and the Guarantor hereby assumes responsibility for keeping itself advised of the financial condition of the Borrower.

[Signature Pages to Follow]

710555545

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER

PPL CAPITAL FUNDING, INC.

By: _____
Name:
Title:

GUARANTOR:

PPL CORPORATION

By: _____
Name:
Title:

[Signature Page to Capital Funding Credit Agreement]

710555545

CANADIAN IMPERIAL BANK OF COMMERCE,
NEW YORK BRANCH, as Administrative Agent,
Issuing Lender and Lender

By: _____
Name:
Title:

By: _____
Name:
Title:

[Signature Page to Capital Funding Credit Agreement]

710555545

FACILITY LIMITS

Lender	Available Facility
Canadian Imperial Bank of Commerce, New York Branch	\$ 65,000,000
Total	\$ 65,000,000

71055545

SCHEDULE 5.14

Material Subsidiaries

<u>Name</u>	<u>Jurisdiction of Organization</u>
LG&E and KU Energy LLC	Kentucky
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Supply, LLC ¹	Delaware
PPL Global, LLC	Delaware

¹ PPL Energy Supply, LLC shall not be deemed a Material Subsidiary upon and after the consummation of the Energy Supply Spin-Off.

Form of Notice of Borrowing

Canadian Imperial Bank of Commerce, New York Branch,
as Administrative Agent
425 Lexington Avenue, 5th Floor
New York, New York 10017
Attn: Fred Page/Alexandria Jewell

Ladies and Gentlemen:

This notice shall constitute a "Notice of Borrowing" pursuant to Section 2.03 of the \$65,000,000 Revolving Credit Agreement dated as of August 20, 2014 (the "Credit Agreement") among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as Guarantor, the lending institutions party thereto from time to time and Canadian Imperial Bank of Commerce, New York Branch, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The date of the Borrowing will be _____, _____.¹
2. The aggregate principal amount of the Borrowing will be _____ (the "Election Date").²
3. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans.
4. The initial Interest Period for the Loans comprising such Borrowing shall be _____.³

[Insert appropriate delivery instructions, which shall include bank and account number].

¹ Must be a Business Day.

² Revolving Borrowings must be an aggregate principal amount of \$1,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Revolving Commitment.

³ Applicable for Euro-Dollar Loans only. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of "Interest Period").

PPL CAPITAL FUNDING, INC.

By: _____
Name:
Title:

710662444

A-1-2

Form of Notice of Conversion/Continuation

Canadian Imperial Bank of Commerce, New York Branch,
 as Administrative Agent
 425 Lexington Avenue, 5th Floor
 New York, New York 10017
 Attn: Fred Page/Alexandria Jewell

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$65,000,000 Revolving Credit Agreement dated as of August 20, 2014 (the "Credit Agreement") among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as Guarantor, the lending institutions party thereto from time to time and Canadian Imperial Bank of Commerce, New York Branch, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of ___ months and ending on the Election Date specified below].

The date on which the conversion/continuation selected hereby is to be effective is _____, _____⁴

The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$ _____⁵

[The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]

5. The Interest Period for such Loans will be _____⁶

⁴ Must be a Business Day.

⁵ May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not apply, are each \$1,000,000 or any larger integral multiple of \$1,000,000.

⁶ Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of Interest Period).

PPL CAPITAL FUNDING, INC.

By: _____
Name:
Title:

710662444

A-2-2

Form of Letter of Credit Request

_____, _____
 [Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$65,000,000 Revolving Credit Agreement dated as of August 20, 2014 (the "Credit Agreement") among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as Guarantor, the lending institutions party thereto from time to time and Canadian Imperial Bank of Commerce, New York Branch, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

The undersigned hereby requests that _____⁷ issue a [standby][commercial] Letter of Credit on _____, _____⁸ in the aggregate amount of \$_____. [This request is to extend a Letter of Credit previously issued under the Credit Agreement; Letter of Credit No. _____.]

The beneficiary of the requested [standby][commercial] Letter of Credit will be _____⁹, and such [standby][commercial] Letter of Credit will be in support of _____¹⁰ and will have a stated termination date of _____¹¹.

Copies of all documentation with respect to the supported transaction are attached hereto.

⁷ Insert name of Issuing Lender.

⁸ Must be a Business Day.

⁹ Insert name and address of beneficiary.

¹⁰ Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

¹¹ Insert the last date upon which drafts may be presented (which may not be later than one year after the date of issuance specified above or beyond the fifth Business Day prior to the Termination Date).

PPL CAPITAL FUNDING, INC.

By: _____
Name:
Title:

APPROVED:

[ISSUING LENDER]

By: _____
Name:
Title:

710662444

A-3-2

Form of Note

FOR VALUE RECEIVED, the undersigned, PPL CAPITAL FUNDING, INC., a Delaware corporation (the "Borrower"), promises to pay to the order of _____ (hereinafter, together with its successors and assigns, called the "Holder"), at the Administrative Agent's Office or such other place as the Holder may designate in writing to the Borrower, the principal sum of _____ AND _____/100s DOLLARS (\$ _____), or, if less, the principal amount of all Loans advanced by the Holder to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided. Such Loans may be endorsed from time to time on the grid attached hereto, but the failure to make such notations shall not affect the validity of the Borrower's obligation to repay unpaid principal and interest hereunder.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$65,000,000 Revolving Credit Agreement dated as of August 20, 2014 (as the same may be amended, modified or supplemented from time to time, the "Credit Agreement") by and among the Borrower, PPL Corporation, as Guarantor, the lenders party thereto (collectively, the "Lenders") and Canadian Imperial Bank of Commerce, New York Branch, as administrative agent (the "Administrative Agent") for itself and on behalf of the Lenders and the Issuing Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, repay, reborrow, continue and convert the Holder's Loans (or portions thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Holder, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Holder in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the

Borrower not pay and the Holder not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

All parties now or hereafter liable with respect to this Note, whether the Borrower, any guarantor, endorser or any other Person or entity, hereby waive presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest.

No delay or omission on the part of the Holder or any holder hereof in exercising its rights under this Note, or delay or omission on the part of the Holder, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Holder or any holder hereof, nor shall any waiver by the Holder, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, or any holder hereof, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

The Borrower promises to pay all reasonable costs of collection, including reasonable attorneys' fees, should this Note be collected by or through an attorney-at-law or under advice therefrom.

This Note evidences the Holder's Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

This Note is entitled to the benefit of the Guaranty of the Guarantor, as set forth in the Credit Agreement. Reference is made to the Credit Agreement for a description of the terms and conditions of such Guaranty, and the respective rights and limitations of the Holder, the Borrower and the Guarantor thereunder.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

B-2

710662444

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representative as of the day and year first above written.

PPL CAPITAL FUNDING, INC.

By: _____
Name:
Title:

710662444

B-3

Form of Assignment and Assumption Agreement

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the] [each]¹² Assignor identified on the Schedules hereto as “Assignor” [or “Assignors” (collectively, the “Assignors” and each an “Assignor”) and [the] [each]¹³ Assignee identified on the Schedules hereto as “Assignee” or “Assignees” (collectively, the “Assignees” and each an “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees]¹⁴ hereunder are several and not joint.¹⁵ Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor’s] [the respective Assignors’] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below (including without limitation any letters of credit and guarantees included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without

¹² For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

¹³ For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

¹⁴ Select as appropriate.

¹⁵ Include bracketed language if there are either multiple Assignors or multiple Assignees.

recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor: See Schedule attached hereto
 2. Assignee: See Schedule attached hereto
 3. Borrower: PPL Capital Funding, Inc.
 4. Administrative Agent: Canadian Imperial Bank of Commerce, New York Branch, as the administrative agent under the Credit Agreement
 5. Credit Agreement: The \$65,000,000 Revolving Credit Agreement dated as of August 20, 2014 by and among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as Guarantor, the Lenders party thereto and Canadian Imperial Bank of Commerce, New York Branch, as Administrative Agent (as amended, restated, supplemented or otherwise modified)
 6. Assigned Interest: See Schedule attached hereto
- [7. Trade Date: _____]¹⁶

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

¹⁶ To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

Effective Date: _____, 20____

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____

Title:

ASSIGNEE

See Schedule attached hereto

710662444

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[Consented to and]¹⁷ Accepted:

CANADIAN IMPERIAL BANK OF COMMERCE,
NEW YORK BRANCH,
as Administrative Agent and Issuing Lender

By _____

Title:

[Consented to:]¹⁸

PPL CAPITAL FUNDING, INC.

By _____

Title:

[Consented to]:

[Issuing Lender]¹⁹,
as Issuing Lender

By _____

Title:

¹⁷ To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

¹⁸ To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

¹⁹ Add all Issuing Lender signature blocks.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

Assigned Interests:

Aggregate Amount of Commitment/ Loans for all Lenders ²⁰	Amount of Commitment/ Loans Assigned ²¹	Percentage Assigned of Commitment/ Loans ²²	CUSIP Number
\$	\$	%	

[NAME OF ASSIGNEE]²³ [and is an Affiliate of [identify Lender]]²⁴

²⁰ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

²¹ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

²² Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

²³ Add additional signature blocks, as needed.

²⁴ Select as applicable.

ANNEX 1 to Assignment and Assumption

REVOLVING CREDIT AGREEMENT DATED AS OF
AUGUST 20, 2014
BY AND AMONG

PPL CAPITAL FUNDING, INC., AS BORROWER,
PPL CORPORATION, AS GUARANTOR
THE LENDERS PARTY THERETO

AND CANADIAN IMPERIAL BANK OF COMMERCE, NEW YORK BRANCH,
AS ADMINISTRATIVE AGENT
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2 . Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3 . General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

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710662444

[Forms of Opinion of Counsel for the Loan Parties]

[see attached]

D-1

710662444

[PPL Electric Utilities Corporation Letterhead]

September 29, 2014

Wells Fargo Bank, National Association
as Administrative Agent
1525 W WT Harris Boulevard
Charlotte, North Carolina 28262
Attention: Syndication Agency Services

Ladies and Gentleman:

This notice is delivered pursuant to Section 4.03 of the \$300,000,000 Amended and Restated Credit Agreement dated as of July 28, 2014 (the "Credit Agreement") among PPL Electric Utilities Corporation, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent (the "Administrative Agent"). Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement

The undersigned hereby requests that the Administrative Agent please confirm that, with the delivery of the documents listed below, the Automatic Extension will be effective:

- (a) Officer's Certificate dated September 29, 2014 pursuant to Section 4.03(b) of the Agreement, including all documents attached thereto;
and
- (b) Opinion of Counsel dated September 29, 2014, pursuant to Section 4.03(c) of the Agreement.

[Signature Page Follows]

PPL ELECTRIC UTILITIES CORPORATION

By: _____
Name:
Title:

Confirmed:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: _____
Name:
Title:

[Notice Pursuant to Section 4.03 of the Credit Agreement]

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	9 Months Ended Sep. 30, 2014	Years Ended December 31,				
		2013(a)	2012(a)	2011(a)	2010(a)	2009(a)
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes (b)	\$ 1,552	\$ 1,260	\$ 2,009	\$ 2,050	\$ 1,218	\$ 474
Adjustment to reflect earnings from equity method investments on a cash basis (c)			34	1	7	1
	<u>1,552</u>	<u>1,260</u>	<u>2,043</u>	<u>2,051</u>	<u>1,225</u>	<u>475</u>
Total fixed charges as below	821	1,096	1,065	1,022	698	513
Less:						
Capitalized interest	25	47	53	51	30	43
Preferred security distributions of subsidiaries on a pre-tax basis			5	23	21	24
Interest expense and fixed charges related to discontinued operations	6	12	10	3	31	22
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>790</u>	<u>1,037</u>	<u>997</u>	<u>945</u>	<u>616</u>	<u>424</u>
Total earnings	<u>\$ 2,342</u>	<u>\$ 2,297</u>	<u>\$ 3,040</u>	<u>\$ 2,996</u>	<u>\$ 1,841</u>	<u>\$ 899</u>
Fixed charges, as defined:						
Interest charges (d)	\$ 810	\$ 1,058	\$ 1,019	\$ 955	\$ 637	\$ 446
Estimated interest component of operating rentals	11	38	41	44	39	42
Preferred security distributions of subsidiaries on a pre-tax basis			5	23	21	24
Fixed charges of majority-owned share of 50% or less-owned persons					1	1
Total fixed charges (e)	<u>\$ 821</u>	<u>\$ 1,096</u>	<u>\$ 1,065</u>	<u>\$ 1,022</u>	<u>\$ 698</u>	<u>\$ 513</u>
Ratio of earnings to fixed charges	<u>2.9</u>	<u>2.1</u>	<u>2.9</u>	<u>2.9</u>	<u>2.6</u>	<u>1.8</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (f)	<u>2.9</u>	<u>2.1</u>	<u>2.9</u>	<u>2.9</u>	<u>2.6</u>	<u>1.8</u>

- (a) Years 2009 through 2013 have been adjusted to reflect the reclassification of certain PPL Montana hydroelectric generating facilities and related assets as Discontinued Operations. See Note 8 to the Financial Statements for additional information.
- (b) To facilitate the sale of the hydroelectric generating facilities referred to in (a) above, in December 2013, PPL Montana terminated a lease agreement which resulted in a \$697 million charge. See Note 8 to the Financial Statements in PPL's 2013 Form 10-K for additional information.
- (c) Includes other-than-temporary impairment loss of \$25 million in 2012.
- (d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
- (e) Interest on unrecognized tax benefits is not included in fixed charges.
- (f) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	9 Months Ended Sep. 30, 2014	Years Ended December 31,				
		2013(a)	2012(a)	2011(a)	2010(a)	2009(a)
Earnings, as defined:						
Income (Loss) from Continuing Operations Before						
Income Taxes (d)	\$ 54	\$ (420)	\$ 665	\$ 1,061	\$ 860	\$ (77)
Adjustments to reflect earnings from equity method						
investments on a cash basis				1	7	1
	<u>54</u>	<u>(420)</u>	<u>665</u>	<u>1,062</u>	<u>867</u>	<u>(76)</u>
Total fixed charges as below	121	226	238	259	426	364
Less:						
Capitalized interest	16	36	47	47	33	44
Interest expense and fixed charges related to						
discontinued operations	<u>6</u>	<u>12</u>	<u>10</u>	<u>3</u>	<u>166</u>	<u>109</u>
Total fixed charges included in Income (Loss) from						
Continuing Operations Before Income Taxes	<u>99</u>	<u>178</u>	<u>181</u>	<u>209</u>	<u>227</u>	<u>211</u>
Total earnings	<u>\$ 153</u>	<u>\$ (242)</u>	<u>\$ 846</u>	<u>\$ 1,271</u>	<u>\$ 1,094</u>	<u>\$ 135</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 118	\$ 207	\$ 214	\$ 223	\$ 387	\$ 321
Estimated interest component of operating rentals	3	19	24	36	38	42
Fixed charges of majority-owned share of 50% or						
less-owned persons					1	1
Total fixed charges (c)	<u>\$ 121</u>	<u>\$ 226</u>	<u>\$ 238</u>	<u>\$ 259</u>	<u>\$ 426</u>	<u>\$ 364</u>
Ratio of earnings to fixed charges (d)	<u>1.3</u>	<u>(1.1)</u>	<u>3.6</u>	<u>4.9</u>	<u>2.6</u>	<u>0.4</u>

- (a) Years 2009 through 2013 have been adjusted to reflect the reclassification of certain PPL Montana hydroelectric generating facilities and related assets as Discontinued Operations. See Note 8 to the Financial Statements for additional information.
- (b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
- (c) Interest on unrecognized tax benefits is not included in fixed charges.
- (d) To facilitate the sale of the hydroelectric generating facilities referred to in (a) above, in December 2013, PPL Montana terminated a lease agreement which resulted in a \$697 million charge. See Note 8 to the Financial Statements in PPL Energy Supply's 2013 Form 10-K for additional information. As a result of the lease termination and the reclassification referred to in (a) above, earnings for 2013 were lower, which resulted in less than one-to-one coverage. The adjusted amount of the deficiency, or the amount of fixed charges in excess of earnings, was \$468 million.

As a result of PPL Energy Supply's 2011 distribution of its interest in PPL Global to PPL Energy Funding and related reclassification of PPL Global's operating results as Discontinued Operations and the reclassification referred to in (a) above, earnings for 2009 were lower, which resulted in less than one-to-one coverage. The adjusted amount of the deficiency, or the amount of fixed charges in excess of earnings, was \$229 million.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES
**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS**
(Millions of Dollars)

	9 Months Ended Sep. 30, 2014	Years Ended December 31,				
		2013	2012	2011	2010	2009
Earnings, as defined:						
Income Before Income Taxes	\$ 315	\$ 317	\$ 204	\$ 257	\$ 192	\$ 221
Total fixed charges as below	<u>96</u>	<u>117</u>	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>
Total earnings	<u>\$ 411</u>	<u>\$ 434</u>	<u>\$ 311</u>	<u>\$ 362</u>	<u>\$ 294</u>	<u>\$ 342</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 93	\$ 113	\$ 104	\$ 102	\$ 101	\$ 120
Estimated interest component of operating rentals	<u>3</u>	<u>4</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>
Total fixed charges (b)	<u>\$ 96</u>	<u>\$ 117</u>	<u>\$ 107</u>	<u>\$ 105</u>	<u>\$ 102</u>	<u>\$ 121</u>
Ratio of earnings to fixed charges	<u>4.3</u>	<u>3.7</u>	<u>2.9</u>	<u>3.4</u>	<u>2.9</u>	<u>2.8</u>
Preferred stock dividend requirements on a pre-tax basis						
			\$ 6	\$ 21	\$ 23	\$ 28
Fixed charges, as above	<u>\$ 96</u>	<u>\$ 117</u>	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>
Total fixed charges and preferred stock dividends	<u>\$ 96</u>	<u>\$ 117</u>	<u>\$ 113</u>	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 149</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>4.3</u>	<u>3.7</u>	<u>2.8</u>	<u>2.9</u>	<u>2.4</u>	<u>2.3</u>

- (a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)					Predecessor (b)	
	9 Months Ended Sep. 30, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:							
Income from Continuing Operations							
Before Income Taxes	\$ 436	\$ 551	\$ 331	\$ 419	\$ 70	\$ 300	\$ (1,235)
Adjustment to reflect earnings from equity method investments on a cash basis (c)			33	(1)		(4)	11
Loss on impairment of goodwill							1,493
Mark to market impact of derivative instruments					2	(20)	(19)
	<u>436</u>	<u>551</u>	<u>364</u>	<u>418</u>	<u>72</u>	<u>276</u>	<u>250</u>
Total fixed charges as below	<u>129</u>	<u>151</u>	<u>157</u>	<u>153</u>	<u>25</u>	<u>158</u>	<u>186</u>
Total earnings	<u>\$ 565</u>	<u>\$ 702</u>	<u>\$ 521</u>	<u>\$ 571</u>	<u>\$ 97</u>	<u>\$ 434</u>	<u>\$ 436</u>
Fixed charges, as defined:							
Interest charges (d) (e)	\$ 125	\$ 145	\$ 151	\$ 147	\$ 24	\$ 153	\$ 176
Estimated interest component of operating rentals	4	6	6	6	1	5	5
Estimated discontinued operations interest component of rental expense							5
Total fixed charges	<u>\$ 129</u>	<u>\$ 151</u>	<u>\$ 157</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 158</u>	<u>\$ 186</u>
Ratio of earnings to fixed charges	<u>4.4</u>	<u>4.6</u>	<u>3.3</u>	<u>3.7</u>	<u>3.9</u>	<u>2.7</u>	<u>2.3</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes other-than-temporary impairment loss of \$25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(e) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)					Predecessor (b)	
	9 Months Ended Sep. 30, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:							
Income Before Income Taxes	\$ 211	\$ 257	\$ 192	\$ 195	\$ 29	\$ 167	\$ 142
Mark to market impact of derivative instruments					1	(20)	(20)
	<u>211</u>	<u>257</u>	<u>192</u>	<u>195</u>	<u>30</u>	<u>147</u>	<u>122</u>
Total fixed charges as below	<u>39</u>	<u>36</u>	<u>44</u>	<u>46</u>	<u>8</u>	<u>40</u>	<u>46</u>
Total earnings	<u>\$ 250</u>	<u>\$ 293</u>	<u>\$ 236</u>	<u>\$ 241</u>	<u>\$ 38</u>	<u>\$ 187</u>	<u>\$ 168</u>
Fixed charges, as defined:							
Interest charges (c) (d)	\$ 37	\$ 34	\$ 42	\$ 44	\$ 8	\$ 38	\$ 44
Estimated interest component of operating rentals	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total fixed charges	<u>\$ 39</u>	<u>\$ 36</u>	<u>\$ 44</u>	<u>\$ 46</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 46</u>
Ratio of earnings fixed charges	<u>6.4</u>	<u>8.1</u>	<u>5.4</u>	<u>5.2</u>	<u>4.8</u>	<u>4.7</u>	<u>3.7</u>

- (a) Post-acquisition activity covering the time period after October 31, 2010.
(b) Pre-acquisition activity covering the time period prior to November 1, 2010.
(c) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(d) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor (a)					Predecessor (b)	
	9 Months Ended Sep. 30, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended Dec. 31, 2009
Earnings, as defined:							
Income Before Income Taxes	\$ 279	\$ 360	\$ 215	\$ 282	\$ 55	\$ 218	\$ 200
Adjustment to reflect earnings from equity method investments on a cash basis (c)			33	(1)		(4)	11
Mark to market impact of derivative instruments							1
	<u>279</u>	<u>360</u>	<u>248</u>	<u>281</u>	<u>55</u>	<u>214</u>	<u>212</u>
Total fixed charges as below	<u>61</u>	<u>73</u>	<u>72</u>	<u>73</u>	<u>11</u>	<u>71</u>	<u>79</u>
Total earnings	<u>\$ 340</u>	<u>\$ 433</u>	<u>\$ 320</u>	<u>\$ 354</u>	<u>\$ 66</u>	<u>\$ 285</u>	<u>\$ 291</u>
Fixed charges, as defined:							
Interest charges (d)	\$ 58	\$ 70	\$ 69	\$ 70	\$ 10	\$ 69	\$ 76
Estimated interest component of operating rentals	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>
Total fixed charges	<u>\$ 61</u>	<u>\$ 73</u>	<u>\$ 72</u>	<u>\$ 73</u>	<u>\$ 11</u>	<u>\$ 71</u>	<u>\$ 79</u>
Ratio of earnings to fixed charges	<u>5.6</u>	<u>5.9</u>	<u>4.4</u>	<u>4.8</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>

(a) Post-acquisition activity covering the time period after October 31, 2010.

(b) Pre-acquisition activity covering the time period prior to November 1, 2010.

(c) Includes other-than-temporary impairment loss of \$25 million in 2012.

(d) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ William H. Spence

William H. Spence
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Vincent Sorgi

Vincent Sorgi
 Senior Vice President and Chief Financial Officer
 (Principal Financial Officer)
 PPL Corporation

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Paul A. Farr
 Paul A. Farr
 President
 (Principal Executive Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Vincent Sorgi
 Vincent Sorgi
 Senior Vice President
 (Principal Financial Officer)
 PPL Energy Supply, LLC

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Gregory N. Dudkin
 Gregory N. Dudkin
 President
 (Principal Executive Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, DENNIS A. URBAN, JR., certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Dennis A. Urban, Jr.
 Dennis A. Urban, Jr.
 Controller
 (Principal Financial Officer and Principal Accounting
 Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Louisville Gas and Electric Company

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CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Victor A. Staffieri
 Victor A. Staffieri
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2014

/s/ Kent W. Blake
 Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer and Principal Accounting Officer)
 Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2014

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul A. Farr, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2014

/s/ Paul A. Farr

Paul A. Farr
President
(Principal Executive Officer)
PPL Energy Supply, LLC

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President
(Principal Financial Officer)
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Dennis A. Urban, Jr., the Principal Financial Officer and Principal Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2014

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Dennis A. Urban, Jr.
Dennis A. Urban, Jr.
Controller
(Principal Financial Officer and Principal Accounting Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2014

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2014

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2014

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 1, 2014

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Section 1 – Registrant's Business and Operations

Item 1.01 Entry into a Material Definitive Agreement and

Item 1.02 Termination of a Material Definitive Agreement

And

Section 2 - Financial Information

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

On October 1, 2014, Kentucky Utilities Company, as borrower ("KU"), entered into a three-year, \$198,309,583.05 Letter of Credit Agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as administrative agent and initial issuing lender (the "Credit Agreement").

The Credit Agreement allows for KU to request lenders to issue letters of credit to support its issuances of tax-exempt pollution control bonds and to request loans in connection with certain repayment events for such letters of credit. KU currently utilizes the full capacity of the Credit Agreement for issuance of letters of credit to support four existing series of pollution control bonds. KU will pay a market-based facility fee, which is based upon KU's senior secured long-term debt rating, as well as customary letter of credit issuance fees under the Credit Agreement.

The Credit Agreement contains a financial covenant requiring KU's consolidated debt to total capitalization to not exceed 70% (as calculated pursuant to the Credit Agreement), and other customary covenants. Failure to meet the covenants beyond applicable grace periods and certain other events, including the occurrence of a change of control (as defined in the Credit Agreement), could result in acceleration of due dates of any borrowings, cash collateralization of outstanding letters of credit and/or termination of the Credit Agreement. The Credit Agreement also contains certain customary representations and warranties that must be made and certain other conditions that must be met for KU to cause lenders to issue letters of credit or make loans.

The Credit Agreement and the issued letters of credit replace a substantially similar \$198,309,583.05 Amended and Restated Letter of Credit Agreement, dated as of August 16, 2012, as amended, and existing letters of credit, which were terminated in connection therewith.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

- 10.1 - \$198,309,583.05 Letter of Credit Agreement dated as of October 1, 2014 among Kentucky Utilities Company, as the Borrower, the Lenders from time to time party hereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent.
-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Mark F. Wilten
Mark F. Wilten
Vice President – Finance and
Treasurer

LG&E AND KU ENERGY LLC

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer

Dated: October 1, 2014

\$198,309,583.05

LETTER OF CREDIT AGREEMENT

dated as of October 1, 2014

among

**KENTUCKY UTILITIES COMPANY,
as the Borrower,**

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

**THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH,
as Administrative Agent**

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Appendices:

Commitment Appendix

Exhibits:

- Exhibit A - Form of Reimbursement Agreement
 - Exhibit B - Form of Assignment and Assumption Agreement
 - Exhibit C - [Reserved]
 - Exhibit D - Form of Letter of Credit Request
-

LETTER OF CREDIT AGREEMENT (this “Agreement”), dated as of October 1, 2014, is entered into among KENTUCKY UTILITIES COMPANY, a Kentucky corporation and a Virginia corporation (the “Borrower”), the LENDERS party hereto from time to time, THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH (“BTMU”), as the Administrative Agent and BTMU, as Issuing Lender.

RECITALS

WHEREAS, the Borrower has requested that the Lenders provide, and the Lenders are willing to provide, a senior unsecured letter of credit facility in an aggregate amount of \$198,309,583.05, on the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the mutual conditions and agreements set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

**ARTICLE I
DEFINITIONS**

Section 1.01. Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Administrative Agent” or “Agent” means BTMU, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise. In no event shall the Administrative Agent or any Lender be deemed to be an Affiliate of the Borrower or any of its Subsidiaries.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, amended and restated, supplemented or modified from time to time.

“Applicable Lending Office” means, with respect to any Lender, its office located at the address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Applicable Lending Office) or such other office as such Lender may hereafter designate as its Applicable Lending Office by notice to the Borrower and the Administrative Agent.

“Applicable Percentage” means, for purposes of calculating the applicable rate for the Facility Fee for any day for purposes of Section 2.03(a), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower’s Ratings (S&P /Moody’s)	Applicable Percentage for Facility Fees
Category A	≥ A from S&P / A2 from Moody’s	0.650%
Category B	≥ A- from S&P / A3 from Moody’s	0.750%
Category C	BBB+ from S&P / Baa1 from Moody’s	0.850%
Category D	BBB from S&P / Baa2 from Moody’s	0.975%

Category E	BBB- from S&P / Baa3 from Moody's	1.15%
Category F	≤BB+ from S&P / Ba1 from Moody's	1.275%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Asset Sale” means any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit B, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Available Amount” has the meaning set forth in the applicable Letter of Credit.

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) LIBOR Market Index Rate for such day plus 1%.

“Bond Indenture” has the meaning set forth in the applicable Reimbursement Agreement.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrower's Rating” means the senior secured long-term debt rating of the Borrower from S&P or Moody's.

“BTMU” has the meaning set forth in the introductory paragraph hereto.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to purchase participations in Letters of Credit and Loans pursuant to Article III hereof, as set forth in the Commitment Appendix and as such Commitment may be reduced from time to time pursuant to Section 2.04 or Section 9.06(c) or increased from time to time pursuant to Section 9.06(c).

“Commitment Appendix” means the Appendix attached under this Agreement identified as such.

“Commitment Ratio” means, with respect to any Lender, the percentage equivalent of the ratio which such

Lender's Commitment bears to the aggregate amount of all Commitments.

"Consolidated Capitalization" means the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of "Consolidated Debt") and (B) the consolidated shareowners' equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower's consolidated financial statements (excluding from shareowners' equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners' equity attributable to assets securing Non-Recourse Debt.

"Consolidated Debt" means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

"Consolidated Subsidiary" means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

"Continuing Lender" means with respect to any event described in Section 2.04(b), a Lender which is not a Retiring Lender, and "Continuing Lenders" means any two or more of such Continuing Lenders.

"Corporation" means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

"Credit Event" means the issuance, renewal or extension of a Letter of Credit or the making of a Loan.

"Custody Agreement" means a Custody Agreement as defined in and entered into pursuant to a Reimbursement Agreement in connection with the issuance of a Letter of Credit hereunder.

"Custody Bonds" has the meaning set forth in the applicable Reimbursement Agreement.

"Debt" of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers' acceptances; provided, however, that "Debt" of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a "financial" or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

"Debtor Relief Laws" means the Bankruptcy Code, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

"Default" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Defaulting Lender" means at any time any Lender with respect to which a Lender Default is in effect at such

time. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses of the definition of “Lender Default” shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to cure as expressly contemplated in the definition of “Lender Default”) upon delivery of written notice of such determination to the Borrower, the Issuing Lenders and each other Lender.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means October 1, 2014.

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended); or (v) an Approved Fund; provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws or relate to Hazardous Substances.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Event of Default” has the meaning set forth in Section 7.01.

“Existing Credit Agreement” means that certain Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among the Borrower, the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, restated, supplemented, replaced or otherwise modified from time to time.

“Existing Pollution Control Bonds” means the tax-exempt pollution control bonds of the following series issued on behalf of the Borrower: (i) the County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project), (ii) the County of Carroll, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project), (iii) the County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) and (iv) the County of Mercer, Kentucky, Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project).

“Facility Fee” has the meaning set forth in Section 2.03(a).

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b) of the

Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter” means the fee letter dated as of October 1, 2014, among the Borrower and BTMU, as amended, modified or supplemented from time to time.

“FERC” means the Federal Energy Regulatory Commission.

“Fronting Fee” has the meaning set forth in Section 2.03(a).

“Fund” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course of its activities.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Issuing Lender” means (i) BTMU, in its capacity as an issuer of Letters of Credit under Section 3.02, and its respective successor or successors in such capacity and (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01.

“KPSC” means the Kentucky Public Service Commission.

“Lender” means each bank or other lending institution listed in the Commitment Appendix as having a

Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender in such capacity.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to (a) make available any reimbursement for a drawing under a Letter of Credit or a Loan within two Business Days of the date it was obligated to make such amount available hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to reimbursement or Loan (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (b) pay to the Administrative Agent, any Issuing Lender or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit) within two Business Days of the date when due, or (ii) a Lender having notified the Borrower, the Administrative Agent or any Issuing Lender in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender’s funding obligations hereunder and states that such position is based on such Lender’s determination that a condition precedent to the making of such advances (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), or (iii) the failure, within three Business Days after written request by the Administrative Agent or the Borrower, of a Lender to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that a Lender Default in effect pursuant to this clause (iii) shall be cured upon receipt of such written confirmation by the Administrative Agent and the Borrower) or (iv) a Lender has, or has a direct or indirect parent company that has, (a) become the subject of a proceeding under any Debtor Relief Law, or (b) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity; provided that a Lender Default shall not exist solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender.

“Letter of Credit” means each letter of credit issued pursuant to Section 3.02 by an Issuing Lender.

“Letter of Credit Liabilities” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 (or any applicable successor page) as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Administrative Agent from another recognized source or interbank quotation).

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Liquidity Drawings” has the meaning set forth in the applicable Letter of Credit.

“Loan Documents” means this Agreement, each Reimbursement Agreement and each Custody Agreement.

“Loans” has the meaning set forth in Section 2.11(a).

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement or the other Loan Documents or (iii) a material adverse effect on

the validity or enforceability of this Agreement or any of the other Loan Documents.

“Material Debt” means Debt (other than Debt under the Loan Documents) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001 (a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.04(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” means Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.09(e).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any advance, fees payable or Reimbursement Obligation under any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Administrative Agent as to which the Administrative Agent has a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document; and

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document;

in the case of each of clauses (i) through (iv) above, together with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Other Pollution Control Bonds” means tax-exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries other than the Existing Pollution Control Bonds.

“Other Taxes” has the meaning set forth in Section 2.09(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“Patriot Act” has the meaning set forth in Section 9.13.

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest set by BTMU from time to time as its prime commercial lending rate for extensions of credit in Dollars. Each change in the Prime Rate shall be effective from the date such change is publicly announced as being effective. The Prime Rate is used as a basis to set interest rates on different types of bank loans and lines of credit. BTMU may price loans to its customers at, above, or below the prime rate. The Prime Rate is not intended to be the lowest rate of interest charged by BTMU in connection with extensions of credit to debtors.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Reimbursement Agreement” has the meaning set forth in Section 3.01.

“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to (i) Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit and (ii) Section 2.11 for all Loans (whether or not due and payable) made by Issuing Lenders in respect of Liquidity Drawings, in each case, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“Replacement Date” has the meaning set forth in Section 2.04(b).

“Replacement Lender” has the meaning set forth in Section 2.04(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders at such time (or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Letter of Credit Liabilities at such time), but in no event less than two Non-Defaulting Lenders which are not Affiliates of each other (unless there is only one Non-Defaulting Lender at such time, in which case “Required Lenders” shall mean such Non-Defaulting Lender).

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

2.04(b). “Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section

“SEC” means the Securities and Exchange Commission.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill Financial, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Sanctions” means sanctions administered or enforced by OFAC, the U.S. State Department, the European Union or Her Majesty’s Treasury.

“Sanctioned Country” means a country or territory that is, or whose government is, the subject of comprehensive territorial Sanctions (currently, Cuba, Iran, North Korea, Sudan, and Syria).

“Sanctioned Person” means a Person that is, or is owned or controlled by Persons that are, (i) the subject of any Sanctions, or (ii) located, organized or resident in a Sanctioned Country.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.09(a).

“Termination Date” means the earlier to occur of (a) October 1, 2017 and (b) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“TRA” means the Tennessee Regulatory Authority.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“VSCC” means the Virginia State Corporation Commission.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01. Commitments. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make advances to the Borrower constituting its share of any “Mandatory Letter of Credit Borrowing” and Loans pursuant to Section 3.09 from time to time during the Availability Period in amounts such that its Letter of Credit Liabilities shall not exceed its Commitment. Each such advance shall be disbursed directly to the applicable Issuing Lender on behalf of the Borrower, pursuant to Section 3.09.

Section 2.02. Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each advance made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (i) the amount of each advance made hereunder, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

Section 2.03. Fees.

(a) Facility Fees. The Borrower shall pay to the Administrative Agent a fee (the "Facility Fee") for each day at a rate per annum equal to the Applicable Percentage for the Facility Fee for such day. The Facility Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount of each Lender's Commitment (whether used or unused) on such day. In addition, effective from and after the first date on which there is at least one Lender party to this Agreement in addition to BTMU that is not an affiliate of BTMU, the Borrower shall pay to each Issuing Lender a fee (the "Fronting Fee") in respect of all Letters of Credit issued by such Issuing Lender computed at the rate equal to the product of (i) the difference between (a) the total average amount available for all of such Issuing Lender's Letters of Credit outstanding hereunder and (b) the product of such Issuing Lender's Commitment Ratio and the total average amount available for drawing under all Letters of Credit issued by all Issuing Lenders and outstanding hereunder and (ii) 0.15% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(b) Payments. Except as otherwise provided in this Section 2.03, accrued fees under this Section 2.03 in respect of Commitments shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.04. Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Letter of Credit Liabilities at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Letter of Credit Liabilities. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.08 or 2.09, or (ii) any Lender is a Defaulting Lender (each such Lender described in clauses (i) or (ii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.04(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) all unpaid drawings and Loans that have been funded by (and not reimbursed to) the

Retiring Lender under Section 3.09, together with all accrued but unpaid interest with respect thereto and (y) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.03; and

(B) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Letters of Credit and Loans to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.08, 2.09 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any advance made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.04(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Reimbursement Obligations owed to the Retiring Lender (even if any such Reimbursement Obligations are not otherwise due and payable) and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.08, 2.09 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.08, 2.09 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any advance made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.04(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) no Letter of Credit Liabilities are outstanding; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.04(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.04(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Letters of Credit and Loans shall thereafter be based upon such redetermined Commitment Ratios (to the extent not previously adjusted pursuant to Section 2.10). The right of the Borrower to effect such a termination is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Letter of Credit Liabilities will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.05. Mandatory Prepayments.

(a) Scheduled Repayments and Prepayments.

(i) Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable on the Termination Date or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.05(a)(ii), on such date.

(ii) If at a time when the Commitments have been terminated pursuant to this Agreement and any Letter of Credit Liabilities remain outstanding, then the Borrower shall (A) repay any outstanding Loans,

together with all accrued but unpaid interest with respect thereto and (B) cash collateralize any Letters of Credit by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Letter of Credit Liabilities outstanding for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that any Loans are repaid and any Letters of Credit are cash collateralized, each as contemplated by this Section 2.05(a)(ii).

(b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Letter of Credit Liabilities pursuant to this Section 2.05 shall be applied ratably to the respective Letter of Credit Liabilities of all of the Lenders.

(ii) Each payment of Letter of Credit Liabilities shall be made together with interest accrued on the amount repaid to the date of payment.

Section 2.06. General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (New York, NY time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in New York, NY, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.07. Computation of Interest and Fees. Facility Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.08. Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall (i) impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by or Loans made or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office), (ii) subject any Lender or Issuing Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any Loan made by it, or change the basis of taxation of payments to such Lender or Issuing Lender in respect thereof (other than (A) Taxes, (B) Other Taxes, (C) the imposition of, or any change in the rate of, any taxes described in clauses (i) through (iv) of the definition of Taxes in Section 2.09(a) and (D) Taxes attributable to a Lender's or Issuing Lender's failure to comply with Section 2.09(e)) or (iii) impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its obligations hereunder in respect of Letters of Credit or Loans, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of issuing, making, maintaining or participating in any Letter of Credit or Loan, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the

Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.09. Taxes.

(a) Payments Net of Certain Taxes. Any and all payments made by the Borrower to or for the account of any Lender or the Administrative hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, the Administrative Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or the Administrative Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or the Administrative Agent, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or the Administrative Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.09(a)) such Lender or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document (collectively, "Other Taxes").

(c) Indemnification. The Borrower agrees to indemnify each Lender and the Administrative Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.09(c)), whether or not correctly or legally asserted, paid by such Lender or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or the Administrative Agent seeking

indemnification pursuant to this Section 2.09(c). This indemnification shall be paid within 15 days after such Lender or the Administrative Agent (as the case may be) makes demand therefor.

(d) Refunds or Credits. If a Lender or the Administrative Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.09, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.09 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or the Administrative Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or the Administrative Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or the Administrative Agent in the event such Lender or the Administrative Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; (ii) each Lender that is not a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a “Non-U.S. Lender”) shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, (x) certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender and (y) with respect to any other applicable payments under or entered into in connection with any Loan Document, establishing an exemption from, or reduction of, United States withholding tax pursuant to the “business profits” or “other income” article of such tax treaty; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; (C) in the case of a Non-U.S. Lender claiming the benefit of the exemption for portfolio interest under Section 871(h) or 881(c) of the Code, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a “bank” within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a “10-percent shareholder” of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a “controlled foreign corporation” that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8ECI, W-8BEN, W-8BEN-E, W-9, and/or other certification documents from each beneficial owner, as applicable; and (iii) the Administrative Agent shall deliver to the Borrower (x) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8ECI or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable by the Administrative Agent for its own account pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States, and (y) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8IMY, or any successor form prescribed by the Internal Revenue Service, certifying that it is a “U.S. branch” and that the payments it receives for the account of others are not effectively connected with the conduct of a trade or business in the United States and that it is using such form as evidence of its agreement with the Borrower to be treated as a United States person within the meaning of Section 7701(a)(30) of the Code with respect to such payments (and the Borrower and the Administrative Agent agree to so treat the Administrative Agent as a United States person within the meaning of Section 7701(a)(30) of the Code with respect to such payments as contemplated by Treasury Regulation Section 1.1441-1T(b)(2)(iv)(A)), with the effect that the Borrower can make any payments to the Administrative Agent without deduction or withholding of any withholding taxes imposed by the United States. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such

additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, the Administrative Agent and each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8BEN, W-8BEN-E, W-8ECI or W-8IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such form or certificate.

(e) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.09(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(f) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.09, then such Lender will use reasonable efforts to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to the Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(g) Confidentiality. Nothing contained in this Section shall require any Lender or the Administrative Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.10. Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) the Facility Fee shall cease to accrue on the Commitment of such Defaulting Lender except to the extent such Defaulting Lender has funded a portion of an outstanding Mandatory Letter of Credit Borrowing or has funded its participation in a Loan, each pursuant to Section 3.09;

(ii) with respect to any Letter of Credit Liabilities of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02, and if applicable, Section 4.03, are satisfied at such time and (y) such reallocation does not cause the Letter of Credit Liabilities of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit and repay all Loans made hereunder, in each case, to the extent of such Defaulting Lender's participation in the applicable Letters of Credit and Loans and/or (ii) cash collateralize (in accordance with Section 2.05(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit (in each case of clause (i) and (ii) of this paragraph, after giving effect to any partial reallocation pursuant to Section 2.10(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's Letter of

Credit Liabilities pursuant to Section 2.10(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.03(a) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities of the Non-Defaulting Lenders is reallocated pursuant to Section 2.10(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.03(a) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.10(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities) and Facility Fees payable under Section 2.03(a) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders, pro rata, until such Letter of Credit Liabilities is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.10(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein).

Section 2.11. Loans.

(a) Loans. Subject to satisfaction of the conditions set forth in Section 4.02 and the other terms and conditions contained in this Agreement, each Issuing Lender agrees at any time and from time to time after the Effective Date and prior to the Termination Date to make loans (the "Loans") to the Borrower. The Loans shall not exceed in aggregate principal amount at any time outstanding the aggregate amount of all Liquidity Drawings with respect to Letters of Credit issued by such Issuing Lender which have not been repaid to such Issuing Lender.

(b) Purpose of Loans. The Borrower may obtain a Loan under this Agreement only for the purpose of converting the obligation of the Borrower under Section 3.07 to reimburse the applicable Issuing Lender for a Liquidity Drawing from an obligation due on the relevant drawing date to an obligation due as provided in this Section 2.11. The obtaining of any Loan for such purpose shall not constitute a reimbursement of the amount of the relevant Liquidity Drawing which would result in the reinstatement of the Available Amount. No Loans will be made for the purpose of converting the obligation of the Borrower under Section 3.07 to reimburse the Issuing Lenders for the amount of any drawing other than a Liquidity Drawing or for any other purpose.

(c) Loan Procedure. In the event that the Borrower does not otherwise reimburse the applicable Issuing Lender in cash in accordance with the provisions of Section 3.07 of this Agreement for the amount of any Liquidity Drawing prior to the time for payment specified in Section 3.07, the Borrower will be deemed to have requested a Loan in an amount equal to the amount of such Liquidity Drawing for the purposes specified in Section 2.11(b).

(d) Loans. Each Loan shall be in a principal amount equal to the relevant Liquidity Drawing. Each Loan, together with all accrued and unpaid interest thereon, shall be paid by the Borrower pursuant to Section 2.06(a) upon the earliest of (i) the remarketing of the Bonds purchased with the proceeds of the Liquidity Drawing that gave rise to such Loan pursuant to applicable Bond Indenture and (ii) the Termination Date.

(e) Interest on Loans. Each Loan shall bear interest on its outstanding principal amount at a fluctuating daily rate per annum equal to (i) the Base Rate plus the Facility Fee for the first ninety days, (B) the Base Rate plus the Facility Fee plus 1% for the second ninety days and (C) the Base Rate plus the Facility Fee plus 2% for each day thereafter. Interest shall be payable, pursuant to Section 2.06(a), quarterly in arrears on each Quarterly Date commencing on the first Quarterly Date to occur following the relevant drawing date, and on the maturity of such Loan.

(f) Voluntary Prepayments. The Borrower shall have the right to prepay the Loans in whole or in part, without premium or penalty, from time to time pursuant to this Section 2.11(f) on the following terms and conditions: (i) the Borrower shall give the Administrative Agent prior written notice or telephonic notice (confirmed in writing), no later than 5:00 P.M., New York City time, one Business Day prior thereto, of its intent to prepay Loans, the amount of such prepayment and the identities of the Loans (by specifying the date and original amount of the respective Loans) to be prepaid; (ii) each prepayment of a Loan (other than the portion of a Loan equal to the amount of the relevant Liquidity Drawing representing accrued interest

on pollution control bonds) shall be in a principal amount of \$100,000 or any larger amount that is a whole multiple of \$1,000 (or, if less, the amount then remaining outstanding in respect of such Loan); and (iii) at the time of any prepayment, the Borrower shall pay all interest accrued on the principal amount of such prepayment.

(g) Custody Bonds. Payments, if any, received by any Issuing Lender on account of Custody Bonds shall be credited against the Loan made in respect of the Liquidity Drawing used to purchase such Custody Bonds. Any such payment shall be credited first against interest and then against the principal balance of such Loan. The Issuing Lenders agrees to release Custody Bonds that are being remarketed pursuant to the applicable Bond Indenture to the extent that such Issuing Lender receives reimbursement in cash of the principal and, if applicable, interest amounts, of the Liquidity Drawing (or the Loan made in respect thereof) related to the purchase of such Custody Bonds in a manner which will permit the reinstatement of the Available Amount in respect of such Custody Bonds in accordance with the terms of the Letter of Credit.

(h) Payment by the Borrower. Each Issuing Lender agrees to release, or cause the trustee under the applicable Bond Indenture to release, Custody Bonds to or upon the order of the Borrower in an amount equal to the principal amount of the Liquidity Drawing made to acquire such Custody Bonds that is not repaid from remarketing proceeds upon payment to the applicable Issuing Lender by the Borrower of the full amount of such Liquidity Drawing (or the Loan made in respect thereof), together with accrued and unpaid interest thereon.

(i) Excess Payments. Payments, if any, received by any Issuing Lender as a holder of Custody Bonds shall, if no Loans are outstanding, be credited against other amounts, if any, that are then owing by the Borrower hereunder. If no amounts are then due and owing by the Borrower hereunder, or if an amount in excess of all amounts due and owing by the Borrower hereunder remains following the payment of such due and owing amounts, so long as no Event of Default has occurred and is continuing, such remaining amounts shall be immediately returned to the Borrower in accordance with its written directions. Payments, if any, described under this Section 2.11(i) shall not be construed as prepayments that are subject to the limitations of Section 2.11(f).

ARTICLE III LETTERS OF CREDIT

Section 3.01. Issuing Lenders: Reimbursement Agreement.

(a) Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to BTMU) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than BTMU) to agree to act as an Issuing Lender, if it does not so desire.

(b) The Borrower and any Issuing Lender shall enter into a Reimbursement Agreement (a "Reimbursement Agreement") with respect to each Letter of Credit issued by such Issuing Lender hereunder in the form of Exhibit A hereto. Each such Reimbursement Agreement shall constitute a Loan Document.

Section 3.02. Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit denominated in Dollars from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower; provided, that immediately after each Letter of Credit is issued, the aggregate Letter of Credit Liabilities shall not exceed the aggregate amount of the Commitments.

Section 3.03. Method of Issuance of Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit D hereto (a "Letter of Credit Request") of the requested issuance, extension or renewal of a Letter of Credit prior to 1:00 P.M. (New York, NY time) on the proposed date of the issuance, extension or renewal of such Letter of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), and in the case of the issuance of a Letter of Credit, the Borrower shall deliver to such Issuing Lender prior to 1:00 P.M. (New York, NY time) on the proposed date of the issuance a duly executed and fully completed Reimbursement Agreement. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit. No Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

Section 3.04. Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (i) such Letter of Credit shall be in the form called for by the Reimbursement Agreement with all information filled in and verified to the satisfaction of such Issuing Lender, (ii) the Borrower shall have executed and delivered the Reimbursement Agreement, the

Custody Agreement and such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (iii) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that the aggregate Letter of Credit Liabilities will not exceed the aggregate amount of the Commitments. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05. Purchase and Sale of Letter of Credit and Loan Participations. Upon the issuance of a Letter of Credit or upon the making of a Loan by an Issuing Lender, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit or Loan, as applicable, and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.03(a) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06. Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07. Reimbursements of Drawings under Letters of Credit. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit (whether by payment of cash pursuant to this Section 3.07 or, in the case of a Liquidity Drawing, by converting such obligation into a Loan obligation due as provided in Section 2.11 pursuant to Section 2.11(b)), together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the Base Rate for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 1:00 P.M. (New York, NY time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (New York, NY time) on such date or (ii) at or before 10:00 A.M. (New York, NY time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (New York, NY time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (New York, NY time) on such day and such payment is actually made at or before 3:00 P.M. (New York, NY time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the interest rate that would otherwise be applicable to Loans made on the date such amount was due plus 2%. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08. Duties of Issuing Lenders to Lenders; Reliance. In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on (i) the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met and, (ii) if applicable, the representation and warranty by the Borrower set forth in the last sentence of Section 4.03 to establish whether the condition specified in clause (a) of Section 4.03 is met, in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such

Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

Section 3.09. Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings and Loans. If any Issuing Lender makes any:

(a) payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07 such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds (the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"); or

(b) Loan under Section 2.11 and any portion of such Loan remains outstanding, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such Loan (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds;

provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount (or Loan in respect thereof) for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (New York, NY time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (New York, NY time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing or Loan, as applicable, to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit or unpaid Loan hereunder shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit or any Loan on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the interest rate that would otherwise be applicable to Loans made on the date such payment was due plus 2%. Any payment made by any Lender after 3:00 P.M. (New York, NY time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower from the time of such payment to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon) including, for the avoidance of doubt, (i) in the case of any advances made with respect to any Mandatory Letter of Credit Borrowing, the right of payment of such advance by the Borrower on demand (together with interest) pursuant to Section 3.07 with such advance bearing interest for each day until paid at a rate per annum equal to the interest rate that would otherwise be applicable to Loans made on the date such payment was due payable plus 2% and (ii) in the case of any advances made with respect to any Loan, the right of payment of such advance pursuant to Section 2.11(d) (together with all accrued and unpaid interest) with such advance bearing

interest for each day until paid at the rate per annum specified in Section 2.11(e).

Section 3.10. Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11. Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 and Section 2.11 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;
- (e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or
- (g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12. Indemnification in Respect of Letters of Credit and Loans. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit or any Loan, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit or Loan; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of

Credit, unless payment was prohibited by law, regulation or court order. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13. ISP98. The rules of the “International Standby Practices 1998” as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

ARTICLE IV CONDITIONS

Section 4.01. Conditions to Effectiveness of this Agreement. The obligation to issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts of this Agreement, each Reimbursement Agreement and each Custody Agreement signed by each of the parties hereto or thereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Officers' Certificate. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or any Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the advances and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(c) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky, dated as of a recent date, as to the good standing of the Borrower, (ii) a certificate of the Secretary of State of the Commonwealth of Virginia, dated as of a recent date, as to the good standing of the Borrower and (iii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto are true, correct and complete copies of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and the Secretary of State of the Commonwealth of Virginia and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(d) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, satisfactory in form and substance to the Administrative Agent.

(e) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the orders of the KPSC (the “KPSC Order”), TRA (the “TRA Order”), VSCC (the “VSCC Order”) and any required approvals of the FERC, authorizing and the issuance of Letters of Credit for the account of the Borrower hereunder and the other transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions.

(f) Payment of Fees. The Administrative Agent shall have received full payment from the Borrower of all fees due and payable under the Fee Letter and the fees and expenses of Sidley Austin LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced two (2) Business Days prior to the Effective Date.

(g) Know Your Customer. The Administrative Agent and each Lender shall have received all documentation and other information required by regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations, including, without limitation, the Patriot Act, as has been reasonably requested in writing.

Section 4.02. Conditions to All Credit Events. The obligation of any Issuing Lender to issue (or renew or extend the

term of) any Letter of Credit or to make a Loan in respect of any Liquidity Drawing, is subject to the satisfaction of the following conditions:

(a) receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03 (other than with respect to a Loan deemed requested pursuant to Section 2.11(c));

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default or Event of Default shall have occurred and be continuing on the date of such Credit Event or after giving effect to such Credit Event requested to be made on such date;

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date; and

(d) with respect to the making of any Loan, immediately before and after giving effect to such Loan, no event of default or other similar condition or event (however described) under the applicable Bond Indenture shall have occurred and be continuing.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) (and, with respect to the making of any Loan, clause (d)) of this Section.

Section 4.03. Additional Conditions to Credit Events. The obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit to support any issuance of Other Pollution Control Bonds, is subject to the satisfaction of the following conditions:

(a) no authorization, consent or approval from any Governmental Authority is required for the Borrower to incur obligations in respect of Letters of Credit to support such issuance of Other Pollution Control Bonds except such authorizations, consents and approvals, including, without limitation, the KPSC Order, TRA Order and VSCC Order, as shall have been obtained prior to such Credit Event and shall be in full force and effect; and

(b) the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, satisfactory in form and substance to each of the Administrative Agent and the Issuing Lender each in its sole discretion, dated the date of such Credit Event, covering such matters as the Administrative Agent and the Issuing Lender shall reasonably request, including, without limitation, that no authorization, consent or approval from any Governmental Authority is required for the Borrower to incur obligations in respect of Letters of Credit to support such issuance of Other Pollution Control Bonds except such authorizations, consents and approvals, including, without limitation, the KPSC Order, TRA Order and VSCC Order, as shall have been obtained prior to such Credit Event and shall be in full force and effect.

Each Credit Event with respect to any Letter of Credit to support any issuance of Other Pollution Control Bonds shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clause (a) of this Section.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01. Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and the Commonwealth of Virginia and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02. Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party.

Section 5.03. Legality; Etc. This Agreement and each other Loan Document to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04. Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2013 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst and Young LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2014 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2013, there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement or the other Loan Documents.

Section 5.05. Litigation. Except as disclosed in or contemplated by the financial statements referenced in Section 5.04 (a) or 5.04(b) above, in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K or otherwise furnished in writing to the Administrative Agent and each Lender, in each case, prior to the Effective Date, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06. No Violation. No part of the proceeds of the advances hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07. ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08. Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the KPSC Order, TRA Order and VSCC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect; *provided* that the Borrower may require additional approvals of the KPSC, TRA, VSCC and/or FERC in order to incur obligations in respect of Letters of Credit to support issuances of bonds other than the Existing Pollution Control Bonds.

Section 5.09. Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.10. Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and

foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11. Compliance with Laws. To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement or any other Loan Document to which it is a party.

Section 5.12. No Default. No Default has occurred and is continuing.

Section 5.13. Environmental Matters.

(a) Except (x) as disclosed in the financial statements referenced in Section 5.04(a) or 5.04(b) above, in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K or otherwise furnished in writing to the Administrative Agent and each Lender, in each case, prior to the Effective Date or (y) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the financial statements referenced in Section 5.04(a) or 5.04(b) above, in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K or otherwise furnished in writing to the Administrative Agent and each Lender, in each case, prior to the Effective Date, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.14. OFAC. None of the Borrower, any Subsidiary of the Borrower, nor, to the knowledge of the Borrower, any director, officer, or Affiliate of the Borrower or any of its Subsidiaries: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Persons or in Sanctioned Countries, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Countries. The proceeds of any Letter of Credit or any advance hereunder will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person,

or in any Sanctioned Country.

Section 5.15. Anti-Corruption. None of the Borrower or any of its Subsidiaries nor, to the knowledge of the Borrower, any director, officer, agent, employee or other person acting on behalf of the Borrower or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the “FCPA”) or any other applicable anti-corruption law; and the Borrower have instituted and maintain policies and procedures designed to ensure continued compliance therewith. No part of the proceeds of any Letter of Credit or any advance hereunder will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity in violation of the FCPA or any other applicable anti-corruption law.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01. Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower’s website or PPL Corporation’s website (<http://www.pplweb.com>) or making such information available on IntraLinks, SyndTrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer’s Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower’s Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower’s Rating, a notice of such Borrower’s Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any “reportable event” (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or

required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, and in each case a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks, SyndTrak or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated "Public Investor." "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02. Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03. Conduct of Business and Maintenance of Existence. The Borrower will (i) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04. Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05. Books and Records. The Borrower (i) will keep, and will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06. Use of Proceeds. The Borrower will request the issuance of Letters of Credit solely to support issuances of tax-exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries.

Section 6.07. Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (ii) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08. Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower’s most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower’s Ratings after giving effect to any such Asset Sale.

Section 6.09. Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

Section 6.10. Limitation on Liens. Without the consent of the Administrative Agent, the Borrower shall not grant any Lien upon any of its property or assets in favor of the lenders under the Existing Credit Agreement in order to secure its obligations under the Existing Credit Agreement, unless the Obligations are secured on an equal and ratable basis with the obligations so secured; provided, however, that nothing in this Section 6.10 shall prohibit the Borrower from cash collateralizing letters of credit pursuant to Section 2.09 of the Existing Credit Agreement or similar provisions. For the avoidance of doubt, the limitation on Liens and the requirement to secure the Obligations pursuant to this Section 6.10 shall not apply to (i) the granting of any Liens on the Borrower’s accounts receivable in connection with any accounts receivable sale or financing program and (ii) entering into credit agreements, standby bond purchase agreements or similar facilities in support of pollution control bonds issued on behalf of the Borrower and securing obligations of the Borrower thereunder, including pursuant to arrangements similar to the Custody Agreement or otherwise.

ARTICLE VII DEFAULTS

Section 7.01. Events of Default. If one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Reimbursement Obligations; or

(b) the Borrower shall fail to pay when due any interest on Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or

(c) the Borrower shall fail to observe or perform any covenant or agreement contained in clause (ii) of Section 6.05, or Sections 6.06, 6.07, 6.08 or 6.09; or

(d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or

(e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or

(f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(g) the Borrower shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or

(h) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(i) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower under the Bankruptcy Code; or

(j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(k) the Borrower shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Letter of Credit Liabilities at such time, by notice to the Borrower declare the Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as

set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.05(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in Section 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.05(a)(ii)) all Letter of Credit Liabilities then outstanding.

ARTICLE VIII THE ADMINISTRATIVE AGENT

Section 8.01. Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Person other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02. Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not the Administrative Agent. With respect to the advances made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not the Administrative Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06. Non-Reliance on the Administrative Agent and Other Lenders. Each Lender expressly acknowledges that

neither the Administrative Agent nor any officer, director, employee, agent, attorney-in-fact or affiliate of the Administrative Agent has made any representations or warranties to it and that no act by the Administrative Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender. Each Lender acknowledges to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make advances hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. The Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07. Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the advances or of the existence or possible existence of any Default.

Section 8.08. Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09. Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days' notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan

Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document.

Section 8.10. Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed upon between the Borrower and the Administrative Agent pursuant to the Fee Letter.

ARTICLE IX MISCELLANEOUS

Section 9.01. Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender or Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype (provided, however, that if any notice or other communication sent by electronic mail, posting on an internet webpage or teletype is received by a recipient after such recipient's normal business hours, such notice or other communication shall be deemed received upon the opening of such recipient's next Business Day), (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: Treasurer
Telephone: 502-627-4956
Facsimile: 502-627-4742

with copies to:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: General Counsel
Telephone: 502-627-3450
Facsimile: 502-627-3367

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

PPL Services Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Mark Wilten

Telephone: 610-774-5151
Facsimile: 610-774-5235

if to the Administrative Agent:

The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch
1251 Avenue of the Americas
New York, NY 10020-1104
Attention: Chi-Cheng (Diego) Chen
Telephone: 212-782-5573
Facsimile: 212-782-6440

Section 9.02. No Waivers; Non-Exclusive Remedies. No failure by the Administrative Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Administrative Agent, including legal fees and disbursements of Sidley Austin LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Administrative Agent and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Administrative Agent and the Lenders other than Sidley Austin LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Administrative Agent and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of advances hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other

Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Letter of Credit or Loan or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04. Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Letter of Credit Liabilities made or held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent or any Issuing Lenders are affected thereby, by the Administrative Agent or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) extend or increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the amount to be reimbursed in respect of any Letter of Credit or Loan or any interest thereon or any fees hereunder (except in connection with a waiver of applicability of any post-default increase in interest rates), (iii) postpone the date fixed for any payment of the amount to be reimbursed in respect of any Letter of Credit or Loan or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) amend Section 2.01, (v) change any provision hereof in a manner that would alter the pro rata sharing of payments required by Sections 2.06(a), 2.05(b) or 9.04 or the pro rata reduction of Commitments required by Section 2.04(a) or (vi) change the currency in which Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06. Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to

the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the obligations under the Loan Documents (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person (including the identity of any Participant or any information relating to a Participant's interest in any obligations under the Loan Documents) except to the extent that such disclosure is necessary to establish that such obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations.. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit B attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of (i) the Borrower, which shall not be unreasonably withheld or delayed, (ii) the Administrative Agent, which shall not be unreasonably withheld or delayed, and (iii) each Issuing Lender, in its sole discretion; provided, that if an Assignee is an Approved Fund or Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that the provisions of Sections 2.08, 2.09 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.09(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the advances made by each Lender and each repayment in respect of the principal amount of such advances of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such advances. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, the Issuing Lenders and the other Lenders shall treat each Person in whose name an advance is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any advance made pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this subsection 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is

pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.04(b), unless, with respect to any Notes held by such Lender, the requirements of subsection 9.06(c) and this subsection 9.06(e) have been satisfied.

Section 9.07. Governing Law; Submission to Jurisdiction. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08. Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09. Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10. Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by “to the best knowledge of” or “known to” (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

Section 9.11. WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12. Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to the Administrative Agent, (ii) to any other Person if reasonably incidental to the administration of the Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by the Administrative Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which the Administrative Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender’s or the Administrative Agent’s Affiliates and their respective directors, officers, employees, service providers and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower’s Obligations hereunder. Notwithstanding the foregoing, the Administrative Agent, any Lender and Sidley Austin LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a “tombstone” or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13. USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the “Patriot Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14. No Fiduciary Duty. The Administrative Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the “Lender Parties”), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the “Borrower Parties”). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm’s-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15. Survival. Sections 2.08, 2.09 and 9.03 shall survive the Termination Date for the benefit of the

Administrative Agent and each Lender, as applicable.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER:

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

Signature page to Letter of Credit Agreement

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
NEW YORK BRANCH as Administrative Agent,
Issuing Lender and Lender

By: /s/ Chi-Cheng (Diego) Chen

Name: Chi-Cheng (Diego) Chen

Title: Authorized Signatory

Signature page to Letter of Credit Agreement

COMMITMENTS

Lender	Commitment
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$ 198,309,583.05
Total	\$ 198,309,583.05

[FORM OF REIMBURSEMENT AGREEMENT]

[Insert Date]

c/o [insert name of Issuing Bank],
as Issuing Bank
[Address]

Re: Letter of Credit Facility

Reference is hereby made to the \$198,309,583.05 Letter of Credit Agreement (as amended, amended and restated, supplemented or modified from time to time, the “**Letter of Credit Agreement**”) dated as of October 1, 2014, among Kentucky Utilities Company (the “**Borrower**”), the lending institutions party thereto from time to time, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Issuing Lender. Terms used herein and not otherwise defined herein have, as used herein, the respective meanings provided for in Section 18.

Section 1. *Issuance of Letter of Credit.* The Borrower hereby requests that [insert name of Issuing Bank], in its capacity as an “Issuing Lender” under the Letter of Credit Agreement (the “**Issuing Bank**”) and upon the terms, subject to the conditions and relying upon the representations, warranties and covenants of the Borrower set forth in the Letter of Credit Agreement, issue a letter of credit to the Bond Trustee on the date hereof substantially in the form of Appendix I hereto (the “**Letter of Credit**”). The Letter of Credit constitutes a “Letter of Credit” for purposes of the Letter of Credit Agreement and an Issuing Bank is the “Issuing Lender” under the Letter of Credit Agreement with respect thereto, entitled to all of the rights, benefits and indemnities of an “Issuing Lender” under the Letter of Credit Agreement (including, without limitation, Article III and Section 9.03 of the Letter of Credit Agreement). This Agreement constitutes a “Reimbursement Agreement” for purposes of the Indenture.

Section 2. *Letter of Credit Drawings.*

(a) As set forth in the Letter of Credit, the Bond Trustee is authorized to make drawings under the Letter of Credit in the manner and for the purposes specified in the Letter of Credit.

(b) All drawings to be made under the Letter of Credit shall be made by telecopier or other facsimile telecommunication in the form of the appropriate certificate submitted by the Bond Trustee addressed to the Issuing Bank pursuant to the terms of the Letter of Credit and no further presentation of documentation, including the original Letter of Credit, need be made; it being understood that the telecopier or other facsimile telecommunication shall, in all events, be considered to be the sole operative instrument of drawing. The Issuing Bank may rely upon any such telecopy or other facsimile telecommunication which it reasonably believes to have been dispatched by the Bond Trustee or its authorized agent.

(c) In the event that the Issuing Bank fails to honor, or elects not to honor, any drawing under the Letter of Credit requested by the Bond Trustee, the Issuing Bank shall transmit to the Borrower, by electronic mail or facsimile in accordance with Section 12, written notification thereof on the same day such failure or decision occurs or, if such day is not a Business Day, then it shall transmit such written notification on the first Business Day immediately following such day, provided that the Issuing Bank shall, simultaneously with the transmission of any written notification to the Borrower, send to the Bond Trustee a copy of such written notification.

Section 3. *Reimbursement of Drawings Under the Letter of Credit and Repayment of Loans Under the Letter of Credit Agreement; Reimbursement; Bond Custody Arrangements.* (a) If the Issuing Bank shall pay a Drawing under the Letter of Credit or make a Loan under the Credit Agreement the Borrower shall reimburse the Issuing Bank the full amount of such Drawing or repay the full amount of such Loan in accordance with Section 3.07 or Section 2.11, as applicable of the Letter of Credit Agreement (together with interest if, as and to the extent provided in the Letter of Credit Agreement).

(b) Upon each Liquidity Drawing there shall be delivered to the Custodian, as agent for the Issuing Bank, registered in the name of the Borrower but with the Issuing Bank registered as pledgee, in duly transferable form, the Bonds purchased with the proceeds of such Liquidity Drawing, i.e. the Custody Bonds (or in the alternative, as provided in the Custody Agreement for certificated Bonds held by The Depository Trust Company or its nominee or a similar securities depository, the Custodian shall cause its records in its capacity as a “DTC participant” or similar capacity with respect to

another depository, to reflect beneficial ownership of the Custody Bonds by the Borrower subject to the lien and security interest of the Issuing Bank). As security for the obligations of the Borrower to reimburse the Issuing Bank for each Liquidity Drawing (or the obligations of the Borrower to repay any Loan made in respect thereof) (but without in any way limiting the obligation of the Borrower to reimburse the Issuing Bank for such Drawing or to repay such Loan as required by the Letter of Credit Agreement), the Borrower is pledging to the Issuing Bank pursuant to the Custody Agreement, and granting to the Issuing Bank, a first priority security interest in, all of its right, title and interest in and to all Custody Bonds arising in connection with a Liquidity Drawing and any proceeds of the foregoing.

(c) Upon reimbursement to the Issuing Bank of any Liquidity Drawing (or upon the repayment of any Loan made in respect thereof) (together with all accrued interest thereon and any other amounts owed to the Issuing Bank related thereto as provided in the Letter of Credit Agreement (collectively, the “**Obligations**”)), the Issuing Bank (or the Custodian at the direction of the Issuing Bank) shall release from the pledge and security interest described herein the Custody Bonds purchased with the proceeds of such Liquidity Drawing. In the event of a partial repayment of a Liquidity Drawing, the Issuing Bank (or the Custodian at the direction of the Issuing Bank) shall release from the pledge and security interest described herein the Custody Bonds in an amount equal to such partial repayment.

(d) In the event Custody Bonds are remarketed pursuant to the Bond Indenture, the Issuing Bank (or the Custodian in accordance with the terms of the Custody Agreement) shall also release from the pledge and security interest evidenced by the Custody Agreement a principal amount of Custody Bonds equal to the principal amount of Bonds so remarketed. The Custody Bonds shall be released only upon receipt by the Issuing Bank or by the Bond Trustee for the account of the Issuing Bank as provided for in the Bond Indenture, of remarketing proceeds with respect to such remarketed Custody Bonds in an amount not less than the principal amount of the Custody Bonds, plus accrued interest thereon to the date of remarketing and any other amounts owed to the Issuing Bank related thereto.

(e) Any interest or any principal received by the Issuing Bank in respect of Custody Bonds shall be credited against the Obligations and applied by the Issuing Bank to any Obligations in accordance with the terms of the Letter of Credit Agreement.

Section 4. *Substitution of Letter of Credit; Transfer of Letter of Credit.* (a) If the Bond Trustee shall partially reduce the Stated Amount pursuant to its notice to the Issuing Bank in the form of Exhibit G to the Letter of Credit, the Issuing Bank will deliver to the Borrower a copy of such notice. In addition, the Issuing Bank, in its sole discretion or at the direction of the Borrower (with which the Issuing Bank agrees to comply), shall then have the right to require the Bond Trustee to surrender the outstanding Letter of Credit to the Issuing Bank on the effective date of such partial reduction of the Stated Amount and to accept on such date, in substitution for the then outstanding Letter of Credit, a substitute irrevocable direct pay Letter of Credit, dated such date, for an amount equal to the amount to which the Stated Amount shall have been so reduced but otherwise having terms identical to the then outstanding Letter of Credit.

(b) The Borrower shall pay to the Issuing Bank, (i) upon the transfer of the Letter of Credit to any successor Bond Trustee, a \$2,000.00 transfer fee and (ii) upon demand, any cost or expense incurred in connection with such transfer. Receipt of such amounts shall not constitute consent by the Issuing Bank to effect such transfer.

Section 5. *Electronic Transmissions.* (a) All directions and correspondence from the Borrower to the Issuing Bank which includes communications relating to applications and requests shall be sent at the risk of the Borrower. The Issuing Bank does not assume any responsibility for any inaccuracy, interruption, error or delay in transmission or delivery by post, telefax (including any transmission permitted as a Telefax under Section 5(b), below), except to the extent resulting from its gross negligence, willful misconduct or bad faith as determined by a final non-appealable judgment by a court of competent jurisdiction.

(b) In addition, the Borrower authorizes the Issuing Bank to accept and act upon any and all communications which may be received by the Issuing Bank from time to time by telefax, telecopier or digital image of an original document transmitted by email (including, without limitation, digital image in portable file document or imaging file document format; but excluding specifically any email communication or portion thereof not comprising a digital image of an original document) (any such communication hereinafter referred to as a “Telefax” or as “telefaxed”) purporting to be signed by an Authorized Officer on the Borrower’s behalf (“**Authorized Signator(y)(ies)**”), other than to the extent constituting the Issuing Bank’s gross negligence, willful misconduct or bad faith as determined by a final non-appealable judgment by a court of competent jurisdiction.

(c) The Borrower agrees to indemnify the Issuing Bank for, and hold the Issuing Bank harmless from and against, any and all liabilities, claims, suits, actions, damages, losses, judgments, reasonable expenses (including reasonable attorneys’ fees and expenses) or any other consequence paid or incurred by, or imposed upon, the Issuing Bank to the extent arising out of, or based upon, or in any way relating to, any telefaxed application or request, proving not to have been given by the

Borrower's Authorized Officers, absent the Issuing Bank's gross negligence, willful misconduct, or bad faith as determined by a final non-appealable judgment by a court of competent jurisdiction.

The Borrower further agrees that in the event of a dispute (including a dispute which is litigated or arbitrated) concerning any telefaxed correspondence, application or request by an Authorized Officer, any signature purporting to be that of an Authorized Officer on the telefaxed correspondence, application or request shall conclusively be deemed to be genuine absent the Issuing Bank's gross negligence, willful misconduct or bad faith as determined by a final non-appealable judgment by a court of competent jurisdiction. The Issuing Bank shall have no responsibility to check any mail confirmations against any telefaxed correspondence, application or request transmitted to the Issuing Bank and may disregard such confirmations absent the Issuing Bank's gross negligence, willful misconduct or bad faith as determined by a final non-appealable judgment by a court of competent jurisdiction. Without limiting the foregoing in any manner, the Issuing Bank may, but shall not be obligated to, require authentication of such electronic transmission or to require that the Issuing Bank receive original documents prior to acting on such electronic transmission.

Section 6. *Remedies.* Upon the occurrence and continuation of any Event of Default, the Issuing Bank may:

- (a) exercise its rights and remedies under the Letter of Credit Agreement;
- (b) pursuant and subject to the terms of the Bond Indenture, give written notice thereof to the Bond Trustee (which notice shall trigger the eventual occurrence of the Expiration Date as defined in the Letter of Credit), directing an acceleration of the Bonds pursuant to Section 9.02 of the Bond Indenture;
- (c) pursuant and subject to the terms of the Bond Indenture, direct the Bond Trustee to exercise its rights under the Bond Indenture; and
- (d) pursue any other action available at law or in equity.

Section 7. *Amendments, Waivers and Consents.* Neither this Agreement, nor any other Security Document nor any of the terms hereof or thereof may be amended, changed, waived, discharged or terminated unless such amendment, change, waiver, discharge or termination is in writing and signed by the Issuing Bank and the Borrower.

Section 8. *Preservation of Rights.* No delay or omission of the Issuing Bank to exercise any right under any Transaction Document shall impair such right or be construed to be a waiver of any Event of Default or an acquiescence thereto, and it is understood that the funding of a Drawing notwithstanding the existence of an Event of Default does not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of this Agreement or any Security Document whatsoever shall be valid unless in writing signed by the parties thereto (or consented to in writing by the Issuing Bank), and then only to the extent in such writing specifically set forth. All remedies contained in the Transaction Documents or by law afforded shall be cumulative and all shall be available to the Issuing Bank until the Obligations have been paid in full.

Section 9. *Headings.* Section headings in this Agreement are for convenience of reference only, and shall not govern the interpretation of any of the provisions hereof.

Section 10. *Severability of Provisions.* Any provision in this Agreement or any Security Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of this Agreement and the Security Documents are declared to be severable.

Section 11. *Nonliability of Issuing Bank.* The relationship between the Borrower on the one hand and the Issuing Bank on the other hand shall be solely that of borrower and lender. The Issuing Bank shall have no fiduciary responsibilities to the Borrower except as contemplated hereunder. The Issuing Bank undertakes no responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations except as contemplated hereunder. The Borrower agrees that the Issuing Bank shall have no liability to the Borrower (whether sounding in tort, contract or otherwise) for losses suffered by the Borrower in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by the Transaction Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non-appealable judgment by a court of competent jurisdiction that such losses resulted from the breach of the Transaction Documents by, or the gross negligence, willful misconduct or bad faith of, the party from which recovery is sought. Each party hereto shall have no liability with respect to, and the other party hereto hereby waives, releases and agrees not to sue for, and no indemnified party hereunder shall be entitled to, any special, indirect, consequential or punitive damages suffered by the other party or indemnified party in

connection with, arising out of, or in any way related to the Transaction Documents or the transactions contemplated thereby.

Section 12 . *Notices; Effectiveness.*

(a) *Notices Generally.* Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by fax/telecopier as follows:

(i) if to the Borrower:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: Treasurer
Telephone: 502-627-4956
Facsimile: 502-627-4742

With copies to:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: General Counsel
Telephone: 502-627-3450
Facsimile: 502-627-3367

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

PPL Services Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151
Facsimile: 610-774-5235

(ii) if to the Issuing Bank:

Regarding credit matters:

Regarding L/C matters:

(iii) if to the Remarketing Agent:

(iv) if to the Bond Trustee:

(v) if to the Custodian, to the same address as specified for the Bond Trustee.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by fax/telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). The Issuing Bank shall provide the Borrower with a copy of any notice, certificate or other non-confidential communication sent by the Issuing Bank to the Bond Trustee or the Remarketing Agent.

(b) *Change of Address; Etc.* Any party hereto may change its address or fax/telecopier number for notices and other communications hereunder by notice to the other parties hereto.

Section 13. *Counterparts; Effectiveness.* This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement shall become effective when it shall have been executed by the Borrower and the Issuing Bank and when the Issuing Bank shall have received counterparts hereof which, when taken together, bear the signatures of each of the parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by fax/telecopy shall be as effective as delivery of a manually executed counterpart of this Agreement.

Section 14. *Survival of Agreement.* Anything herein to the contrary notwithstanding, this Agreement and the covenants, representations and warranties contained herein shall survive and remain in full force and effect so long as any Obligations remain outstanding hereunder and despite the surrender or termination of the Letter of Credit.

Section 15. *Choice of Law.* THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACT UNDER, AND FOR ALL PURPOSES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 16. *Consent to Jurisdiction.* THE BORROWER HEREBY IRREVOCABLY (i) AGREES THAT ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT MAY BE BROUGHT IN ANY FEDERAL OR STATE COURT LOCATED IN NEW YORK, NEW YORK AND CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT IN ANY SUCH SUIT, ACTION OR PROCEEDING AND (ii) WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT OR THEY MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

Section 17. *Waiver of Jury Trial.* THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT OR ANY RELATED DOCUMENT OR ANY SECURITY DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

Section 18. *Definitions.* As used in this Agreement:

“**Agreement**” means this Reimbursement Agreement, as the same may hereafter be amended, supplemented or restated and in effect from time to time.

“**Appendix**” refers to an Appendix to this Agreement unless another document is specifically referenced.

“**Authorized Officer**” means, with respect to the Borrower, any of its Executive Officers or any other person designated as an Authorized Officer by a certificate of the Borrower, signed by an Executive Officer and filed with the Issuing Bank.

“**Bond Documents**” means (collectively or any of the following individually as the context may require) the Bond Indenture, any Supplemental Indenture (as defined in the Bond Indenture), the Custody Agreement, the Loan Agreement (as defined in the Bond Indenture), the Bonds and the Remarketing Agreement (as defined in the Bond Indenture).

“**Bonds**” means the County of [Carroll, Kentucky, Environmental Facilities][Mercer, Kentucky, Solid Waste Disposal Facility] Revenue Bonds, [insert series designation] (“Kentucky Utilities Company Project”).

“**Bond Indenture**” means the Indenture of Trust between the County of [Carroll][Mercer], Kentucky as issuer and the Bond Trustee dated as of [insert date], as the same may be amended, supplemented, or restated from time to time, under which the Bonds have been issued.

“**Bond Trustee**” means the trustee at the time serving as such under the Bond Indenture, which as of the date of issuance of the Letter of Credit is [insert name of Trustee].

“**Business Day**” means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized by law to close; provided, that, when used with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books the Letter of Credit is located.

“**Code**” means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time, and any successor statute thereof and any regulations promulgated thereunder.

“**Custodian**” means the Custodian with respect to Custody Bonds as designated pursuant to the Custody Agreement, which initially is the Bond Trustee.

“**Custody Agreement**” means the Custody, Pledge and Security Agreement dated as of [insert date] among the Custodian, the Borrower and the Issuing Bank with respect to Custody Bonds in the form of Appendix II to this Agreement, as amended from time to time.

“**Custody Bond**” means any Bond during the period from and including the date of its purchase with amounts realized under a Liquidity Drawing to but excluding the date on which such Bond is purchased by any Person as a result of a remarketing of such Bond pursuant to the Remarketing Agreement (as defined in the Bond Indenture) and the Bond Indenture.

“**Drawing**” means a drawing under the Letter of Credit resulting from the presentation of a certificate in the requisite form attached to the Letter of Credit.

“**Event of Default**” means an “Event of Default” as defined in the Letter of Credit Agreement.

“**Expiration Date**” has the meaning assigned to such term in the Letter of Credit.

“**Issuing Bank**” has the meaning assigned such term in the recitals hereto and shall include such Person’s successors and assigns.

“**Letter of Credit**” means the irrevocable transferable direct pay letter of credit issued by the Issuing Bank for the account of the Borrower in favor of the Bond Trustee in the form of Appendix I to this Agreement with appropriate insertions, as amended from time to time.

“**Liquidity Drawing**” means a drawing under the Letter of Credit resulting from the presentation of a certificate in the form of “Exhibit D” to the Letter of Credit.

“**Loans**” means “Loans” as defined in the Letter of Credit Agreement.

“**Remarketing Agent**” means, initially, [insert name of Remarketing Agent], and thereafter any remarketing agent at the time serving as such under the Remarketing Agreement (as defined in the Bond Indenture) and designated as the Remarketing Agent with respect to the Bonds for purposes of the Bond Indenture.

“**Section**” means a numbered section of this Agreement, unless another document is specifically referenced.

“**Security Documents**” means the Custody Agreement.

“**Stated Amount**” shall have the same meaning herein as in the Letter of Credit.

“**Transaction Documents**” means, collectively, this Agreement, the Bond Documents, the Security Documents and all other operative documents relating to the issuance, sale and securing of the Bonds (including without limitation any document (s) or instrument(s) through which the Bonds are now or hereafter collateralized, such as mortgages, security agreements, etc.).

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. Other capitalized terms used herein but not defined herein shall have the meaning set forth in the Bond Indenture.

Section 19. *Computation of Time Periods.* In this Agreement, in the computation of a period of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

Section 20. *Accounting Terms.* All accounting terms not specifically defined herein shall be construed in accordance with GAAP consistently applied, except as otherwise stated herein or in Section 9.09 of the Letter of Credit Agreement.

Section 21. *Interpretation.* The following rules shall apply to the construction of this Agreement unless the context requires otherwise: (a) the singular includes the plural and the plural, the singular; (b) words importing any gender include the other gender; (c) references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute to which reference is made; (d) references to “writing” include printing, photocopy, typing, lithography and other means of reproducing words in a tangible visible form; (e) the words “including” “includes” and “include” shall be deemed to be followed by the words “without limitation”; (f) references to articles, sections (or sub-divisions of sections),

exhibits, appendices, annexes or schedules are to those of this Agreement unless otherwise indicated; (g) references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent that such amendments and other modifications are permitted or not prohibited by the terms of this Agreement; (h) references to Persons include their respective permitted successors and assigns; and (i) headings herein are solely for the convenience of reference and shall not constitute a part of this Agreement nor shall they affect its meaning, construction or effect.

All references in this Agreement to times of day shall be references to New York, New York time unless otherwise specified.

[signatures follow]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:

[Signature page to Reimbursement Agreement]

[ISSUING BANK], as Issuing Bank

By: _____
Name:
Title:

[Signature page to Reimbursement Agreement]

**APPENDIX I
TO REIMBURSEMENT AGREEMENT**

**FORM OF
IRREVOCABLE TRANSFERABLE DIRECT PAY LETTER OF CREDIT**

[Insert Date]

Stated Amount: **U.S. \$[insert amount]**

Letter of Credit No. [insert number]

[Insert]name of Trustee], as Trustee (the “Bond Trustee”) under the Indenture of Trust (the “Indenture”) dated as of [Insert date], between the County of [Carroll][Mercer], Kentucky and the Bond Trustee

[Insert Address]

Attn: [Insert Name/Department]

Ladies and Gentlemen:

We [ISSUING BANK] (the “Issuing Bank”) hereby establish in your favor as Bond Trustee for the benefit of the holders of the Bonds (as hereinafter defined), our irrevocable transferable direct pay Letter of Credit No. [insert number] (this “Letter of Credit”) for the account of KENTUCKY UTILITIES COMPANY, a corporation organized under the laws of the Commonwealths of Kentucky and Virginia (the “Borrower” or the “Applicant”). Capitalized terms used herein, including those in the attached Exhibits, and not otherwise defined herein shall have the same meanings herein as in the \$198,309,583.05 Letter of Credit Agreement (as amended, amended and restated, supplemented or modified from time to time, the “Letter of Credit Agreement”) dated as of October 1, 2014 among Kentucky Utilities Company, the lending institutions party thereto from time to time, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Issuing Lender. We hereby irrevocably authorize you to draw on us from time to time, from and after the date hereof to and including the earliest to occur of (the “Expiration Date”):

- (i) our close of business on September 26, 2017 (such date, as extended from time to time in accordance herewith pursuant to a Notice of Extension in the form set forth as Exhibit I hereto, the “Stated Expiration Date”),
- (ii) our close of business on the date which is five Business Days following our receipt from you of a certificate in the form set forth as Exhibit A-1 hereto accompanied by the original of this Letter of Credit (including any amendments thereto),
- (iii) our close of business on the date of our receipt from you of a certificate in the form set forth as Exhibit A-2 hereto accompanied by the original of this Letter of Credit (including any amendments thereto),
- (iv) the date upon which an Acceleration Drawing Certificate in the form of Exhibit E hereto is received and honored by us, and
- (iv) our close of business on the date which is thirty (30) days after your receipt of written notice from us in the form set forth as Exhibit A-3 hereto,

a maximum aggregate amount not exceeding [FACE AMOUNT OF LETTER OF CREDIT WRITTEN OUT] (U.S. \$[Insert amount]) (the “Original Stated Amount”; such Original Stated Amount, as reduced or reinstated from time to time in accordance herewith, being the “Stated Amount”) to pay principal of and accrued interest on, or the purchase price of, the \$[Insert amount] outstanding principal amount of County of [Carroll, Kentucky, Environmental Facilities][Mercer, Kentucky, Solid Waste Disposal Facility] Revenue Bonds, [Insert Series] (Kentucky Utilities Company Project) (the “Bonds”), which Bonds were

issued pursuant to the Indenture (said U.S. \$[Insert amount] having been initially calculated to be equal to U.S. \$[Insert amount], the principal amount of the Bonds outstanding as of the date hereof, plus U.S. \$[Insert amount], which is [] days' accrued interest on said principal amount of the Bonds calculated at an interest rate of [] percent ([]%) per annum calculated on the basis of actual days elapsed in a year of three hundred sixty-five (365) days); provided that no drawings shall be made under this Letter of Credit for any payment of any amount arising, directly or indirectly, under, pursuant to or in connection with any Bond (A) during the period from and including the date of its purchase with amounts realized under a Liquidity Drawing (as defined herein) to but excluding the date on which such Bond is purchased by a Person as a result of a remarketing of such Bond pursuant to the Remarketing Agreement and the Indenture (a "Custody Bond") or (B) which is held by or on behalf of the Borrower or any Affiliate of the Borrower (each of (A) and (B), an "Ineligible Bond").

Funds under this Letter of Credit are available to the Bond Trustee against the Bond Trustee's presentation of the following certificates which shall be made by telecopier at [____], Attention: [____], without further need of documentation (including the original of this Letter of Credit), it being understood that each certificate so submitted is to be the sole operative instrument of drawing. You shall use your best efforts to give telephonic notice of a drawing to the Issuing Bank at: [Insert Number], on the Business Day preceding the day of such drawing (but such notice shall not be a condition to drawing hereunder and you shall have no liability for not doing so) or at any other office or offices or number or numbers which may be designated by the Issuing Bank by written notice delivered to the Bond Trustee. Each demand for payment under this Letter of Credit shall be made under:

(i) a certificate in the form attached as Exhibit B hereto to pay accrued interest on the Bonds as provided for under Section 2.02 of the Indenture (an "Interest Drawing"),

(ii) a certificate in the form attached as Exhibit C hereto to pay the principal amount of and, in the event the redemption date does not coincide with the regularly scheduled interest payment date for the Bonds, accrued interest on the Bonds in respect of any redemption of the Bonds, as provided for in Section 4.01 of the Indenture (a "Redemption Drawing"),

(iii) a certificate in the form attached as Exhibit D hereto, to pay the purchase price of Bonds for which you have received a notice from the Remarketing Agent of a failed remarketing, or for which you have not timely received actual remarketing proceeds by the Business Day immediately preceding the applicable Purchase Date (as such term is defined in Exhibit D) as required pursuant to Section 3.02 of the Indenture (a "Liquidity Drawing"),

(iv) a certificate in the form attached as Exhibit E hereto, to pay the principal of, and accrued interest in respect of, any Bonds the payment of which has been accelerated pursuant to Section 9.02 of the Indenture (an "Acceleration Drawing"), or

(v) a certificate in the form attached as Exhibit F hereto to pay the principal amount of the Bonds on the stated maturity date specified in such Bonds as the date on which the principal of such Bonds is due and payable (a "Stated Maturity Drawing"),

each such certificate to be executed by your duly authorized officer and be dated the date such certificate is presented hereunder.

We agree to honor and pay the amount of any Interest, Redemption, Liquidity, Acceleration and Stated Maturity Drawing if presented in compliance with all of the terms of this Letter of Credit. If such drawing is presented at or prior to 4:00 p.m., prevailing New York City time, on a Business Day, payment shall be made to the account number or address designated by you of the amount specified, in immediately available funds, not later than 12:00 Noon, prevailing New York City time, on the following Business Day. If such drawing is presented after 4:00 p.m., prevailing New York City time, on a Business Day, payment shall be made to the account number or address designated by you of the amount specified, in immediately available funds, not later than 5:00 p.m., prevailing New York City time, on the following Business Day. As used herein, "Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks located in New York, New York or the city or cities in which are located the corporate trust office or payment office of the Bond Trustee, the Borrower, the Issuing Bank or the Remarketing Agent are authorized by law to close and (iii) a day on which the New York Stock Exchange is closed.

The Available Amount (as hereinafter defined) will be reduced automatically by the amount of any drawing

hereunder; *provided, however*, that the amount of any Interest Drawing hereunder shall be automatically reinstated effective on the earlier of (x) receipt by the Issuing Bank from the Borrower of reimbursement of any Interest Drawing in full or (y) at the opening of business on the eleventh (11th) calendar day after the date we honor such drawing, unless, in the case of clause (y), you shall have received written notice from us (which notice may be by facsimile transmission), given in the Issuing Bank's sole discretion, not later than the close of business on the tenth (10th) calendar day after the date we honor such drawing that the Issuing Bank is not so reinstating the Available Amount due to the Borrower's failure to reimburse us for such Interest Drawing in full, or that an event of default has occurred and is continuing under the Letter of Credit Agreement and, in either case, directing, an acceleration of the Bonds pursuant to the Indenture. After payment by us of a Liquidity Drawing, the obligation of the Issuing Bank to honor drawings under this Letter of Credit will be automatically reduced by an amount equal to the Original Purchase Price (as defined below) of any Bonds (or portions thereof) purchased pursuant to said drawing. In addition, in the event of the remarketing of the Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing, our obligation to honor drawings hereunder shall be automatically reinstated concurrently upon receipt by the Issuing Bank, or the Bond Trustee on the Issuing Bank's behalf, of an amount equal to the Original Purchase Price of such Bonds (or portion thereof) plus accrued interest thereon as required under the Reimbursement Agreement dated as of [Insert date of Reimbursement Agreement] between Borrower and the Issuing Bank as specified in a certificate in the form of Exhibit J hereto (a "Reinstatement Certificate"); the amount of such reinstatement shall be equal to the Original Purchase Price of such Bonds (or portions thereof) so received by the Issuing Bank, or the Bond Trustee on the Issuing Bank's behalf. It is understood that the Bond Trustee is obligated to remit such proceeds to the Issuing Bank concurrently with the presentation of the Reinstatement Certificate.

As used herein:

"Original Purchase Price" shall mean the principal amount of any Bond purchased with the proceeds of a Liquidity Drawing plus the amount of accrued interest on such Bond paid with the proceeds of a Liquidity Drawing (and not pursuant to an Interest Drawing) upon such purchase.

"Available Amount" shall mean the Original Stated Amount (i) less the amount of all prior reductions pursuant to Interest, Redemption, Liquidity, Acceleration or Stated Maturity Drawings, (ii) less the amount of any reduction thereof pursuant to a Redemption Drawing or reduction certificate in the form of Exhibit G hereto (a "Reduction Certificate"), respectively, to the extent such reduction is not already accounted for by a reduction in the Available Amount pursuant to (i) above, (iii) plus the amount of all reinstatements as above provided.

The Stated Amount of this Letter of Credit shall be automatically and permanently reduced from time to time as of the second Business Day following the date of our receipt of a Reduction Certificate from the Bond Trustee to the amount specified in such Reduction Certificate as the amount to which the Stated Amount is to be so reduced. Upon our receipt of such Reduction Certificate, we may deliver to you a substitute letter of credit in exchange for this Letter of Credit. If we deliver to you such a substitute letter of credit, you shall simultaneously surrender to us for cancellation this original Letter of Credit and any amendment thereto then in your possession.

Prior to the Expiration Date, we may (but are not obligated to) extend the Stated Expiration Date from time to time at the request of the Borrower by delivering to you an amendment to this Letter of Credit in the form of Exhibit I hereto (a "Notice of Extension") (appropriately completed) designating the date to which the Stated Expiration Date is being extended. Each such extension of the Stated Expiration Date shall become effective on the issue date of such notice, and thereafter all references in this Letter of Credit to the Stated Expiration Date shall be deemed to be references to the date designated as such in such notice. Any date to which the Stated Expiration Date has been extended as herein provided may itself be extended in a like manner.

Upon our close of business on the Expiration Date this Letter of Credit shall automatically terminate, and (if not fully drawn) you agree to promptly deliver the same to the Issuing Bank for cancellation. Failure to deliver said Letter of Credit (including any amendments thereto) will have no effect on such termination, and the Letter of Credit will still be considered terminated upon our close of business on the Expiration Date.

This Letter of Credit is transferable in its entirety (but not in part) to any transferee who has succeeded you as Bond Trustee under the Indenture, and may be successively transferred. Any transfer request must be affected by presenting to us the attached form of Exhibit H hereto signed by the transferor and the transferee together with the original of this Letter of Credit and amendments hereto, if any. Transfers to designated foreign nationals and/or specially designated nationals are not permitted as being contrary to the U.S. Treasury Department statutory rules including its Foreign Assets Control Regulations. Upon our endorsement of such transfer on the Letter of Credit or, at our discretion, the issuance to the transferee of a replacement Letter of Credit with terms and conditions similar hereto, the transferee instead of the transferor, without the necessity of further action, shall be entitled to all the benefits of and rights under this Letter of Credit in the transferor's place; provided that, in such case, any certificates of the Bond Trustee to be provided hereunder shall be signed by one who states therein that he is a duly authorized officer of the transferee.

Communications with respect to this Letter of Credit shall be addressed to us at [ISSUING BANK], Attention: [_____], specifically referring to the number of this Letter of Credit. For telephone assistance, please contact [_____], and have this Letter of Credit number available. Any communication to the Issuing Bank which is made by telecopier as permitted hereby shall be deemed operative without the necessity to provide written confirmation of such transmission by telecopier.

Except as expressly stated herein, this Letter of Credit is governed by, and construed in accordance with the International Standby Practices, ICC Publication No. 590 (the "ISP98"). As to matters not governed by the ISP98, this Letter of Credit shall be governed by and construed in accordance with the laws of the State of New York, including without limitation the Uniform Commercial Code as in effect in the State of New York, without regard to principles of conflict of laws.

All payments made by us hereunder shall be made from our own funds; in no event shall such payment be made with funds obtained from the Borrower.

This Letter of Credit sets forth in full the terms of our undertaking, and such undertaking shall not in any way be modified or amended by reference to any other document whatsoever, except for ISP98.

[signature pages follow]

[ISSUING BANK]

By: _____
Title:

[Signature Page to Letter of Credit]

CERTIFICATE OF TERMINATION

[ISSUING BANK],
as Issuing Lender
ATTENTION: [_____]]
Telephone: [_____]]
Facsimile: [_____]]

Dear Sirs:

Reference is hereby made to that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the "Letter of Credit"), which has been established by you for the account of Kentucky Utilities Company in favor of the Bond Trustee (as defined in the Letter of Credit).

The undersigned hereby certifies and confirms that [no Bonds (as defined in the Letter of Credit) remain Outstanding within the meaning of the Indenture (as defined in the Letter of Credit)] [all drawings required to be made under the Indenture (as defined in the Letter of Credit) and available under the Letter of Credit have been made and honored] [an Alternate Credit Facility (as defined in the Indenture referred to in and defined in the Letter of Credit) has been delivered to the Bond Trustee in accordance with Section 14.03 of the Indenture to replace the Letter of Credit] [all of the outstanding Bonds (as defined in the Letter of Credit) were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate (as defined in the Indenture referred to in and defined in the Letter of Credit)] and, accordingly, said Letter of Credit shall be terminated in accordance with its terms.

The original Letter of Credit (including all amendments thereto) is returned herewith for cancellation.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, _____.

[TRUSTEE],
as Bond Trustee

By: _____
[Title of Authorized Officer]

CERTIFICATE OF TERMINATION

[ISSUING BANK],
as Issuing Lender
ATTENTION: [_____]]
Telephone: [_____]]
Facsimile: [_____]]

Dear Sirs:

Reference is hereby made to that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the "Letter of Credit"), which has been established by you for the account of Kentucky Utilities Company in favor of the Bond Trustee (as defined in the Letter of Credit).

The undersigned hereby certifies and confirms that the Bond Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture (as defined in the Letter of Credit) and, accordingly, said Letter of Credit shall be terminated in accordance with its terms.

The original Letter of Credit (including all amendments thereto) is returned herewith for cancellation.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, _____.

[TRUSTEE],
as Bond Trustee

By: _____
[Title of Authorized Officer]

NOTICE OF EVENT OF DEFAULT

[Trustee],[as Trustee (the "Bond Trustee") under
the Indenture of Trust (the "Indenture")
dated [date], between the County of
[Carroll][Mercer], Kentucky and the Bond Trustee
[Address]
Attn:

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. _____ dated [date] (the "Letter of Credit"), established by the Issuing Bank (as defined in the Letter of Credit) in your favor as Bond Trustee under the Indenture. We hereby notify you that an Event of Default under the terms of that certain \$198,309,583.05 Letter of Credit Agreement (as amended, amended and restated, supplemented or modified from time to time, the "Letter of Credit Agreement") dated as of October 1, 2014 among Kentucky Utilities Company, the lending institutions party thereto from time to time, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Issuing Lender, has occurred.

We hereby direct you to draw the entire Available Amount of (and as defined in) the Letter of Credit as an acceleration of the Bonds in accordance with Section 9.02 of the Indenture.

All capitalized terms used herein and not otherwise defined herein shall have the same meanings herein as in the Letter of Credit.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, _____.

[ISSUING BANK]

By: _____
[Title of Authorized Officer]

INTEREST DRAWING CERTIFICATE

[ISSUING BANK],
as Issuing Lender
ATTENTION: [_____]]
Telephone: [_____]]
Facsimile: [_____]]

[Trustee], as Bond Trustee (the "Beneficiary"), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the "Letter of Credit"), issued by [Issuing Bank] in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of \$_____ under the Letter of Credit pursuant to the Indenture with respect to the payment of interest due on all Bonds outstanding on the Interest Payment Date occurring on [insert applicable date] other than Ineligible Bonds (as such term is defined in the Letter of Credit).

3. The amount of this drawing is equal to the amount required to be drawn by the Beneficiary pursuant to Section 6.02 of the Indenture.

4. The amount of this drawing was computed in compliance with the terms of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount of (and as defined in) the Letter of Credit as presently in effect.

5. Payment by [ISSUING BANK] pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

6. The amount hereby demanded will not be applied to any payment in respect of Ineligible Bonds.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

[TRUSTEE] as Bond Trustee

By: _____
[Title of Authorized Officer]

REDEMPTION DRAWING CERTIFICATE

[ISSUING BANK],
as Issuing Lender
ATTENTION: [_____]]
Telephone: [_____]]
Facsimile: [_____]]

[Trustee], as Bond Trustee (the "Beneficiary"), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the "Letter of Credit"), issued by [Issuing Bank] (the "Issuing Bank") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of \$ _____ under the Letter of Credit pursuant to Section 4.01 of the Indenture.

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds other than Ineligible Bonds (as such term is defined in the Letter of Credit) to be redeemed by the Borrower pursuant to Section 4.04 of the Indenture on [insert applicable date] (the "Redemption Date"), plus (ii) in the event such redemption date does not coincide with a regularly scheduled Interest Payment Date (as defined in the Indenture), interest accrued on such Bonds from the immediately preceding Interest Payment Date to the redemption date.

(b) Of the amount stated in paragraph 2 above:

(i) \$ _____ is demanded in respect of the principal amount of the Bonds referred to in subparagraph (a) above; and

(ii) \$ _____ is demanded in respect of accrued interest on such Bonds.

4. The amount of this drawing was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount of (and as defined in) the Letter of Credit.

5. The Issuing Bank is hereby instructed following the honor of this drawing, and in accordance with the terms of the Letter of Credit, to reduce the Stated Amount by \$ _____ [insert applicable amount] which amount represents the amount of excess interest coverage under the Letter of Credit (computed in respect of the outstanding principal amount of the Bonds at an assumed interest rate of [_____] ([_]%) per annum for a period of 45 days based on a year of 365 days) no longer necessary as a result of the redemption of Bonds with the proceeds of this drawing, and, if applicable, taking into account any permanent reduction in the Stated Amount occasioned by the payment of accrued interest on such redeemed Bonds through an Interest Drawing (as defined in the Letter of Credit) and not through the drawing effected by this Certificate.

6. Payment by [ISSUING BANK], pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

[TRUSTEE] as Bond Trustee

By: _____

[Title of Authorized Officer]

LIQUIDITY DRAWING CERTIFICATE

[ISSUING BANK],
as Issuing Lender
ATTENTION: [_____]]
Telephone: [_____]]
Facsimile: [_____]]

[Trustee], as Bond Trustee (the "Beneficiary"), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the "Letter of Credit"), issued by [Issuing Bank] (the "Issuing Bank") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.

2. The Beneficiary is entitled to make this drawing under the Letter of Credit in the amount of \$_____ with respect to Bonds tendered pursuant to Section 3.01 of the Indenture, remarketing proceeds for which were not timely received by the Bond Trustee by the Business Day immediately preceding _____ (the "Purchase Date").

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds, other than Ineligible Bonds (as such term is defined in the Letter of Credit), for which the Bond Trustee has not timely received actual remarketing proceeds by the Business Day immediately preceding the applicable Purchase Date as provided for in Section 3.03 of the Indenture, plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date to the Purchase Date.

(b) Of the amount stated in paragraph 2 above:

(i) \$_____ is demanded in respect of the principal portion of the purchase price of the Bonds referred to in subparagraph (a) above; and

(ii) \$_____ is demanded in respect of payment of the interest portion of the purchase price of such Bonds.

4. The amount of this drawing was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount of (and as defined in) the Letter of Credit as presently in effect.

5. The Beneficiary will register or cause to be registered in the name of the Borrower or the Bond Trustee, but with the Issuing Bank registered as pledgee, upon payment of the amount drawn hereunder, Bonds in the principal amount of the Bonds being purchased with the amounts drawn hereunder and will deliver such Bonds to the Beneficiary, in its capacity as Custodian under (and as defined in) the Custody, Pledge and Security Agreement dated as of [date], among Kentucky Utilities Company, as pledgor, [Issuing Bank], as Issuing Bank and pledgee, and the Beneficiary, as custodian; provided, however, if The Depository Trust Company or its nominee, or a similar securities depository, is the registered owner of all Bonds, the Beneficiary acknowledges that it will cause the security interest of the Issuing Bank to be recorded by such depository on its books or, if the Beneficiary is a participant with respect to such depository, on its own books.

6. Payment by [ISSUING BANK] pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

[TRUSTEE] as Bond Trustee

By: _____
[Title of Authorized Officer]

ACCELERATION DRAWING CERTIFICATE

[ISSUING BANK],
as Issuing Lender
ATTENTION: [_____]]
Telephone: [_____]]
Facsimile: [_____]]

[Trustee], as Bond Trustee (the "Beneficiary"), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the "Letter of Credit"), issued by [Issuing Bank] in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.

2. An Event of Default has occurred under Section 9.01() of the Indenture, and the Bond Trustee has declared the principal of and accrued interest on all Bonds then outstanding immediately due and payable. The Beneficiary is entitled to make this drawing in the amount of \$ _____ under the Letter of Credit pursuant to Section 9.02 of the Indenture.

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds, other than Ineligible Bonds (as such term is defined in the Letter of Credit), outstanding on _____ (the "Acceleration Date") plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Letter of Credit) to the Acceleration Date.

(b) Of the amount stated in paragraph 2 above:

(i) \$ _____ is demanded in respect of the principal of the Bonds referred to in subparagraph (a) above; and

(ii) \$ _____ is demanded in respect of accrued interest on such Bonds.

4. The amount of this drawing was computed in compliance with the terms and conditions of the Indenture and does not exceed the Available Amount of (and as defined in) the Letter of Credit.

5. Payment by [_____] pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

6. The original Letter of Credit (including any amendments thereto) is being delivered to you by overnight mail for cancellation. Failure to deliver said Letter of Credit will have no effect on its termination, and the Letter of Credit will still be considered terminated upon our receipt of the amount demanded in paragraph 2 above.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

[TRUSTEE] as Bond Trustee

By: _____
[Title of Authorized Officer]



STATED MATURITY DRAWING CERTIFICATE

[ISSUING BANK],
as Issuing Lender
ATTENTION: [_____]]
Telephone: [_____]]
Facsimile: [_____]]

[Trustee], as Bond Trustee (the "Beneficiary"), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the "Letter of Credit"), issued by [Issuing Bank] in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of \$ _____ under the Letter of Credit pursuant to the Indenture. The amount of this drawing is equal to the principal amount of Bonds (excluding any Ineligible Bonds (as such term is defined in the Letter of Credit)) with a Stated Maturity (under and as set forth in such Bonds) on _____.

3. The amount of this drawing was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount of (and as defined in) the Letter of Credit.

4. Payment by [_____] pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, ____.

[TRUSTEE] as Bond Trustee

By: _____
[Title of Authorized Officer]

REDUCTION CERTIFICATE

[ISSUING BANK],
as Issuing Lender
ATTENTION: [_____]]
Telephone: [_____]]
Facsimile: [_____]]

[TRUSTEE], as Bond Trustee (the "Beneficiary"), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the "Letter of Credit"), issued by [Issuing Bank] (the "Issuing Bank") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.
2. Effective on _____, _____ (which shall be at least two (2) Business Days (as defined in the Letter of Credit) following receipt by the Issuing Bank of this Certificate, the Stated Amount (as defined in the Letter of Credit) shall be reduced by \$_____, and the Stated Amount shall thereupon equal \$_____, of which amount \$_____ is applicable to principal on the Bonds and of which amount \$_____ is applicable to interest on the Bonds (as described in the Letter of Credit), all in accordance with the provisions of the Indenture.

In WITNESS WHEREOF, this Certificate has been executed this _____ day of _____,
_____.

[TRUSTEE] as Bond Trustee

By: _____
[Title of Authorized Officer]

REQUEST FOR TRANSFER

[ISSUING BANK],
as Issuing Lender
ATTENTION: [_____]]
Telephone: [_____]]
Facsimile: [_____]]

Re: Irrevocable Standby Letter of Credit No. _____

We, the undersigned "Transferor", hereby irrevocably transfer all of our rights to draw under the above referenced Letter of Credit ("Letter of Credit") in its entirety to:

NAME OF TRANSFEREE _____
(Print Name and complete address of the Transferee)
"Transferee"

ADDRESS OF TRANSFEREE _____

CITY, STATE/COUNTRY _____
ZIP _____

In accordance with ISP98, Rule 6, regarding transfer of drawing rights, all rights of the undersigned Transferor in such Letter of Credit are transferred to the Transferee, who shall have the sole rights as beneficiary thereof, including sole rights relating to any amendments whether increases or extensions or other amendments and whether now existing or hereafter made. All amendments are to be advised directly to the Transferee without necessity of any consent of or notice to the undersigned Transferor.

The original Letter of Credit, including amendments to this date, if any, are attached and the undersigned Transferor requests that you endorse an acknowledgment of this transfer on the reverse thereof or, at your discretion, issue a replacement Letter of Credit with terms and conditions similar thereto. The undersigned Transferor requests that you notify the Transferee of this Letter of Credit in such form and manner as you deem appropriate, and the terms and conditions of the Letter of Credit as transferred. The undersigned Transferor acknowledges that you incur no obligation hereunder and that the transfer shall not be effective until you have expressly consented to effect the transfer by notice to the Transferee.

If you agree to these instructions, please advise the Transferee of the terms and conditions of this transferred Letter of Credit and these instructions.

Transferor represents and warrants to Transferring Bank that our execution, delivery, and performance of this request to Transfer (a) are within our powers, (b) have been duly authorized, (c) constitute our legal, valid, binding and enforceable obligation, (d) do not contravene any charter provision, by-law, resolution, material contract or other undertaking binding on or affecting us or any of our properties, (e) do not require any notice, filing or other action to, with, or by any governmental authority (f) the enclosed Letter of Credit is original and complete, (g) there is no outstanding demand or request for payment or transfer under the Letter of Credit affecting the rights to be transferred, and (h) the Transferee's name and address are correct and complete and the Transferee's use of the Letter of Credit as transferred and the transactions underlying the Letter of Credit and the requested Transfer do not violate any United States or other law, rule or regulation.

The Effective Date shall be the date hereafter on which Transferring Bank effects the requested transfer by acknowledging this request and giving notice thereof to Transferee.

WE WAIVE ANY RIGHT TO TRIAL BY JURY THAT WE MAY HAVE IN ANY ACTION OR PROCEEDING RELATING TO OR ARISING OUT OF THIS TRANSFER.

This Request is made subject to ISP98 and is subject to and shall be governed by the law of the State of New York, without regard to principles of conflict of laws.

Sincerely yours,

(Print Name of Transferor)

(Transferor's Authorized Signature)

(Print Authorized Signers Name and Title)

(Telephone Number/Fax Number)

(a) SIGNATURE GUARANTEED Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has been identified by us in compliance with USA PATRIOT Act procedures of our bank.
(Print Name of Bank)
(Address of Bank)
(City, State, Zip Code)
(Print Name and Title of Authorized Signer)
(Authorized Signature)

Acknowledged:

(Print Name of Transferor)

(Transferor's Authorized Signature)

(Print Authorized Signers Name and Title)

(Telephone Number/Fax Number)

(b) SIGNATURE GUARANTEED Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has been identified by us in compliance with USA PATRIOT Act procedures of our bank.
(Print Name of Bank)
(Address of Bank)
(City, State, Zip Code)
(Print Name and Title of Authorized Signer)

(Authorized Signature)

EXHIBIT I
to
[ISSUING BANK]
LETTER OF CREDIT
No. _____

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NOTICE OF EXTENSION

[Trustee], as Trustee (the "Bond Trustee") under the Indenture of Trust (the "Indenture") dated as of [date], between the County of [Carroll][Mercer], Kentucky and the Bond Trustee

[Address]
Attn:

Dear Sirs:

Reference is hereby made to that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the "Letter of Credit"), established by us in your favor as Beneficiary. We hereby notify you that, in accordance with the terms of the Letter of Credit, the Stated Expiration Date of the Letter of Credit has been extended to _____, _____.

This letter should be attached to the Letter of Credit and made a part thereof.

[[ISSUING BANK]]

By: _____
[Title of Authorized Officer]

REINSTATEMENT CERTIFICATE

[ISSUING BANK],
as Issuing Lender
ATTENTION: [_____]]
Telephone: [_____]]
Facsimile: [_____]]

The undersigned hereby certifies to [Issuing Bank] (the "Issuing Bank"), with reference to Irrevocable Transferable Direct Pay Letter of Credit No. _____ (the "Letter of Credit") issued by the Issuing Bank in favor of the Bond Trustee (as such term and all other terms used but not otherwise defined herein are defined in the Letter of Credit), that:

1. The undersigned is the Bond Trustee under the Indenture.
2. The Bond Trustee has previously made a Liquidity Drawing under the Letter of Credit on _____ in the amount of U.S. \$ _____ (representing U.S. \$ _____ of principal and U.S. \$ _____ of interest) with respect to the purchase price of Bonds which are now held as Custody Bonds in accordance with the Indenture.
3. The Bond Trustee has received, on behalf of the Issuing Bank, proceeds (the "Remarketing Proceeds") from the sale of remarketed Custody Bonds originally purchased with the proceeds of the above described Liquidity Drawing and as of the date hereof holds, on behalf of the Issuing Bank, in the Remarketing Proceeds Subaccount established under the Indenture the amount of U.S. \$ _____ (representing U.S. \$ _____ of principal and U.S. \$ _____ of interest) with respect to the sale of such Custody Bonds.
4. The Bond Trustee shall deliver the Remarketing Proceeds to the Issuing Bank on the same day as the Remarketing Proceeds are received by the Bond Trustee (on behalf of the Issuing Bank) in immediately available funds by depositing such Remarketing Proceeds with [Issuing Bank] through the Fedwire to [_____] , in favor of [_____] . Ref: Kentucky Utilities, Reference: Letter of Credit No. _____ , or as otherwise directed by the Issuing Bank.
5. In accordance with the terms of the Letter of Credit, the Stated Amount under the Letter of Credit is deemed automatically reinstated in an amount equal to [\$ _____] (total amount of paragraph 3 above).

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate this ____ day of _____, ____.

[TRUSTEE] as Bond Trustee

By: _____
[Title of Authorized Officer]

**APPENDIX II
TO REIMBURSEMENT AGREEMENT**

[FORM OF CUSTODY, PLEDGE AND SECURITY AGREEMENT]

This CUSTODY, PLEDGE AND SECURITY AGREEMENT (together with all exhibits, schedules, attachments and appendices hereto, as amended from time to time, this "Pledge Agreement"), dated as of _____, is entered into by and among KENTUCKY UTILITIES COMPANY (the "Pledgor"), [CUSTODIAN], as Custodian (the "Custodian"), and [ISSUING BANK], as Issuing Bank (the "Issuing Bank"), pursuant to that certain Reimbursement Agreement dated as of _____, between the Pledgor and the Issuing Bank (hereinafter, together with all schedules, attachments and appendices thereto, as from time to time amended or supplemented, the "Reimbursement Agreement"). Any capitalized term used herein, and not defined elsewhere in this Agreement, shall have the meaning set forth in the Reimbursement Agreement.

RECITALS:

A. The County of [Carroll][Mercer], Kentucky (the "Issuer") has issued \$_____ aggregate principal amount of its County of [Carroll, Kentucky, Environmental Facilities] [Mercer, Kentucky, Solid Waste Disposal Facility] Revenue [Refunding] Bonds, [Insert Series] (Kentucky Utilities Company Project) (the "Bonds"), pursuant to a certain Indenture of Trust dated as of [date], [as amended and restated as of September 1, 2008 and] as [further] amended and supplemented pursuant to Supplemental Indenture No. 1 to [Amended and Restated] Indenture of Trust dated as of September 1, 2010 (the "Bond Indenture"), between the Issuer and [Trustee], as trustee (in such capacity, the "Bond Trustee").

B. The Bond Indenture requires that the Bonds be purchased under certain circumstances from the owners thereof in accordance with the terms and conditions of the Bond Indenture.

C. The Pledgor has entered into that certain Remarketing and Bond Purchase Agreement dated as of [date] (together with all exhibits, schedules, attachments and appendices thereto, as amended, supplemented or restated from time to time, the "Remarketing Agreement") between [Remarketing Agent], as the initial remarketing agent ("Remarketing Agent"), and the Pledgor, pursuant to which Remarketing Agent has agreed to use its reasonable best efforts to remarket the Bonds under specified terms and conditions as provided in the Remarketing Agreement.

D. The Pledgor has agreed to enter into the Reimbursement Agreement in order to cause the Issuing Bank to issue its Letter of Credit (as defined in the Reimbursement Agreement) which may be used to pay principal of and interest on and the purchase price of the Bonds pledged to the Issuing Bank in accordance with the Bond Indenture (the "Pledged Bonds").

NOW, THEREFORE, in consideration of the premises and in order to induce the Issuing Bank to enter into the Reimbursement Agreement and the Issuing Bank to issue its Letter of Credit thereunder and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Pledge and Security Interest. The Pledgor hereby pledges, grants, assigns, conveys, hypothecates, transfers, and delivers to the Issuing Bank, all of the Pledgor's right, title and interest in and to the Pledged Bonds and hereby grants to the Issuing Bank, a first lien on, and security interest in, its right, title and interest in and to the Pledged Bonds, the interest thereon and all proceeds thereof, as collateral security for the prompt and complete payment and satisfaction when due of all indebtedness, obligations, liabilities and amounts from time to time owing by the Pledgor to the Issuing Bank under or in connection with the Reimbursement Agreement, including, without limitation, interest thereon (all of the foregoing indebtedness, obligations, liabilities and amounts from time to time owing to the Issuing Bank by the Pledgor being hereinafter called the "Bank Obligations").

2. Notation of Pledge. (a) The Issuing Bank hereby appoints the Custodian as its agent to receive and hold Pledged Bonds for the benefit of the Issuing Bank. Upon the application of any drawing under the Letter of Credit to pay the purchase price of Bonds, such Bonds shall constitute Pledged Bonds, shall be owned by the Pledgor and registered in the name of the Issuing Bank or its designee or nominee as pledgee and delivered to the Custodian to be held for the benefit of the Issuing Bank. The Custodian shall release such Pledged Bonds only in accordance with Section 5 hereof.

(b) The parties hereby acknowledge and agree that if the ownership of the Bonds or a portion thereof is maintained as a fully registered Bond registered in the name of The Depository Trust Company, New York, New York ("DTC"), or its nominee ("Book-Entry Form"), all references herein to the "holding" and "release" of Pledged Bonds shall relate to the recording of beneficial ownership of Pledged Bonds.

(c) The Custodian shall be responsible for instructing the Bond Trustee or other bond registrar under the Bond Indenture to effect any changes on the bond registration books necessary for recording of ownership and pledging of Pledged Bonds or beneficial interests in Pledged Bonds.

3. Payments on the Bonds; Voting Rights. (a) If, while this Pledge Agreement is in effect, the Pledgor shall become entitled to receive or shall receive any payment, including, without limitation, any payment of interest, principal or proceeds of sale in respect of the Pledged Bonds, the Pledgor agrees to accept the same as the Issuing Bank's agent and to hold the same in trust on behalf of the Issuing Bank and to deliver the same forthwith to the Custodian for payment to the Issuing Bank. All sums of money so paid in respect of the Pledged Bonds which are received by the Pledgor and paid to the Issuing Bank shall be first credited as set forth in (and subject to the provisions of) the Reimbursement Agreement.

(b) During such time as the Bonds are pledged to the Issuing Bank under the terms of this Pledge Agreement, the Issuing Bank shall be entitled to exercise all of the rights of an owner of Bonds with respect to voting, consenting and directing DTC, as if the Issuing Bank were the owner of such Bonds, and the Pledgor hereby grants and assigns to the Issuing Bank all such rights.

4. Collateral. All Pledged Bonds, and all income therefrom and proceeds thereof, are herein collectively sometimes called the "Collateral."

5. Release of Pledged Bonds. (a) Upon payment (full or partial) to the Issuing Bank, or the Bond Trustee on behalf of the Issuing Bank, of any Bank Obligations, other than payments from the proceeds of a remarketing of the Bonds, and otherwise when required pursuant to Section 3 of the Reimbursement Agreement, the Issuing Bank agrees to release from the lien of this Pledge Agreement the Pledged Bonds from the pledge and security interest created herein, and to instruct the Custodian in writing to release and transfer to the order of the Pledgor, Pledged Bonds in a principal amount equal to the amount of the repayment allocable to principal of such drawing; provided, however, that the Issuing Bank shall not be obligated to release Pledged Bonds in an amount less than the minimum denomination permitted under the Bond Indenture for the Bonds (except in a situation in which the total amount of Pledged Bonds held by the Issuing Bank is less than such minimum denomination). Upon payment to the Issuing Bank (or the Bond Trustee on behalf of the Issuing Bank) as aforesaid, any notation on the book-entry records of the Bonds evidencing the pledge of such Bonds to the Issuing Bank shall be removed. If the Pledged Bonds have been remarketed pursuant to the Bond Indenture, so long as no Event of Default or Default then exists, the Issuing Bank shall also release to the purchaser of the Bonds from the pledge and security interest created by this Pledge Agreement a principal amount of Pledged Bonds equal to the principal amount of Bonds purchased by such purchaser. Bonds shall be released under this Pledge Agreement (i) upon notice from the Pledgor or the Remarketing Agent to the Issuing Bank specifying the principal amount of Bonds purchased or to be delivered to such purchaser, and (ii) upon receipt by the Bond Trustee (on behalf of the Issuing Bank) of remarketing proceeds with respect to such remarketed Bonds, all in accordance with the Bond Indenture. The proceeds of any such remarketing shall be delivered to the Issuing Bank on the same day as the Pledged Bonds are released from the lien and security interest of this Pledge Agreement in immediately available funds by depositing such proceeds with _____ through the Federal Reserve Wire System to ABA No. _____ at the Federal Reserve Bank of New York for credit of _____, Attn: _____, Account No. _____, RE: Kentucky Utilities, Reference: Letter of Credit No. _____, or as otherwise directed by the Issuing Bank.

(b) Upon an acceleration of all Bonds pursuant to the Bond Indenture and payment to the Issuing Bank of all amounts due on the Pledged Bonds, upon the request of the Issuing Bank, the Custodian shall be authorized to, and shall, cancel all Pledged Bonds held hereunder; provided, however, that such cancellation shall not constitute a release of the Pledgor's obligations to the Issuing Bank with respect to the Bank Obligations.

6. Event of Default. The term "Event of Default" shall mean an Event of Default as defined in the Reimbursement Agreement.

7. Rights of the Issuing Bank. The Issuing Bank shall not be liable for failure to collect or realize upon the Bank Obligations, the Collateral or any collateral security or guaranty therefor, or any part thereof, or for any delay in so doing, nor shall the Issuing Bank be under any obligation to take any action whatsoever with regard thereto or in respect of preserving rights against prior parties. If an Event of Default or event which with notice or lapse of time or both would become an Event of Default has occurred and is continuing, the Issuing Bank may thereafter, without notice, exercise all rights, privileges or options pertaining to the Pledged Bonds as if it were the absolute owner thereof, upon such terms and conditions as it may determine, all without liability except to account for property actually received by it, but the Issuing Bank shall not have any duty to exercise any of the aforesaid rights, privileges or options nor shall the Issuing Bank be responsible for any failure to do so or delay in so doing.

8. Remedies. At any time that an Event of Default has occurred and is continuing as a result of all or any portion of the Bank Obligations owing to the Issuing Bank not being paid when due, the Issuing Bank, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon the Pledgor or any other person (each of which demands, advertisements or notices are hereby expressly waived to the fullest extent permitted by applicable law), may forthwith instruct the Custodian to transfer to the Issuing Bank all or any portion of the Collateral relating to the Pledged Bonds, or may forthwith collect, receive, appropriate and realize upon the Collateral relating to the Pledged Bonds, or any part thereof, and may forthwith sell, assign, give option or options to purchase, contract to sell or otherwise dispose of and deliver said Collateral, or any part thereof, in one or more parcels at public or private sale or sales, at any exchange, broker's board or at any of the Issuing Bank's offices or elsewhere upon such terms and conditions and at such prices as it may deem advisable in its discretion, exercised in a commercially reasonable manner, for cash or on credit or for future delivery without assumption of any credit risk, with the right to the Issuing Bank upon any such sale or sales, public or private, to purchase the whole or any part of said Collateral so sold, free of any right or equity of redemption in the Pledgor, which right or equity is hereby expressly waived and released to the fullest extent permitted under law. The Issuing Bank shall apply all the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care, safekeeping or otherwise of any and all of the Collateral in any way relating to the rights of the Issuing Bank hereunder, including reasonable attorneys' fees and legal expenses, to the payment in whole or in part, of the Bank Obligations owing to the Issuing Bank in such order as prescribed in the Reimbursement Agreement (with the Pledgor remaining liable for any deficiency remaining unpaid after such application), and only after so applying such net proceeds and after the payment by the Issuing Bank of any other amount required by any provision of Law, including, without limitation Section 9-504(1)(c) (or any successor section thereto) of the Uniform Commercial Code of the State of New York, shall the Issuing Bank apply the surplus, if any, to the account of the Pledgor. The Pledgor agrees that the Issuing Bank need not give more than ten (10) business days' notice of the time and place of any public sale or of the time after which a private sale or other intended disposition is to take place and that such notice is reasonable notification of such matters. In addition to the rights and remedies granted to the Issuing Bank in this Pledge Agreement and in any other instrument or agreement securing, evidencing or relating to any of the Bank Obligations, the Issuing Bank shall have all the rights and remedies of a secured party, and the Pledgor shall have all the rights of a debtor, under the Uniform Commercial Code of the State of New York. The Pledgor further agrees that the Pledgor shall be liable for the deficiency if the proceeds of any sale or other disposition of the Collateral relating to the Pledged Bonds are insufficient to pay all amounts to which the Issuing Bank is entitled, and the reasonable fees of any attorneys reasonably employed by the Issuing Bank to collect such deficiency. The parties hereto acknowledge that, following any such sale or other disposition of Collateral relating to the Pledged Bonds which is not accompanied by a reinstatement in full of the Letter of Credit (to the extent necessary to provide the required principal and interest coverage of such Pledged Bonds), the then rating assigned by any Rating Agency on the Bonds may be withdrawn and may not apply to such Pledged Bonds.

9. Representations and Warranties of the Pledgor. The Pledgor hereby represents and warrants that:

(a) on the date of notation of the pledge to the Issuing Bank of any Pledged Bonds on the records of DTC and the deposit of the Pledged Bonds via book-entry into an account maintained by the Issuing Bank at DTC (the "Pledge Date"), neither the Pledgor, the Remarketing Agent, the Bond Trustee nor any other Person will have any right, title or interest in and to the Pledged Bonds (other than those rights described herein and in the Bond Indenture);

(b) it has, and on the Pledge Date will have, full power, authority and legal right to pledge all of its rights, title and interest in and to the Pledged Bonds pursuant to this Pledge Agreement; and

(c) assuming compliance by the Custodian with Section 2 hereof, the pledge and assignment of the Pledged Bonds pursuant to this Pledge Agreement will create a valid first lien on and a first perfected security interest in, all right, title or interest of the Pledgor in or to such Pledged Bonds, and the proceeds thereof, subject to no prior pledge, lien, mortgage, hypothecation, security interest, charge, option or encumbrance or to any agreement purporting to grant to any third party a security interest in the property or assets of the Pledgor which would include the Pledged Bonds.

10. No Disposition, Etc. Subject to the provisions of Section 5 hereof and subject to the Bond Indenture and Remarketing Agreement, without the prior written consent of the Issuing Bank, the Pledgor agrees that it will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral relating to the Pledged Bonds, nor will it create, incur or permit to exist any pledge, lien, mortgage, hypothecation, or security interest therein, or any proceeds thereof, except for the lien and security interest provided for by this Pledge Agreement. The Pledgor hereby covenants and agrees that it will defend the Issuing Bank's right, title and security interest in and to the Pledged Bonds relating to the Letter of Credit and the proceeds thereof against the claims and demands of all persons whomsoever.

11. Sale of Collateral. (a) The Pledgor recognizes that the Issuing Bank may be unable to effect a public sale of any or all of its Pledged Bonds by reason of certain prohibitions contained in the Securities Act of 1933, as amended (the "Securities Act"), and applicable state securities laws, but may be compelled to resort to one or more private sales thereof to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such securities for their own

account for investment and not with a view to the distribution or resale thereof. The Pledgor acknowledges and agrees that any such private sale may result in prices and other terms less favorable to the seller than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner provided that the private sale is made in a commercially reasonable manner for private sales. The Issuing Bank shall be under no obligation to delay a sale of any of the Pledged Bonds for the period of time necessary to permit the Pledgor to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Pledgor would agree to do so. Notwithstanding anything contained in this Section 11, the Pledgor shall not be required to register such securities for public sale under the Securities Act or any applicable state securities laws.

(b) Subject to the other terms of this Pledge Agreement, the Pledgor further agrees to do or cause to be done all such other acts and things as may be reasonably necessary to make such sale or sales of any portion or all of the Pledged Bonds valid and binding and in compliance with any and all applicable laws, regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrators or governmental instrumentalities, domestic or foreign, having jurisdiction over any such sale or sales, all at the Pledgor's expense. The Pledgor further agrees that a breach of any of the covenants contained in this Section 11 will cause irreparable injury to the Issuing Bank, that the Issuing Bank has no adequate remedy at law in respect of such breach and, as a consequence, agrees that each and every covenant contained in this Section shall be specifically enforceable against the Pledgor. The Pledgor further acknowledges the impossibility of ascertaining the amount of damages which would be suffered by the Issuing Bank by reason of a breach of any of such covenants and, consequently, agrees that, if the Issuing Bank shall sue for damages for breach, it shall pay, as liquidated damages and not as a penalty, an amount equal to the par value plus accrued interest on the Pledged Bonds relating to the Issuing Bank on the date the Issuing Bank shall demand compliance with this Section (less an amount equal to the par value plus accrued interest on any Pledged Bonds sold between the date the Issuing Bank shall have demanded compliance with this Section and the date of payment of such liquidated damages), and the Issuing Bank agrees to release its lien on all of its unsold Pledged Bonds to the Pledgor upon payment of such liquidated damages; in no event shall such liquidated damages exceed the amount of the then outstanding Bank Obligations owing to the Issuing Bank plus all amounts which remain available for draw under its Letter of Credit (it being agreed that any such liquidated damages in respect of the undrawn Letter of Credit shall be held in trust for the parties hereto for payment as such losses in respect thereof are incurred by the Issuing Bank and shall be returned to the Pledgor to the extent a loss in respect thereof is not incurred by the Issuing Bank prior to the expiration of the Letter of Credit).

(c) The Pledgor and the Issuing Bank acknowledge that, following any such sale or other disposition of Collateral relating to the Pledged Bonds which is not accompanied by a reinstatement in full of the Letter of Credit (to the extent necessary to provide the required principal and interest coverage of such Pledged Bonds), the then rating assigned by any Rating Agency on the Bonds may be withdrawn and may not apply to such Pledged Bonds.

12. Further Assurances. The Pledgor agrees that at any time and from time to time upon the written request of the Issuing Bank, the Pledgor will execute and deliver such further documents and do such further acts and things as the Issuing Bank may reasonably request in order to effect the purposes of this Pledge Agreement.

13. Severability. Any provision of this Pledge Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14. No Waiver; Cumulative Remedies. The Issuing Bank shall not by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder and no waiver shall be valid unless in writing, signed by the Issuing Bank, and then only to the extent therein set forth. A waiver by the Issuing Bank of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Issuing Bank would otherwise have on any future occasion. No failure to exercise nor any delay in exercising on the part of the Issuing Bank, of any right, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights or remedies provided by law. Time is of the essence in the interpretation and performance of this Pledge Agreement.

15. Amendments; Applicable Law. None of the terms or provisions of this Pledge Agreement may be altered, modified or amended except by an instrument in writing, duly executed by the Issuing Bank, the Custodian and the Pledgor. This Pledge Agreement and all obligations of the Pledgor hereunder shall be binding upon the successors and assigns of the Pledgor, and shall, together with the rights and remedies of the Issuing Bank hereunder, inure to the benefit of the Issuing Bank and its successors and assigns. This Pledge Agreement shall be governed by, and be construed, enforced and interpreted in accordance with, the internal laws of the State of New York.

16. Term. This Pledge Agreement shall remain in full force and effect for so long as the Letter of Credit is in

effect or any amount is owed to the Issuing Bank under the Reimbursement Agreement or any amount is owed pursuant to the Reimbursement Agreement.

17. The Custodian. (a) The Custodian shall not be subject to any liability hereunder with respect to Collateral held in its custody, except for its gross negligence or willful misconduct.

(b) To the extent permitted by law from legally available funds, the Pledgor agrees to indemnify the Custodian and its officers, agents, directors and employees against any loss, claim, liability or expense, reasonably incurred without gross negligence or willful misconduct on the part of the Custodian or such person, arising out of or in connection with this Pledge Agreement, including any of its duties as Custodian hereunder, including the reasonable costs and expenses of defending itself from any claim or liability in connection herewith. Notwithstanding the foregoing, the Custodian shall have all of the rights (including indemnification rights), benefits, privileges and immunities granted to the Bond Trustee under the Bond Indenture, all of which are incorporated herein *mutatis mutandis*. The provisions of this paragraph shall survive the termination of this Pledge Agreement or the resignation or removal of the Custodian. At the reasonable request and expense of the Pledgor, the Custodian shall cooperate in making any investigation and defense of any indemnified claim or demand and shall assert appropriately the rights, privileges and defenses which are available to the Custodian in connection therewith.

(c) In the event of its resignation or removal as the Bond Trustee under the Bond Indenture, the Custodian shall resign or be removed under this Pledge Agreement, and the successor trustee appointed under the Bond Indenture shall be appointed by the Issuing Bank as the successor Custodian under this Pledge Agreement. Upon the acceptance of any appointment as Custodian hereunder by a successor Custodian, such successor Custodian shall thereupon succeed to and become invested with all the rights, powers, privileges and duties of the retiring Custodian, and the resignation or removal of the retiring Custodian shall be effective as of such date. After the effective date of any retiring Custodian's resignation or removal as Custodian hereunder, the provisions of this Section 17 shall remain applicable to it as to any actions taken or omitted to be taken by it while it was Custodian under this Pledge Agreement.

(d) The Custodian has executed this Pledge Agreement solely as Custodian for the Issuing Bank in accordance with the terms hereof and hereby agrees not to exercise any right or remedy, including a right of set-off, it may have at any time with respect to any of the Collateral, except in accordance with the provisions of this Pledge Agreement or the written instructions of the Issuing Bank.

(e) The Custodian has executed this Pledge Agreement solely in connection with its role as Bond Trustee under the Bond Indenture, and in the event of any conflict between the terms of the Bond Indenture and this Pledge Agreement as to the duties of the Custodian, the terms of the Bond Indenture shall control.

18. Notices. Notices given to the Pledgor or the Issuing Bank pursuant to this Pledge Agreement shall be delivered to such address and through such means as shall be provided in the Reimbursement Agreement or to such other address as any party may specify in a notice to the other parties. Notwithstanding anything herein to the contrary, notices to release Pledged Bonds may be made by telecopy and each such notice shall be promptly confirmed in writing. Notices given to the Custodian pursuant to this Pledge Agreement shall be addressed as follows:

[TRUSTEE]
[Address]

Attn:

[SIGNATURE PAGES IMMEDIATELY FOLLOW]

IN WITNESS WHEREOF, the parties hereto have executed this Custody, Pledge and Security Agreement as of the date first above written.

KENTUCKY UTILITIES COMPANY, as the Pledgor

By: _____
Name:
Title:

[ISSUING BANK], as Issuing Bank

By: _____

Name:

Title:

[CUSTODIAN], as Custodian

By: _____

Name:

Title:

Attached.

EXHIBIT B

Form of Assignment and Assumption Agreement

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the] [each]¹ Assignor identified on the Schedules hereto as “Assignor” [or “Assignors” (collectively, the “Assignors” and each an “Assignor”) and [the] [each]² Assignee identified on the Schedules hereto as “Assignee” or “Assignees” (collectively, the “Assignees” and each an “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees]³ hereunder are several and not joint.]⁴ Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor’s] [the respective Assignors’] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the letter of credit facility identified below (including any letters of credit included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

- 1. Assignor: *See Schedule attached hereto*
- 2. Assignee: *See Schedule attached hereto*
- 3. Borrower: *Kentucky Utilities Company*
- 4. Administrative Agent: *The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the administrative agent under the Credit Agreement*
- 5. Credit Agreement: *The \$198,309,583.05 Letter of Credit Agreement dated as of October 1, 2014, by and among Kentucky Utilities Company, as Borrower, the Lenders party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch,, as Issuing Lender (as amended, amended and restated, supplemented or otherwise modified)*
- 6. Assigned Interest: *See Schedule attached hereto*
- 7. Trade Date: _____]⁵

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

¹ For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

² For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee,

choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

³ Select as appropriate.

⁴ Include bracketed language if there are either multiple Assignors or multiple Assignees.

⁵ To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

Effective Date: _____, 20____

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____

Title:

ASSIGNEE

See Schedule attached hereto



[Consented to and]⁶ Accepted:

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH,
as Administrative Agent

By _____
Title:

[Consented to:]⁷

KENTUCKY UTILITIES COMPANY

By _____
Title:

[Consented to]:

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH
as Issuing Lender

By _____
Title:

[Consented to]:⁸

[ISSUING LENDER]
as Issuing Lender

By _____
Title:

⁶ To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

⁷ To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

⁸ To be added only if there are additional Issuing Lenders.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

Assigned Interests:

Aggregate Amount of Commitment for all Lenders ⁹	Amount of Commitment Assigned ¹⁰	Percentage Assigned of Commitment ¹¹
\$	\$	%

[NAME OF ASSIGNEE]¹²

[and is an Affiliate of [*identify Lender*]]¹³

⁹ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

¹⁰ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

¹¹ Set forth, to at least 9 decimals, as a percentage of the Commitment of all Lenders thereunder.

¹² Add additional signature blocks, as needed.

¹³ Select as applicable.

ANNEX 1 to Assignment and Assumption

LETTER OF CREDIT AGREEMENT
DATED AS OF OCTOBER 1, 2014
BY AND AMONG
KENTUCKY UTILITIES COMPANY, AS BORROWER,
THE LENDERS PARTY THERETO
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH,
AS ADMINISTRATIVE AGENT
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

Form of Letter of Credit Request

_____ , _____
[Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$198,309,583.05 Letter of Credit Agreement dated as of October 1, 2014 (the "Credit Agreement") among Kentucky Utilities Company, the lending institutions party thereto from time to time and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have, as used herein, the respective meanings provided for therein.

The undersigned hereby requests that _____¹⁴ issue a [Standby] Letter of Credit on _____,
_____¹⁵ in the aggregate amount of \$_____. [This request is to extend a Letter of Credit previously issued
under the Credit Agreement; Letter of Credit No. _____.]

The beneficiary of the requested Standby Letter of Credit will be _____¹⁶, and such Standby Letter of
Credit will be in support of _____¹⁷ and will have a stated termination date of _____¹⁸.

Copies of all documentation with respect to the supported transaction are attached hereto.

¹⁴ Insert name of Issuing Lender.

¹⁵ Must be a Business Day.

¹⁶ Insert name and address of beneficiary.

¹⁷ Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

¹⁸ Insert the last date upon which drafts may be presented (which may not be later than the fifth Business Day prior to the Termination Date).

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:

APPROVED:

[ISSUING LENDER]

By: _____
Name:
Title: